

## **What is the essence of private banking?**

In principle, three key things:

1. The *client base*, which largely comprises the very wealthiest individuals and their families.
2. The *nature of the client relationship*, which is typically broad, deep and long term.
3. The *products and services*, which are relatively high quality and tailored to the individual client.

As Alexander Hoare, CEO of Hoare & Co, made clear in his endorsement of my recent [book](#), “the essence of private banking has not changed for hundreds of years”.

## **How do you see the evolution of the top global private banking centres, particularly in relationship to onshore and offshore private banking?**

I expect growth in both onshore and offshore private banking assets. But, at least at the aggregate level, offshore growth will be lower than that of onshore. This reflects various international tax initiatives and the emergence of attractive onshore investment opportunities in traditional offshore strongholds such as the Middle East and Latin America.

Despite the projected rapid growth of wealth in Asia, the Middle East and Latin America, it’s worth remembering that the US and Europe will continue to dominate the global wealth landscape for the foreseeable future. But looking ahead, we are likely to see the emergence of important new onshore private banking centres in locations such as Shanghai, Mumbai and Sao Paulo. Of course, Tokyo will also play a role if the Japanese private banking market starts to take off.

Yet offshore banking is not on its death bed. Quite the reverse in fact, if my client work and conversations with industry leaders are anything to go by. Newer offshore centres, such as Singapore and Dubai, will continue to grow rapidly as they gear themselves up for the next generation of wealthy clients. Switzerland, Luxembourg and some of the other traditional offshore centres are likely to continue to grow but at relatively low rates.

Overall, we are likely to see a wider range of private banking centres that are more onshore oriented, and that reflect more closely the pattern of global wealth creation.

**Can you point us to some of the more innovative business models in private banking? Which ones do you think are the most likely to succeed?**

I'd point to three models:

- *'Hub-and-spoke'* – the bank provides the 'hub' (infrastructure and brand), with the relationship managers operating as franchise-like 'spokes'. The best example is EFG International; some of the other small players such as Clariden and Banque Syz operate similar models.
- *'Lending-led'* – using specialist lending, rather than asset management, as the primary product. The best example is Investec. This model requires strong credit and structuring skills and a relatively high risk appetite.
- *'Peer network'* – essentially a high-end investment club that connects wealthy individuals. Examples include TIGER 21 and CCC Alliance. This raises the real risk of disintermediation and is therefore probably better described as a private banking out-of-business model!

All three of these models are succeeding in their own way. Going forward, a key common issue is scalability.

More generally, looking ahead, I see specialist players, including investment banks and family offices, continuing to gain share. This reflects factors such as greater client sophistication, wealth concentration, and changes in the investment product landscape.

**Could there ever be an easyJet or Skype of private banking? Is disruption possible in this industry?**

In principle, yes. Clients *are* open to fresh approaches where there is demonstrable appeal.

Given many clients' explicit desire for greater transparency and value for money, it is therefore conceivable that an easyJet or Skype of the private banking industry could emerge. But let's not forget that experiments with online advice – e.g., wealthplace, myCFO, etc – have, pretty much without exception, been a costly flop. More fundamentally, it's hard to square these types of disruption with what I view as the essence of private banking, outlined above. In other words, isn't easyJet private bank an oxymoron?

**From many bankers we hear that most private banking value propositions on the market resemble each other. Do you agree or is differentiation in private banking offers possible?**

I agree to some extent. On the surface, genuine differentiation is not that visible. Most banks offer a very similar range of basic products.

But dig a bit deeper and differences do start to emerge. Some banks target particular client segments, e.g., Coutts (sports stars, wealthy women) and Citi (lawyers, financial sponsors, global citizens). Some specialise in particular product areas, e.g., UBP and Banque Syz (alternative investments), Wegelin (structured products) and Investec (specialist finance). Others specialise in serving clients in particular geographies, e.g., Hoare & Co (UK) and Societe Bancaire Privee (Switzerland).

A more subtle – but no less powerful, likely growing – source of differentiation, is the client experience itself. A key component of this is the way the bank structures and systematically steers the advisory process.

Value propositions also vary to some extent across geographies. In Italy, for example, there tends to be a greater emphasis on traditional services, rather than on leading-edge investment products. This reflects factors such as client composition, market maturity and cultural considerations.

As client sophistication and competitive intensity grows, I expect to see a greater emphasis on differentiation by both incumbents and new entrants.

**In which areas of private banking do you think we will see the most innovation arise in the coming years (e.g. product, process, management, etc.)?**

Product innovation is an ongoing trend, but it's not obvious that private banks themselves will be in the lead here. Investment banks, financial sponsors and others are likely to play the key role.

Key areas to watch in terms of services innovation include: advisory processes and tools, investment-performance analytics, and consolidated risk management.

Pricing approaches based on risk-adjusted investment performance are likely to become more widespread, at least for some client segments.

On the client management side, I'd expect to see further segmentation innovation, particularly along behavioural lines. To boost client acquisition, some players may seek innovative partnerships with various types of intermediary and with others, including perhaps the luxury brands.

Further entry of talented people from outside the industry will be another area of innovation. Examples include: relationship managers from investment banking, law, accountancy and beyond; marketing professionals from the luxury brands and consumer goods; and operations people from manufacturing companies.

Operational innovation will come, but radical moves are not likely until the next downturn. Key dimensions include: operational sourcing, lean techniques, IT and support-services transformation.

### **What are the top 3 key success factors for a private bank / wealth manager?**

It's tempting to say distribution, distribution and distribution. Much depends on things like business model and stage of business development. I'd suggest the following:

1. *Strong relationship management* – which includes: attracting, developing and retaining high-quality relationship managers; organising, supporting and incentivising them effectively; and getting things like client loadings and account planning right.
2. *Critical mass in selected high-growth geographies* – to drive strong flows of new business.
3. *Operational efficiency and effectiveness* – which includes keeping a lid on front-, middle- and back-office costs; having flexible and scaleable infrastructure; and getting the basics right in the eye of the client (e.g., error-free transaction execution).

Note I've deliberately not included scale or product breadth, which I do not see as success factors in their own right.

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