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A new era in wealth management

By Elisa Trovato
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Traditional business models are going to have to evolve to become more sustainable, reports Elisa Trovato

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Hot topics of discussion at the latest Private Banking Summit and Private Banking Awards in Geneva, supported by PWM and The Banker, both publications of the Financial Times Group, were the significant changes that wealth management institutions need to make to their business models, especially in Switzerland where the traditional, offshore, secrecy-led offering is now fading away.

“The business model that will work successfully in the wealth management industry in 2015 will be one that will be distinctively and comprehensively sustainable,” said Burkhard Varnholt, chief investment officer at Bank Sarasin.

The Swiss bank - which won the award of best private bank for both innovation and portfolio management - started to apply sustainability filters across all its discretionary portfolios this year in a systematic way. Mr Varnholt sees a “sea change” in investors’ attitude towards the concept of sustainability. This contributed to make sustainable assets directly managed by the bank grow 10 fold over the past 10 years, from SFr1bn (€600m) to SFr10bn, while total assets managed and advised by the bank according to sustainable principles amount to SFr33.5bn.

A successful private banking model will also have to be internationally scalable, he said.

“I believe that our business has always been and will always be a people business and you can only scale your business model if you have truly qualified relationship managers and back office people,” he said. Wealth management and Swissness go hand in hand, and the heritage will be continued to be valuable, sustained Mr Varnholt.

Finally, the business model of the future has to be “distinctively one sided and not an integrated business model,” he said, like Sarasin’s, which is geared entirely towards private wealth management. Chinese walls between different divisions do not really work, said Mr Varnholt - who worked for 10 years’ experience at Credit Swisse, champion of the one-bank model - as they just institutionalise the inevitable conflict of interest.

“Private banking today has to be flexible with regards to internal and external growth, and we have to think how we can grow organically and by acquisition,” stated Rémy Bersier, member of the executive board at Bank Julius Baer, the Zurich-based firm, which had just completed the separation from its asset management arm to pursue pure play private banking.

Today the banks that have split up their operations, such as Commerzbank or ING, are “acting out of desperation,” to obey to their respective governments which have supported them, said Ray Soudah, Founder of Millenium Associaties.

“These are not commercially based decisions but political decisions in order to raise capital. These banks are selling at the worst possible time from the financial viewpoint, as market valuations are very low, but distressed shareholders had no choice,” he said.

This consolidation trend in the industry will continue for the next couple of years or so, but then there will be a second wave of restructuring, which will have nothing to do with the disposals forced by the governments, predicts Mr Soudah.

“After this phase is over, the firms which are unable to deliver serious services (from reputable financial centres) will be forced to sell or merge.”

Similarly, those organisations that are expanding internationally in private banking or wealth management, and do not have an appropriate network, will need to dispose of their activities or will have to resign to being suboptimal, which is the strategy pursued by many at the present, he said.

Mr Soudah also envisages that regulation will interfere much more in the future of the industry. This will not be limited only to state capital needs for wealth managers or private banks but it will cover service quality and operational risk.

Large domestic onshore markets such as the US, UK, China and Japan will become more important than international centres, politically and economically, and onshore wealth managers will make huge investments to cater to their high net worth clients and try and grasp a share of the remarkable wealth available.

“The prominence of many international centres will reduce, due to the demise of banking secrecy and the attack on low tax havens,” stated the private banking guru. However, international centres like Switzerland and Singapore, as long as they upgrade their services, will survive and prosper, thanks to their well-developed infrastructure and safe institutions.

The whole process of private banking secrecy has just begun and many jurisdictions including Switzerland are just defining what it really means, he said.

“A massive change is taking place, and the consequences of it are not just financial but also reputational, operational and ethical. I am sure that the banks in Switzerland and in other centres have not still understood the full implications of this on their operations.”

As there is no real place to hide money anymore, banks may as well “concentrate on their investment management skills and service and not hide behind regulatory shields like in the past,” he said.

Mr Soudah believes that his Switzerland will have to endure a difficult transition period over the next few years, which will change its market scenario. Many smaller players and many foreign players disappear, while many independent Swiss players will grow and become more international. “The medium sized ambitious Swiss private banks will attempt to grow quite rapidly as they have little choice.”

Mailing address: Financial Times Ltd, Number One Southwark Bridge, London, SE1 9HL, United Kingdom