**_WealthBriefing's_ Editorial Board Analyses Pressing Issues Facing Wealth Management Industry**

By: David Bain
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Every month our Editorial Board members will bring you some of their thoughts on the major themes, developments and issues affecting the global wealth management sector. We believe some of these thoughts are crucial observations for the sector and feel they have great pertinence on the running of businesses in wealth management. We also hope they generate debate amongst our readers. Please feel free to email the editor, David Bain, on any one of these topics and themes with your views.

**Philip Marcovici, Partner of Baker & McKenzie, Zurich**

We are in the midst of outstanding opportunity in the wealth management industry. As an international tax lawyer, I have for some time been helping private banks and trust companies develop strategies oriented towards the major shift I have long envisioned—a shift from clients of private banks relying on secrecy for their planning—effectively turning legitimate funds into "black" money due to illegal tax evasion—to clients of private banks seeking "trusted family advisors" able to address a wide range of issues, both tax and non-tax, in legal ways.

The pace of global developments on transparency, from the US Qualified Intermediary system, to ever widening exchange of information, has been faster than even I anticipated, and finally a number of players in the industry are realizing that they need to adapt to a world in which their personnel are equipped to address the changing needs of high net worth families.

These changing needs are a huge opportunity. So many players are "addicted" to the easy profits coming from undeclared clients that they are unable to begin the process of training and education, both internally and externally, that is needed to address what families really need: an understanding of their home country tax systems, products and strategies that legally minimize (rather than illegally eliminate) tax exposures, and the provision of investment strategies and products that are tax efficient in view of the home country—something that often includes a need for the provision of information needed to fill in one's tax return.

In my view, success also requires a realization that there is way more than just tax that drives private banking relationships—succession issues, political risk, legitimate approaches to the provision of privacy, and many other things are the critical elements of success.

The addiction to undeclared money is also distracting some players from the enormous opportunities afforded by major old and new markets—including the US, China, India, and many more. While I see some private banks focusing on helping Europeans with undeclared money hide the money better in view of the European Savings Directive, with little attention to the risks involved for the banks and their clients, the smarter players are concentrating on building their legitimate future business from the enormous untapped markets that exist.

Private banking is a knowledge business, and this is where things are moving. Training, education, knowledge management and knowledge sharing are key. The future suggests real opportunity, and I am not a believer that the only opportunities are "onshore" in the countries of the families involved—a big success factor will be the provision of compliant products and services outside of the home country.

**William Drake, co-chief executive, Lord North Street, London**

A big talking point is what will be the effect of the institutions putting big money into hedge funds. Family Offices have been using hedge funds for years and done very well out of them. Will the institutions disrupt this by putting in too much money and requiring much higher transparency and due diligence? Or perhaps a two tier market will emerge with one tier servicing the needs of institutions for a bond substitute producing Libor + 3 per cent and another still aimed at the Family Offices. Perhaps one can say there is already a third tier constructing products for the retail market.

**Sebastian Dovey, managing partner, Scorpio Partnership, London**

A current issue in the strategic arena is the implementation of coherent advice and planning for all segments of private wealth. The question is whether this service can be value added and charged as an independent solution or if it will continue to have to be subsidised through the sale of investment product. The latter is the industry norm. However, the research has shown that more of the new generation clients place a value on financial planning and consider it a glue in securing their commitment to a firm.

They are also showing willing to pay for it. However, they also state that most private banks are failing to focus on this important part in the wealth management process, preferring to rush straight through to portfolio management products. Our view is that this planning requirement is going to be a major feature in the changing business model of global wealth management.

**Ray Soudah, founder, Millenium Associates,Zug**

The wealth management M&A market is immersed in an unusually large number of discussions and proposals, but with actually very few concrete results considering that the desire for revenue growth is pretty universal across all markets. Today, by comparison to the past few years, is a good time to sell as demand is high and so too are prices, although they are still far below their 2000 peaks.

**Rhian-Anwen Hamill, head of wealth & asset management, The Rose Partnership, London**

There is plenty going on in the recruitment market for wealth management, although I would say that the possibility of consolidation is holding back some mandates generally on the buy side of the business—people hold off some key hires when they think they might be buying or being bought.

**Michael Azlen, founder and managing Partner, Frontier Capital**

I have just returned from a hedge fund conference in Dubai, which was attended by over 300 people and the interest in hedge funds is very high from both wealth management groups: high net worth individuals and corporate treasurers. The industry is positioned to garner significant assets from the region but must show performance after the lacklustre returns in 2004 when the average fund of hedge funds returned approximately 5 per cent.

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