PRIVATE BANKING

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Inside

Banks are competing to woo Asia's fast growing number of affluent people, writes Sharlene Goff Page 3

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Old customs swept away by strong new currents

The sector is operating in choppy waters and many banks need to reset their compasses to address changing business conditions, writes **Megan Murphy**

If private bankers were hoping 2010 would provide a respite from the "perfect storm" of plunging asset prices, sharply reduced profit margins and increased regulatory scrutiny that enveloped the industry after the financial crisis, they will have been sorely disappointed.

After seeing the global economic downturn claim some of its best known names, the wealth management industry may have emerged from its most difficult period. Nonetheless, it remains a sector both in transition and under pressure, experts say.

Gone, perhaps forever, are the days where private banks made big profits by selling complex, high-margin products to well-heeled clients who naively assumed their portfolio matched their appetite for risk.

Gone, too, are the business models that were predicated largely on shielding clients' assets from taxes, as governments around the globe step up their pursuit of wealthy tax evaders to help replenish depleted state coffers.

"We are at a moment when many private banks need fundamentally to alter both their value proposition and strategy," says Alan Gemes, senior partner at Booz & Co in London and a specialist in financial services.

From capitalising on the inexorable shift eastward in global wealth distribution, to regaining the trust of their clients and building a technological platform fit for the 21st century, private bankers face myriad challenges.

"There have been some casualties, but those that can adapt their traditional business and operating models to meet the current turbulence face favourable prospects," says Ian Woodhouse, a director in PwC's private banking and wealth management practice in London. "Expect to see a new line of private bank leaders and losers emerging."

First and foremost among those new leaders will be institutions that can develop their brands and win share in emerging markets, the primary source of wealth generation in coming decades.

Almost one-third of the world's high net worth individuals – defined as clients with more than $1m to invest – will live in the Asia-Pacific region by the end of 2011 – 2 per cent more than in the US and 6 per cent more than in Europe, according to Booz & Co's latest private banking report.

Big wealth gains are also expected in countries such as Brazil, India and Russia.

Some senior bankers, such as Jane Fraser, head of Citi's global private bank, believe even those figures may be understated.

"We just assume now that the wealth in Asia is far greater than any of the numbers show," Ms Fraser says. "We're expecting that at least 40 per cent of our clients in terms of wealth will come from Asia in the coming years" – on a par with Citi's existing client base in the US.

Another big trend over the past 12 months has been the competition for share in the so-called "ultra high net worth" space – providing a specialised, almost institutional service for clients who have $20m-$25m or more in liquid assets to invest.

The super-rich expanded their wealth by nearly 22 per cent in 2009, outpacing the 17 per cent growth in the high net worth market, according to an annual survey compiled by Capgemini and Merrill Lynch's wealth management division.

Several of the Swiss banks, including UBS and Credit Suisse, alongside Wall Street powerhouses JPMorgan Chase and Goldman Sachs, have always been big players in the ultra high net worth market.

But there is growing competition from banks such as Citi, which, since shedding its Smith Barney brokerage business, has focused exclusively on the super-rich as well as institutions that have traditionally targeted predominantly the "mass affluent", such as Barclays.

Whether it is a strategy that will ultimately reap big rewards is more difficult to gauge, experts say. Margins are lower at the top end of the market, as the most sophisticated, global clients have the clout to negotiate lower fees.

Building an ultra high net worth platform is also expensive, particularly when it comes to recruiting the bankers with both the skill-set and the client list that can really add value to a business.

"We like the ultra high net worth business, but it is more intensive than some people think," says Chris Meares, head of HSBC's private banking business. "The bread and butter of private banking is still in the high net worth category."

Across the wealth spectrum, behaviour has changed markedly since the financial crisis. Having lost faith in their relationships with their banks and wealth managers, most clients retreated from complex asset classes in favour of transparent, liquidity-oriented products that offered steady, if low, returns.

Two years on from the height of the crisis, wealthy investors on the hunt for higher returns are more willing to look again at riskier products, particularly as many edge towards retirement age.

However, they are demanding the kind of transparency and client service that was frequently neglected during the credit boom of the past decade.

Alun Eynon-Evans, a partner at London-based law firm Allen & Overy, comments: "With interest rates being so low, clients are looking for good returns. This means that private banks are having to look at more sophisticated structured products to meet that demand."

Looking ahead, some experts predict that the industry could enter a new phase of consolidation in 2011, particularly among the smaller and midsized private banks that lack the capital to compete with their larger rivals in today's low-margin, highly-regulated climate.

"Some banks regard private banking as non-core, and in times when capital is very constrained in banks, they will seek to divest all non-core businesses," says Mr Eynon-Evans.

"For acquirers it is a good source of deposits and buying a deposit base can be very attractive to institutions that have been more dependent on wholesale funding."

Bankers say it is still difficult to predict the impact the recent onslaught of regulatory and tax reforms will have on some of the market's smaller players.

In the wake of a global crackdown on tax evasion using offshore financial centres and the US government's landmark settlement with UBS over undisclosed Swiss accounts held by US citizens, the entire industry is assessing whether the end of tax secrecy as a potential competitive advantage.

Some experts fear that the continued scrutiny of locations such as Switzerland and Luxembourg will prompt wealthy clients simply to shift their money to less regulated jurisdictions in Asia or Latin America.

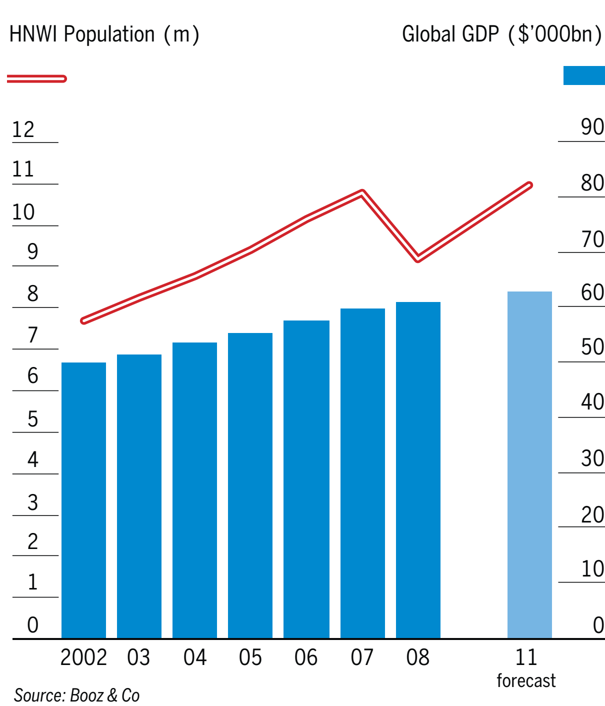
But for many of the institutions looking to capitalise on the rapidly shifting landscape, the changes have undoubtedly helped to level the playing field.

"There's so much money out there – the wealth numbers are staggering," says Citi's Ms Fraser.

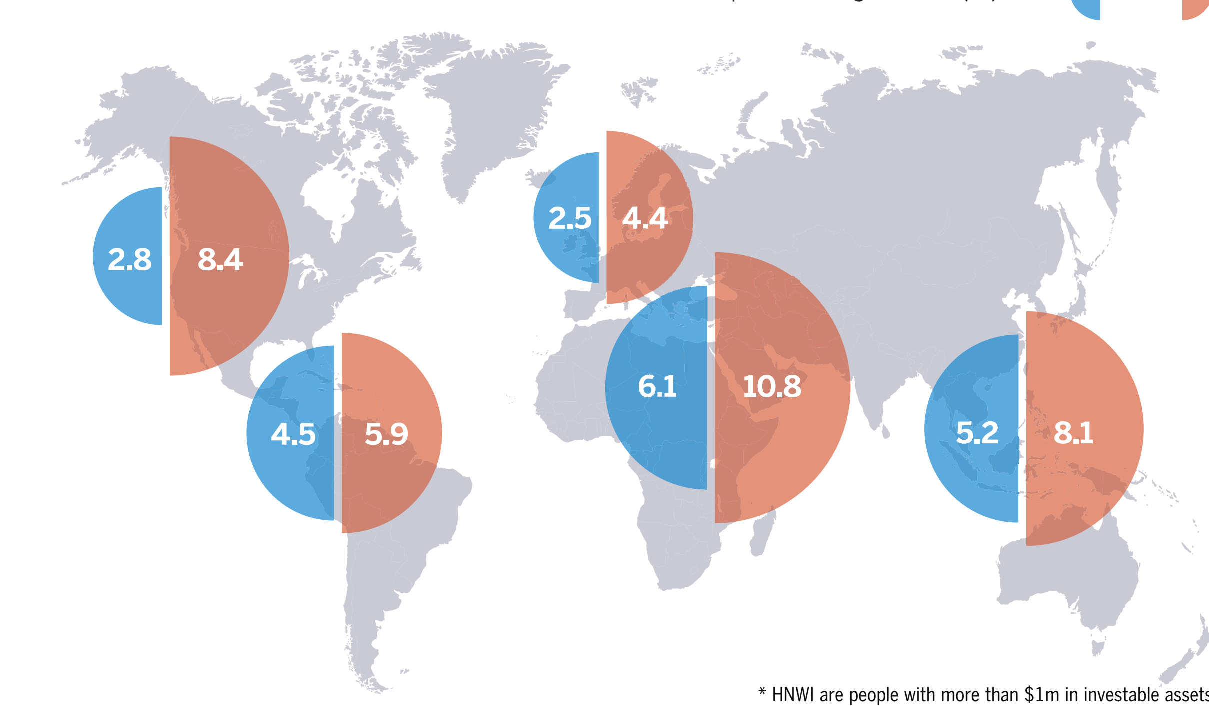
"This isn't like M&A where it's a fight to the death with your competitors. This is more about all of us private bankers being responsible and helping shape the industry and helping people manage their wealth in an appropriate, rigorous, transparent manner."

When your ship comes in . . .

Growth of HNWI (high net worth individuals*)



Growth of HNWI versus GDP (2002-07)



* HNWI are people with more than $1m in investable assets

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Compliance Jane Croft looks at how the US Internal Revenue Service, led by Doug Shulman (below), is putting the heat on banks as it chases tax evaders **Page 2**

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Swiss on a roll BSI is banking on its country's reliable image as it looks towards Asia for growth, writes Haig Simonian **Page 3**

On the web Alice Ross finds out how long private banks' investment chiefs think the emerging markets party will last; she also looks at the problems private banks face with trucullent advisory clients

How to keep high fliers in the nest

Wealth managers

Alice Ross finds that better training might help banks reduce churning and poaching

Bankers passing through Geneva airport recently may have noticed a new addition to the billboards advertising luxury watches and diamond rings: headhunters for private wealth managers are now touting their services too.

As private banks seek to strengthen their teams and rebuild client confidence following the fallout from the financial crisis, many are poaching from rivals or looking outside the industry for talent.

However, good private bankers are in short supply. Demand for private banking services has soared in the past decade, but banks have failed to train enough people to meet it.

A report last year by PwC found that 80 per cent of chief executives at private banks thought their wealth managers were not of "high calibre".

Yet they were spending less on internal training than they did before the credit crunch – a trend that Jeremy Jensen, leader of PwC's European private banking and wealth management practice, believes continues today.

Insiders complain that some relationship managers at larger banks are too process-driven as a result, and have a tendency to focus on selling internal products to clients rather than building a long-term relationship with them.

This focus on process and the house view can make some wealth managers feel disillusioned.

"They feel quite often restricted and unable to take advantage of opportunities in the market that haven't been discussed in the annual committee investment meeting," says Tim Gibson-Tullberg, the founder of headhunter Gibson-Tullberg, which has been advertising in Geneva airport for the past six months.

This swiftly leads to a desire to move on. One notable trend among the elite is to move from the larger banks down to smaller companies that allow greater freedom. Often, they take their clients with them.

"Most banks view their wealth management arms as distribution channels and they treat them like that – they hang on to most of their managers but there are some who are tempted to believe they can serve their clients better elsewhere," says Michael Maslinski, an independent consultant to the private banking industry.

But moving too frequently risks losing their clients' trust. Mr Maslinski believes that a good relationship manager should move no more than twice in his or her career.

The issue of churning has beset the private banking industry in recent years. Client relationship managers now switch jobs every five years, according to Mr Jensen.

> Many relationship managers are moving abroad for tax reasons, as governments around the world target high earners

"Unfortunately, poaching has become a fact of life for the sector," he says.

For those who do not take their clients with them, this can damage the image of the long-serving wealth manager who offers familiarity and a tailored service that the private banking industry prides itself on.

Mr Gibson-Tullberg says that larger private banks have been setting up their own internal recruitment services, but the focus tends to be to get people in on the lowest possible pay package – an offer that the best private bankers will scorn.

In the past month, Mr Gibson-Tullberg has placed two senior private bankers with smaller wealth managers on equivalent or higher salaries to their existing pay package – which he believes disproves the theory that moving out of the big banks means taking a pay cut. Smaller banks tend to offer profit-sharing arrangements that can be highly lucrative.

Mr Gibson-Tullberg says that while 90 per cent of the people he places are from within the private banking industry, 10 per cent are 'lateral hires' – former tax advisers, lawyers, traders or people in film finance.

"The industry badly needs that, as the lateral hires bring in fresh viewpoints and also don't come in with the rather stuffy view and 'pull pull' policy of trying to drag a client base from one place to the other," he argues.

He says that what the industry needs is more training – but frequently private banks are reluctant to undertake training themselves, as they fear people could then be poached.

Mr Jensen says that typical training regimes undertaken by other industries to retain staff, such as coaching or mentoring, are things the private banking sector has not yet perfected. He believes some chief executives fail to listen to the needs of their wealth managers or understand their career objectives,

But to a certain extent, in an industry that prizes long-term steady client relationships, the career path for a client relationship manager is hard to chart. And for the employers, the big question, says Mr Jensen, is: "How do you retain your high fliers?"

Until the private banking industry addresses the issue of how to train and retain client relationship managers, those who have real talent can command hefty pay packages if they decide to jump ship.

And, like their clients, many are moving abroad for tax reasons, as governments target high earners.

UK wealth managers are moving to Switzerland, where rates of income tax can be lower, while Swiss wealth managers are increasingly moving to Asia, which is experiencing a boom in millionaires in need of private banking services.

"We've moved more people internationally for reasons of personal lifestyle this year than ever before," says Mr Gibson-Tullberg.

Wanted: clients with $25m or more to spare

The ultra-wealthy

The race is on to attract investors with cash to hand, says **Ellen Kelleher**

Citi's Dena Brumpton

Wooing the ultra-wealthy remains a popular parlour game for private bankers trying to drum up business in the downturn.

From Schroders to Citi, private banks are reaching out to "ultra high net worth" people who have at least $25m to hand, to improve profit margins.

But the task is difficult. Stefanie Drews, head of Barclays Wealth's UHNW business, points out that the super-wealthy demand sophisticated advice on investments as well as taxes, properties and pensions. They also want frequent access to their holdings, she says.

Ms Drews suggests that the super-wealthy have more cosmopolitan investment tastes in some cases, but are less willing to take risks when markets fall or zigzag. As a result, Barclays managers avoid "hugging" index benchmarks when managing their money.

"In my experience, what the very wealthy are looking for is not good returns, but good risk-adjusted returns," she says. "We tend to take strong views in down markets and move entirely away from the benchmark and possibly into cash."

Barclays' UHNW advisers try to provide the same level of service to the very wealthy that they would to institutions. If a client has an interest in subordinated debt or foreign exchange, the request is dealt with through a bank-wide triage system.

"We execute quickly," says Ms Drews. "Say a client has a stake in a copper mine and needs advice on how to hedge his copper risk. His adviser may seek help from another adviser from Barclays Capital or Barclays corporate."

Barclays has also set up an investment club where its wealthiest clients trade strategies with each other.

"More and more clients want to do this type of thing," says Ms Drews. "Say a client is interested in doing a deal in Korea. We put them in touch with another client who wants to do the same."

Another characteristic is that the assets of the super-wealthy tend to be spread far and wide.

Dena Brumpton, chief operating officer of Citi Private Bank, says it has spent the past 18 months trying to plug the gaps in the services and products it offers its clients to ensure the same quality of service and advice, whether they be in India, the US or Brazil. The firm has offices in 140 countries.

Along with most rivals, Citi has an open architecture platform that permits the bank to offer financial products from various providers. Its bankers do not receive additional compensation for selling in-house products.

"We have a totally open architecture approach, which, when combined with our fully discretionary compensation model, gives our clients an unconflicted

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Soaring deficits prompt fresh clampdown

Regulation

Several countries are taking a harder line on tax evasion, says **Sharlene Goff**

Authorities around the world have long been pursuing tax evaders, but now inflated government deficits and stretched state budgets mean they are likely to take an increasingly tough line.

The UK government's pledge to generate £900m by clamping down on tax evasion fired the opening shot of a fresh assault on wealthy individuals who are trying to shelter their assets outside the country.

The UK sent a strong signal of its determination to recoup unpaid tax when it struck a landmark deal with Switzerland last month, through which it will receive revenue from funds held by British taxpayers in Swiss accounts.

Switzerland acts as a haven for some of Britain's wealthiest individuals – UK investors are thought to hold about £100bn-£125bn in accounts there – and its authorities have been reluctant to co-operate with foreign governments and risk losing Switzerland's reputation as a safe place for wealthy investors.

While governments, particularly in the UK, have made good progress tackling tax evasion in smaller offshore locations such as Liechtenstein, tax specialists say it is the funds in Switzerland, which dwarf the amounts held in other offshore locations, that authorities have been most keen to crack.

"The real key has been to get to Switzerland. That's where the big money is," says Bill Dodwell, a tax partner at Deloitte.

But while the new agreement will generate a regular stream of revenue from Swiss accounts – it introduces a withholding tax on income generated by funds in Swiss banks and penalises inherited accounts that have not been declared – it does not go so far as to reveal the identities of account holders.

Germany, which has struck a similar tax arrangement with Bern, and the UK initially pressed Switzerland to hand over automatically information about their taxpayers, but the Swiss authorities were unwilling to jeopardise the prized secrecy of their banking system.

This illustrates one of the biggest headaches for governments. While they are making progress in recouping unpaid tax, they have limited power when it comes to chasing individual tax evaders.

Some places still refuse to reveal information on account holders unless the authorities that are chasing the tax already have their names and details of where the money is invested.

Nevertheless the tougher approach to tax evasion leaves wealthy individuals with fewer options when it comes to sheltering their assets from tax.

In April 2009, the Organisation for Economic Co-operation and Development published a blacklist of countries that had not agreed to tax standards and named those it thought needed to improve, including Gibraltar, Liechtenstein, Andorra and San Marino. Leaders of the G20 countries have since agreed to enact sanctions against the tax havens that appeared on the list.

Bill Dodwell: 'The key is Switzerland. That's where the big money is'

This paved the way for a number of information exchange deals as smaller offshore locations buckled under the increased pressure from authorities.

Such deals encourage tax evaders to declare their deposits in return for reduced penalties, typically of up to 10 per cent on undeclared funds.

Authorities are also targeting banks directly in an attempt to force them to hand over information about their clients. In the UK, the government has won court orders against the largest banks to make them provide details about account holders.

However, tax specialists say investors tend to open accounts directly in a foreign bank's home country, rather than with the UK operations. "If you're a tax evader you're pretty unlikely to go through front door," says Mr Dodwell.

Also, while the recent agreements with traditional tax havens signal the end of an era for people looking to shelter assets, many are seeking new shelters.

Some wealthy investors are moving funds out of places such as Switzerland and into the Middle East or Asia. While it is harder to open accounts in these areas, fears are growing that newer markets may become popular with rich taxpayers.

Authorities are trying to initiate talks with some of these jurisdictions, but tax experts say it could be harder to strike agreements with them. It could also be politically difficult to blacklist these locations for fear of jeopardising trade links.

However, UK investors who move money to other jurisdictions in order to shelter it from tax may end up paying a high price.

From April next year, they run the risk of a 200 per cent penalty under tougher evasion rules set to be introduced by Revenue & Customs.

IRS pushes banks to put pressure on tax evaders

Compliance

After the UBS case, institutions are nervous and extra sensitive to risk, writes **Jane Croft**

After the US Department of Justice settled its case last year against UBS, the Swiss bank, for helping US citizens evade taxes, some lawyers asked which jurisdiction, or bank would be targeted next.

The closely watched case forced the Swiss bank to pay $780m and hand over account data on more than 4,000 US clients in a landmark decision that undermined Switzerland's famed banking secrecy.

The fine underscored the US government's efforts to crack down on tax evasion – particularly in Switzerland, which is home to an estimated third of the world's undisclosed personal wealth.

At the time, Doug Shulman, commissioner of the Internal Revenue Service, said it would "vigorously pursue tax cheats around the world, no matter how remote or secret the location".

Lawyers say the UBS settlement has been instrumental in persuading taxpayers to come forward voluntarily.

Last year, the IRS said 14,700 individuals from about 70 countries had come forward to disclose secret offshore accounts at UBS and other banks to avoid possible criminal prosecution. They preferred to come clean about their assets than continue hiding them.

By contrast, the number of voluntary disclosures in 2008 was fewer than 100.

Regulatory lawyers now believe that US prosecutors could take advantage of the momentum generated by the UBS probe to increase enforcement of US tax compliance globally and target other jurisdictions, such as Asia.

In July, the Financial Times reported that the US Department of Justice had informed several HSBC customers that they had come under scrutiny for potential tax evasion.

Last month, two such clients, a father and son team of real estate developers, were convicted for failing to report more than $49m of income to the IRS.

Lawyers believe that pressure is being put on private banks without US operations to carry out greater due diligence on their clients – or face the prospect that they will be unable to trade with US correspondent banks.

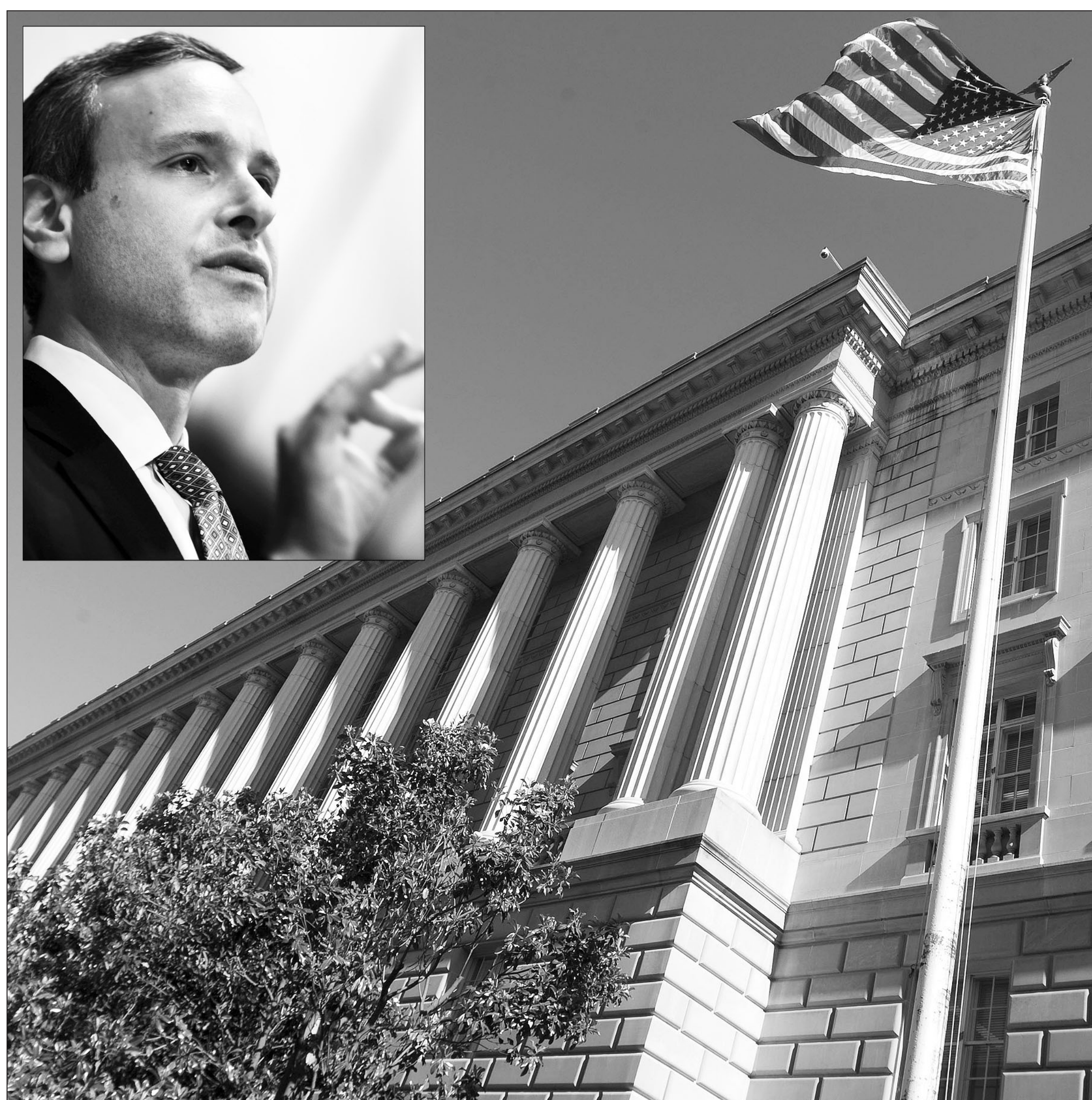
Bryan Skarlatos, a lawyer at Kostelanetz & Fink in New York, who specialises in representing clients in civil and criminal tax controversies, says: "There is a multi-pronged effort to lift the veil of banking secrecy after the UBS case.

"First, there are concerns that other banks could face a criminal investigation or civil summons.

"At the same time, the IRS and DoJ are in conversation with banks around the world about getting out of the business of hiding US customers trying to evade US tax. As a result, banks are becoming more sensitive to these customers. It's hard for a US customer to open an account in Switzerland now, for example.

"Banks are also more likely to inquire into customers further and request they provide a social security number, for example," Mr Skarlatos says.

Another important issue is that Congress has implemented the Foreign Account Tax Compliance Act, which obliges foreign banks that want to hold US securities or do dollar transactions to do deeper due diligence on their customers. This will be implemented in January 2013.



The Internal Revenue Service building in Washington DC and, inset, IRS commissioner Doug Shulman Bloomberg

'Banks are becoming more sensitive . . . It's hard for a US customer to open an account in Switzerland now'

Many experts fear that with the existing scrutiny on locations such as Switzerland, the wealthy may simply move their money from Swiss banks to other locations, such as Asia or Latin America.

Charles Grice, managing director of CRI Compliance, which helps banks with regulatory and legal compliance issues, says the past few months have seen a change in public policy from tax collection to involving banking regulators.

"Banks are worried about this," he says, "Particularly banks in Latin America and Asia with operations in the US. It's moved high up the agenda and some banks have already taken action to close and clean up accounts, particularly where there may have been a US citizen with accounts in Luxembourg and Andorra, for example.

"There is a concern among the smaller second-tier private banks, which, if they have operations in the US, are likely to be examined to death." he adds.

There is also greater scrutiny by larger European banks that recognised they had US residents with accounts and active US mailing addresses.

Experts say that, after the beginning of the UBS investigation, banks started sorting clients by address to ferret out US residents who had exposure to the IRS. Many discovered large numbers who claimed to reside in Europe and who then changed their address to the US.

The big question for lawyers and banks is just how active the US authorities are likely to be in tracking down US citizens or whether they will allow fear to act as a sufficient deterrent.

"Banks are responding to all this, although many are unhappy about the changes," says Mr Skarlatos at Kostelanetz & Fink. "Over the next five years, I believe that those wanting to hide their money will be pushed into the corners of the world using smaller banks in developing countries.

"The UBS case was the end of the first step to usher in a new era of more transparency. The big question which no one knows the answer to at the moment is how proactive the DoJ and IRS are likely to be in pursuing people," he adds.

Keen to build long-term relationships

Mortgages

Tanya Powley on flexible loans for wealthy borrowers

Private banks have become a dominant force in the prime residential mortgage market, as they target wealthy borrowers who will establish a long-term asset-based relationship with them.

There has been strong growth in the central London property market, fuelled by demand from wealthy foreign buyers looking to benefit from the weakness in sterling, and reduced competition for large loan business from high-street lenders. This has allowed private banks significantly to expand their share of the mortgage market.

"We're now doing 70 per cent of our business through the private banks, because they offer a more flexible solution for wealthy borrowers than high street lenders," says Melanie Bien of Private Finance, the mortgage broker.

Demand for large mortgages has increased, as wealthy investors look towards the prime central London property market as a safe haven for their money.

According to figures from Halifax, the number of £1m-plus ($1.6m) property sales in London in the first half of 2010 were more than double those of a year earlier.

The increased appetite for prime property has led several private banks, including JPMorgan and Standard Chartered, to gain regulatory approval to lend on residential property this year.

Shayne Nelson, global head of Standard Chartered Private Bank, says the uncertainty in the markets, combined with low interest rates, have turned investors to real estate.

Private banks have also realised that buying property is an emotional investment for most clients and can help form the cornerstone of a relationship.

"In other words," says Nigel Bedford of Largemortgageloans.com, a mortgage broker, "if a bank lends a client money to help them buy their home, it is far more likely to gain a larger share of the client's future asset management and banking."

He adds: "Because private banks are so focused on long-term relationships, the mortgage becomes an important piece of the pie."

Simon Clark, director of Lloyds TSB Private Banking, agrees. "We see lending as a prime opportunity to satisfy the needs of our clients and as a very good entry point for new relationships. If you can provide quick, efficient, cost-effective and creative financing, that can help open the door to other opportunities," he says.

Most private banks admit they are not interested in a debt-only relationship with a client. "Debt can be the starting point of a conversation, but we're not in the business of just lending," says Carlo Sammartano of Barclays Wealth. "We are a wealth manager, we want to develop that relationship."

To access the lowest rates via a private bank, clients will usually have to invest other assets with the bank's wealth management arm, but the amount of funds will depend on the bank.

For example, UBS and EFG Private Bank both request that half the amount borrowed is invested with them, while Credit Suisse requires that 100 per cent of the mortgage amount be invested with it within 12 months.

Other private banks, such as Investec and Barclays Wealth, do not stipulate the transfer of any savings at the time of the transaction, but they will look at ways to develop their relationship with the client.

Private banks typically offer bespoke mortgages. They tend not to have a "best buy" list of rates, deciding instead on a case-by-case basis.

Ms Bien says it is not just price and fees that are important when selecting a private bank – delivery times are crucial.

'If you can provide efficient, cost effective financing, it can help open the door to other opportunities'

"Many of our clients are in high-pressure deadline situations and it is important to select the bank that can deliver," she says.

Private banks are willing to be more creative with funding structures than high-street lenders, an important factor for wealthy clients who may have relatively modest basic salaries but large, regular bonuses as well as significant assets.

Private banks will lend on all types of residential property, including cross collateralising on two or more properties and other non-property assets such as share portfolios, yachts and art collections.

"The wealthy are often asset-rich but cash-poor, which means banks have to look at clients' overall financial picture, so we can structure a loan just for them," says Mr Clark at Lloyds TSB.

Wayne Preston of Investec says it completed 46 per cent more mortgage deals between June and August than it did in the first three months of 2010.

He believes this reflects the bank's personalised service and the fact that individuals are struggling to get loans approved because of inflexible lending criteria used by other banks.

Logic calls for mergers but deals are hard to achieve

Consolidation

Smaller banks are under pressure as profitability falls, says **Lina Saigol**

Global private banks could enter a new phase of consolidation next year, as profits come under pressure from rising regulatory costs, falling margins and increasing customer demands.

Bankers are predicting dealmaking among smaller and midsized private banks, which lack the funds to compete with their larger rivals, at a time when profitability has fallen sharply and margins are being squeezed.

European private banks have seen their profitability fall for three years running, from 35 basis points of assets under management in 2007 to 26 basis points in 2008 and 20 basis points last year, according to McKinsey's annual study of European private banking, published in July.

With profitability unlikely to return to pre-crisis levels soon, some private banks may look to reduce their bloated cost base through mergers.

John Paul McGrath, managing director at DC Advisory Partners, says: "The smaller businesses have been harder hit of late by the cost of dealing with legislation and compliance, weaker equity markets – where traditionally most investing has been done in this space – and lower levels of profitability."

This is particularly true of Swiss private banks, which are facing tougher times than some of their larger rivals, because of rising regulatory costs.

In a recent report by PwC, "Heading for New Horizons", the consultancy said it expected to see investors from eastern Europe, the Middle East, Asia and Latin America acquire struggling Swiss players in the near future.

But while the global private banking industry remains highly fragmented, finding the right asset to buy will be a challenge.

"We expect to see more consolidation among private banks in [continental] Europe and the UK, but the real difficulty is ... finding attractive businesses for sale," says Alun Eynon-Evans, corporate partner at Allen & Overy, the law firm.

The scarcity means buyers are still being forced to pay a premium to secure assets, despite lower valuations.

Earlier this month, for example, Singapore's Oversea-Chinese Banking Corporation outbid HSBC and paid $1.5bn for the Asian private banking assets of ING. The price was equivalent to 5.8 per cent of the unit's assets under management, after adjusting for surplus capital.

Julius Baer, the Swiss bank, paid 2.3 per cent for ING's Swiss assets last year, while in May, India's Hinduja Group paid €1.35bn for the private banking arm of Belgium's KBC, or about 2.9 per cent of assets under management.

These prices are considerably more than the 1 per cent of private banking assets under management that Standard Chartered paid in 2007 – at the peak of the debt boom – to acquire American Express Bank.

Bankers also expect the shift to onshore banking – triggered by the crackdown by regulators on suspected tax evasion in some offshore financial centres – to drive deals among the smaller banks.

Unlike offshore banking, onshore banking generates smaller pre-tax and gross margins, so size matters.

"As private banks increasingly focus on the onshore model, they are likely to see higher volumes of assets under management, but lower margins. This means that scale will be increasingly important to success," says Ben Davey, co-head of Barclays Capital's financial institution group for Europe, the Middle East and Africa.

But while private banking deals make sense on paper – not least because of the synergies from saving back office expenses through scale – in practice they can be hard to achieve, especially when several tax jurisdictions are involved.

Mr Davey warns: "Client attrition can be a concern when two private banks combine, with potentially different cultures and regulatory regimes coming together.

"Integration can be a very delicate operation."

Bankers are also predicting more deals between European private banks and their Asian counterparts, as the former try to capture some of Asia's fast-growing wealth.

"The quest for asset inflows and yield is likely to see more European independent players move into Asia," says Mr Davey.

But identifying potential targets in the region is not easy, and international private banks are also balking at the price of recent deals such as the OCBC/ING transaction.

A further obstacle to consolidation in the region is the tight controls countries such as China – the region's biggest source of wealth – have on the movement of money offshore, as well as on foreign banks' operations onshore.

Bankers say that, as a result, they expect to see more alliances and joint ventures between private banks, as they try to gain a foothold in emerging markets.

Industry experts say, however, that potential buyers of private banks will need to move quickly.

As markets continue to improve, so will valuations, and any buyer that balks at prices today may be inadvertently missing a bargain.

Some recent M&A transactions in private banking

Date	Target	Acquirer	Price ($m)
Dec 2009	Mourant International Finance Administration	State Street	**n.a.**
Oct 2009	ING Private Banking, Asia	OCBC	**925**
Oct 2009	Sal. Oppenheim	Deutsche Bank	**2,000***
Sep 2009	ING, Switzerland	Julius Baer	**314**
Aug 2009	Commerzbank, Switzerland	Vontobel	**115-130**
Jul 2009	Dresdner Bank, Switzerland	LGT	**n.a.**
Apr 2009	UBS Pactual	BTG Investments	**2,500**
Dec 2008	AIG Private Bank, Switzerland	Aabar Investments	**288**
Dec 2008	Credit Suisse AM	Aberdeen Asset Management	**358**
Feb 2008	Caisse Centrale de Réescompte	UBS Global AM	**348**
Jul 2008	Heritage Fund Management, Switzerland	Bank of China	**8,700**
Nov 2007	Banca del Gottardo	Generali	**1,700**

Source: Booz & Co * Approx

Battle stations as centre of gravity shifts

Asia

Demand is building, but can banks hire staff fast enough, asks **Sharlene Goff**

As the aftershocks of the financial crisis reverberate around western economies, the race is on between private banks as they battle for a share of the increasingly attractive Asian markets.

While hot spots such as Hong Kong, Singapore and Shanghai have been an epicentre for wealth generation for the past few years, the rate of growth is now rising fast.

The number of millionaires in the Asia-Pacific region grew by 25 per cent last year, catching up with Europe for the first time, according to the latest annual World Wealth report from Merrill Lynch and Capgemini.

Meanwhile, the combined wealth of Asia-Pacific's rich people rose by more than 30 per cent to $9,700bn in 2009, surpassing the $9,500bn held by Europe's richest people.

Even more striking is the expectation that, by 2013, Asia will have more millionaires than the US.

"Wealth creation in Asia has been quite incredible," says Shayne Nelson, head of Standard Chartered Private Bank. "It is like the financial crisis never happened."

The rapidly rising number of affluent individuals has left financial institutions struggling to keep up with the booming demand for private banking services.

Big global banks are now ramping up investment in their private banking operations across many emerging markets.

"Certainly, the private banking industry is repositioning itself for growth," adds Mr Nelson. "There is huge investment going into the industry across Asia."

Standard Chartered, which derives the vast bulk of its profits from outside the UK, plans to increase the number of relationship managers it has working with wealthy clients from 450 to 750 by 2013.

The majority of this growth will come in its core Asian markets – Hong Kong, Singapore and China – although the bank also plans a big expansion of its Indian business.

Meanwhile, HSBC Private Bank intends to add 500 front office staff over the next three years, focused on faster growing emerging markets.

Barclays Wealth has increased its headcount in Asia by about 50 per cent since the beginning of this year.

The crucial question is whether banks can hire staff fast enough to meet the demand from wealthy clients.

Barclays says it has had to improve the training it provides to staff and offer them a clearer career progression to cope with the challenge of attracting and retaining talent

Banks are also trying to circumvent a drought of talent in local markets by moving more of their existing bankers from headquarters in the UK or US into Asia.

HSBC recently announced that Chris Meares, the global head of its private bank, would be moving to Hong Kong.

Citigroup is also transferring staff from other parts of the business, such as its investment banking operations and its corporate bank, to its private bank.

"A few years ago, it became apparent that attracting talent was going to be a challenge for everybody in Asia," says Deepak Sharma, chairman of Citi Private Bank.

"Large organisations are now increasingly looking internally for talent."

As well as mirroring the movement of wealth from west to east, this migration of top bankers reflects a broadening of the kinds of services wealthy Asian clients are demanding.

Bankers estimate that two-thirds of rich Asian clients are entrepreneurs or own family companies, so their personal and business wealth tend to be interlinked.

Mr Nelson says there is a generation of clients requiring wholesale as well as personal banking services. "Understanding both sides is important," he says."Clients don't necessarily want the same risk correlations for their private wealth and their business."

Barclays says its wealth business works very closely with Barclays Capital, the investment banking division, to provide its richest clients with access to products and services normally reserved for institutions.

"With an expected rise in initial public offering and merger and acquisition activities, wealthy entrepreneur clients will no doubt see the benefit of working with a private bank that can provide them access to investment banking services," says Didier von Daeniken, chief executive of Barclays Wealth Asia Pacific.

Banks are also trying to differentiate themselves by offering increasingly global services to clients.

Mr Sharma at Citi says that wealthy Asian families increasingly span a number of countries and so are becoming much more global in their outlook.

"We have to deliver services to clients anywhere in the world," he says.

"Families increasingly include a number of nationalities and they need to be able to access our global network from a single point of contact."

He says it is crucial that banks have a consistent approach to wealth management, whether they are based in London, Geneva or Singapore, and that they have the infrastructure to offer clients immediate access to their services all over the world.

Asian clients, who have in the past tended to focus on investing their wealth in local markets, are now increasingly wanting to tap into capital markets around the world.

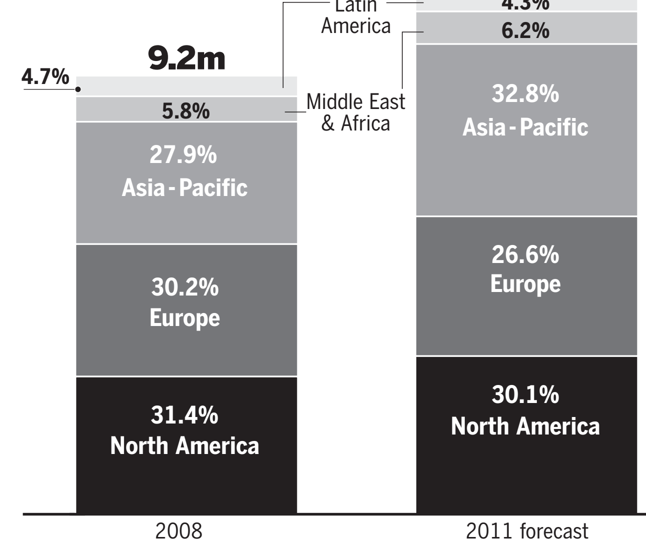
"Clients cannot put all their wealth into their own countries, as the markets are not deep enough. They have to think about investing outside their home country," adds Mr Sharma.

This international focus means that large global banks such as Citi, HSBC, Standard Chartered and UBS – which have platforms across most developed and emerging economies – increasingly have the edge over smaller regional banks that do not have a large presence outside Asia.

As wealth generation becomes more established, private bankers report that clients are also paying closer attention to the next generation.

"There is now a greater tendency by ultra high net worth clients to require trust structuring for estate planning and succession planning," says Mr von Daeniken.

Nice runner, would suit millionaire, $300,000 or near offer: a Chinese man views a German-built Wiesmann GT sports car at a luxury goods fair in Shanghai Getty



Profile BSI banks on reliable Swiss image as it looks to Asia for growth

Ask Swiss private bankers about the future and many will say: Asia. The reasons are clear. The region's economic growth is producing a lot of wealthy individuals.

Swiss banks have a blue-chip image for security, reliability and service. Meanwhile, most private banks acknowledge that traditional "offshore" banking for rich European clients is mature, if not in decline.

Lugano-based BSI encapsulates the reasons for the eastward push. An Italian tax amnesty last year proved to be an opportunity that many wealthy Italians found hard to refuse. If this was a big blow for other Swiss banks, it must have been harder still for BSI, a bank from Switzerland's Italian-speaking Ticino canton that has traditionally focused on rich Italians.

Accentuating the pain, BSI in 2007 spent SFr1.88bn buying Banco del Gottardo, a smaller local rival with a broadly similar business model. Rather than seeing assets under management mushroom as was hoped, BSI has witnessed much more modest growth because of the amnesty.

The strong Swiss franc has further reduced assets under management, given that most Italian clients use euros. So alternative sources of growth were essential.

"We decided in spring 2009 to push into Asia," says Alfredo Gysi, BSI's chief executive. "We already had a strong and successful tradition in South America. Now, we wanted to establish ourselves in an area with high growth potential in which we had as yet no meaningful presence."

In summer 2009, the bank started hiring. Its biggest coup was recruiting from Coutts Hanspeter Brunner and Raj Sriram, two top private bankers. Some analysts reckon the pair brought about a third of their former team – their employer – with them.

Mr Brunner, a former chief executive of Coutts in Switzerland and then head of Asia, has become BSI's chief executive in the region. Mr Sriram has taken responsibility for south-east Asia.

Alfredo Gysi: 'The fact that we have an immaculate reputation and came through the crisis without serious problems is a big advantage'

Senior hiring has continued. Last August brought Esther Heer – also from Coutts – to lead BSI's north Asian growth from Hong Kong.

BSI now has about 190 employees in Singapore, the focus of its Asian initiative, compared with about 30 previously.

In Hong Kong, where the bank has recently upgraded its representative office to a licensed private wealth adviser, growth is at an earlier phase.

"The hiring in Singapore is now largely over and the push now is in Hong Kong," says Mr Gysi. The aim is to have about 100 people there within the next three to four years.

"Now, the objective is to get the results," he adds.

The new relationship managers are central to BSI's goal of building up $15bn in assets under management in Asia by 2015. That compares with an initial position of about $3bn before its Asian push and some $5bn now – after what Mr Gysi describes as "a very encouraging start" in 2010.

Mr Gysi does not accept some analysts' description of the Asian drive as a "huge bet" by Generali, BSI's Italian owner, to make its large investment in the bank – particularly after the Gottardo purchase – pay off.

He acknowledges a Lugano bank may not trigger the same name recognition among rich Asians as some rivals in Zurich or Geneva. But he is confident the Asian push rests on solid foundations and will pay off.

"The fact that we have an immaculate reputation and came through the credit crisis without serious problems is a big advantage. Our almost 140 years of history is another factor, along with being Swiss," he says.

"It's true that knowledge of our name is still not yet up to the levels we'd like. But we are part of a big and solid group. Generali is well known in Asia."

Haig Simonian

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Race to lure super-wealthy

Continued from Page 1

platform," says Ms Brumpton. "We make decisions for our clients based on a thorough analysis of their risk/reward appetite."

Rupert Robinson, chief executive of Schroders UK Private Bank, says that half the £8.5bn of funds managed by Schroders' UK operations is provided by ultra-wealthy investors.

Schroders has had success grabbing market share from larger banks such as UBS and JPMorgan – traditionally kingpin players in the market – by billing itself as a family office that offers a ramped-up level of service.

"Quite a lot of people were badly burnt during the financial crisis," says Mr Robinson. "One of the trends we've seen over the past couple of years is that very wealthy people or families want to work with a firm that provides the service intensity and independence of a family office, but also has the strength and depth of a global asset management firm behind it.

"Clients want access as well as opinions and views. They want to be able to talk to specialists in real estate or on China or India."

Services often demanded by clients include advice on cash management, credit, and how best to use assets on a balance sheet to the client's advantage, according to Mr Robinson.

There are drawbacks, however, in catering to the super-wealthy.

One is that margins are tighter, as the market is more competitive – compared with "ordinary" high net worth individuals, there are fewer people in the world with $25m in cash to hand.

Turnover rates also tend to be higher and individuals are more likely to split portfolios between advisers.

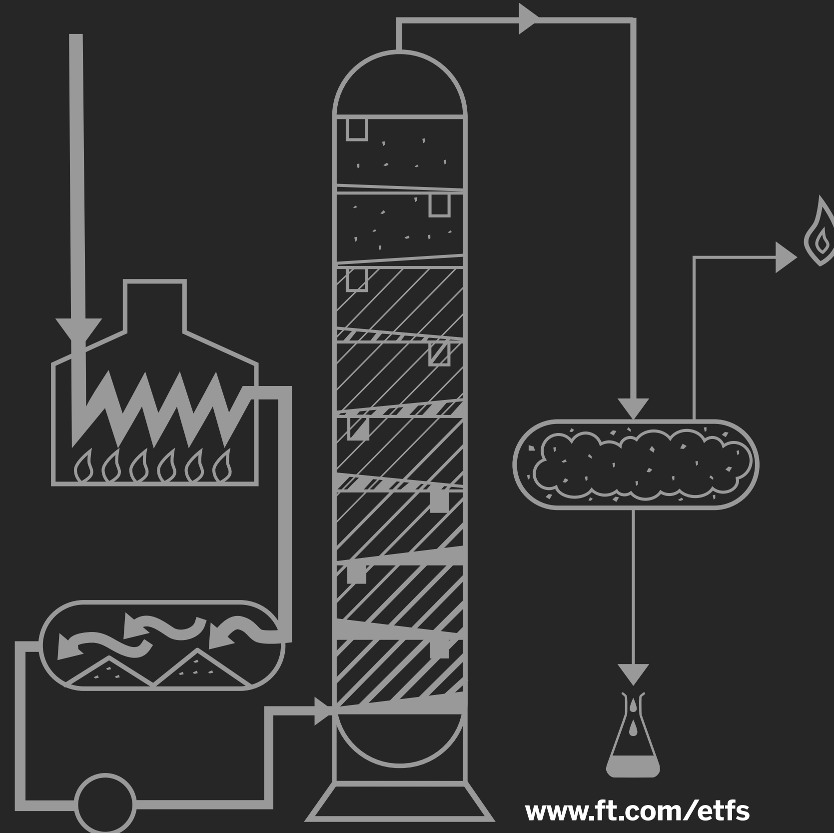
"The super-wealthy tend to be more demanding and have more options," says Graham Harvey, a director at Scorpio Partnership, a consultancy that conducts research on the private banking sector.

Duncan MacIntyre, global head of Coutts Private Office, which has seen its assets jump to £3.7bn in the five years since its launch, agrees. "The margins within the ultra high net worth space are tighter. That's the nature of the beast," he says.

It is also difficult to determine which private banks are having more success.

Bank of America, UBS, Morgan Stanley, Wells Fargo and JPMorgan control considerable market share on the high net worth side, but few banks release data on how much business they are conducting with the super-wealthy.

"I don't think segregated data for the ultra high net worth segment exist," concludes Scorpio Partnership's Mr Harvey.



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