Interview with David Maude *Expert in wealth and asset management*

"The long-term outlook is very positive"

Over the last eight years, the highest growth in wealth has been in Asia, Europe and North America. Most recently, wealth in the Middle East, Africa and Latin America has grown very strongly. What are the key wealth market opportunities and how are players going about capturing them? We asked David Maude, an industry expert.

David Maude is an independent consultant and training professional, specialising in wealth and asset management. He is the author of the recent book, Global Private Banking and Wealth Management, published by Wiley.

What do you call a wealthy client? Could you draw the profile of an average one?

If you had asked that question a few years ago, the answer would have been pretty straightforward: a wealthy client is someone with investable assets greater than 1 million dollars. These days, the situation is more complex.

There are no hard and fast rules. Individual institutions differ widely both in the level of the wealth threshold they use to separate a wealthy client from a mass-market customer, and in how they define wealth itself (e.g., income, investable assets, net worth).

In most developed markets, an entry-level wealthy client, often known as "mass affluent", would typically have investable assets of over 100,000 dollars. A private banking client would typically have more than 5 million dollars. It's reasonably safe to say that the average wealthy client has investable assets of around 4 million dollars and is over 60 years old. Beyond that, drawing a meaningful single profile of the average wealthy client is tough and probably not all that useful.

Where does the wealth come from, in both cases?

Traditionally, the key sources included inherited family wealth, and wealth generated by professionals such as doctors and lawyers, and by senior corporate executives.

Today, there is far greater diversity. One well-known trend is the shift from "old" to "new" wealth. Much of the newly created wealth is sourced from business owners, including the dotcoms, biotech, media and real estate. "Superstars" (including entertainers, sports stars, financial sponsors and investment bankers) also represent a key source of new wealth, driven by skill-biased technical change.

An emphasis on products has been replacing the traditional emphasis on service. Has that now changed?

Service has always been the hallmark of the wealth industry. But there have been important shifts in what constitutes good service. Happily, most banks have moved on from dog walking and jewellery finding. For most clients, proactive, objective, trusted and high-quality financial advice is now the dominant service requirement. Financial products have, to some extent, become commoditised, particularly given the shift towards open architecture. Identifying and gaining appropriate access to the best third-party products has become an important value-added service (and is a strong source of competitive differentiation).

What are the key trends in terms of investments?

The obvious major trend here is the rapid growth: 1) of commoditised investment products, such as exchange traded funds, which aim to deliver returns in line with market indices; 2) of alternative investments (including hedge funds, private equity, structured products and commodities) which aim to deliver absolute returns in excess of conventional market indices.

Allocations to alternatives have, in fact, doubled over the last five years, and are now typically around 20% for many wealthy clients. Conventional active single-manager funds are being squeezed. Clients are seeking greater diversification across geographies, products, investment styles and managers. Open architecture is now a reality, though not yet fully embraced by all players. Another key trend is the shift from offshore to onshore. That has been driven by various international

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tax initiatives and by the emergence of attractive onshore investment opportunities in traditional offshore strongholds such as the Middle East and Latin America. But offshore banking is not on its death bed. The pace of product innovation has also picked up. Areas to watch include 130/30 funds, which combine long exposure of 130% of the assets with 30% short, ("short extension"), Shariah investments, productive philanthropy, and socially responsible investments.

Globally, there are now a range of different private banking players. Is a winning model emerging?

Traditionally, the US and Europe stood at two extremes: stock brokers dominated in the US; private banks dominated in Europe. But there has been convergence in recent years, with brokers adding advisory and banking capabilities, and private banks broadening their investment product ranges. Today, brokers and private banks of various types have been joined by other types of players, including universal banks, trust banks, investment banks, independent advisory boutiques, family offices, asset managers and product specialists. One recent trend is for private banking specialists and the investment banks, on average, to gain share at the expense of some of the universal banks, which had performed relatively well during the 2001-2003 downturn and its immediate aftermath. This reflects greater client sophistication and changes in the investment product landscape, factors that are largely structural which suggests that this trend may be here to stay.

Is there a place for new players?

Absolutely. Over the last decade, new entrants such as EFG International and Banque Syz have had dramatic success. Clients are open to fresh approaches, where there is demonstrable appeal.
But truly radical approaches have been sadly lacking. For example, despite many clients explicit desire for greater transparency and value for money, a Ryan Air of the wealth management industry has yet to emerge. In addition, it is puzzling as to why there has not yet been a high-profile tie-up between a wealth manager and one of the luxury brands, particularly in Asia. This, I believe, is another key area to watch.

What part does the Internet play?

The Internet's key roles include transaction execution (in particular brokerage and payments), online reporting, aggregation and analytics. But overall, the Internet's impact has mostly been very limited. In the late 1990s, there were a number of experiments with online advice, and some high-profile ventures targeted mainly at self-directed mass-affluent clients. These, pretty much without exception, were a costly flop.

What common factors in the emerging markets do you see, in terms of target clients (mass-affluents, HNWIs?)?

With emerging markets, it is difficult to generalise. Key wealth drivers include economic development and liberalisation, and oil and commodity-driven growth. In terms of client segments, HNWIs are the primary target but, in many markets, there is also a growing pool of mass-affluent clients. Overall, key product demands are not all that different from those in mature markets. Clients in many emerging markets continue to value offshore solutions largely as protection from domestic instability. Particularly in Asia, clients tend to have relatively high risk appetites, often demand portfolio leverage, and generally take a more active approach to investment.

Which strategies have players been using to gain market share?

Most players have been busy hiring private bankers. The main focus here is on experienced individuals and/or teams, which bring existing client relationships. The cost of experienced hires has risen very sharply, so some >>>

>>> players are investing in lateral hires from industries such as investment banking, accountancy and even the armed forces. Other initiatives include acquisitions of wealth units or entire firms, and joint ventures. But these approaches can be expensive and are notoriously tricky to execute well.

Some players have been opening offices outside capital cities in order to acquire new local business clients, a good example being Barclays, Coutts and HSBC in the United Kingdom. Other players have been focusing on pure organic-oriented initiatives, for example, by developing new propositions and by revamping their client coverage models.

How do you imagine the future of private banking and wealth management? Will it keep on growing?

The long-term outlook for the industry is very positive. That said, in the short term, a temporary cyclical setback at some point cannot be ruled out, particularly given the volatility in financial markets.

So there is more wealth in wealth management. Yet, just as client wealth itself is unevenly held, the “wealth” of wealth managers will be subject to growing inequality across geographies and business models. Well-run large players will operate alongside smaller niche specialists. But mid-sized generalists in mature markets, beware. ■