A matter of good business sense

The wave of private banking consolidation in Asia highlights the shortcomings of the traditional model today. For those who want to stay in the business, they must understand the unique formula that underscores profitability and factors in the interests of several key stakeholders, says Bassam Salem of Citi Private Bank.

It is clear that the private banking model of the past, which relied on secrecy and tax avoidance, is dead. Anyone who doesn't believe that needs only to see the headlines that scream out why a model built on these premises is only inviting hefty fines and in some cases the end of the line – the death of the business any way you define it.

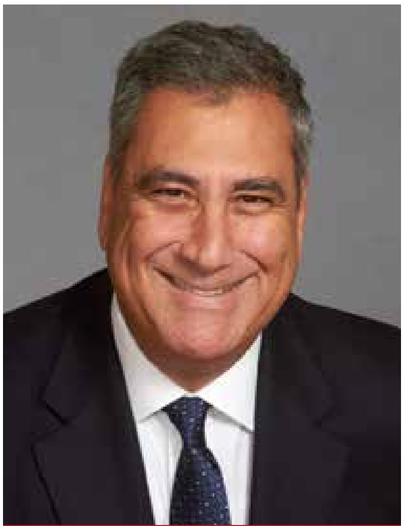
Yet many banks – a good number of them European – have been unable to rise to the occasion in the midst of the industry's structural change. Challenges to their traditional proposition, even at home, has prompted and continues to lure many to flock to Asia, viewing it as their 'El Dorado' – a place of wealth and opportunity yet to be tapped.

In their throes of excitement in coming to a new place, they not only ignored the winds of change in the industry but also employed all the 'don'ts' of good business practice – over-hiring, over-paying and over-spending.

There are also a host of additional challenges that increase the cost of doing business here in Asia. These relate to investments needed in control and compliance to meet the more prescriptive regulatory requirements, as well as the establishment of a platform to deliver the range of products and services that clients expect, such as lending.

In the case of lending, many smaller and boutique banks lack the balance sheet to meet the needs of clients who want to liquefy their illiquid wealth or to finance their real estate interests.

The impact is not necessarily relegated only to the small boutique institutions. Even more established global players have been severely affected by the challenges and in many cases have exited the region altogether. From the likes of Merrill Lynch and Societe Generale – highly recognised and respected names in the financial world



BASSAM SALEM
Citi Private Bank

– to a host of other equally well-known names like ABN AMRO, ANZ, Barclays, Coutts and BSI, one can only surmise that the traditional way of conducting private banking is no longer a viable business model. "I have never seen as much churning of private banks, both coming to and leaving Asia, as we have witnessed in the last few years, " says Bassam Salem, region head of Citi Private Bank in Asia Pacific and a 35-year plus veteran of the industry.

Even amongst some of the institutions which remain today, the percentage which are profitable based solely on their activities in the region is much lower than most executives at these banks want to acknowledge or admit. "It is important that the industry recognises that the constant entries and exits taking place are not good for the overall business of private banking and that steps need to be taken to create a better understanding of what is necessary to set up a sustainable proposition, which, in the end, benefits all the significant stakeholders," adds Salem.

Basically the problems stem from an outdated model in which the strategies employed in the past are no longer valid or profitable today. The inability to recognise this as the heart of the problem and to adapt is the 'elephant in the room' for many institutions, and for the private banking industry as a whole.

These problems are allowed to fester because often times, especially for the international firms in particular, the board members and shareholders back in the home country are not being made aware of the reality of the situation in Asia.

Salem believes that if they knew the real cost of doing business in Asia, the extent of the investments needed to have the right platform – which includes not only the right products but all the associated processes and controls – not to mention the cost of staffing and premises, they would realise that the chances of success are not so clear cut. They would, in all likelihood, probably rethink their decision to expand.

CONTINUITY COUNTS

While acquisitions of private banks might boost revenues and profiles in the short term, this often means that the problems more-often-than-not get relegated to a point in the future. Yet the existing management may not worry about these because those individuals may not be there later.

In Salem's view, consolidation raises other concerns for the client. For example, clients typically share a great deal of personal information with their private banker, especially given the ever-stringent nature of the KYC process. When an institution is 'sold' to another, it means that now another institution has access to the information about the client from the bank that was sold.

Yet often times, few institutions will take the time or care to explain to that same client about what happened with that data. And in fact, it wasn't by the client's choice to necessarily bank with the 'new' institution. Given the level of privacy often prized by private banking clients, this has become an issue.

Institutions should not underestimate the negative impact of movements in staff – be they through consolidation as a result of merges or exits or lured by a 'better offer'. What matters to clients most, and especially in today's environment, says Salem, is continuity. This might well play to the advantage of the larger and more stable institutions whose long-term history and commitment to the region would make it a key selling point to clients looking for stability. Salem says he is comforted by the fact that Citi's private banking clients develop meaningful relationships with their bankers and investment counselors over many years. "This instills a great amount of trust from both sides, which is a factor that plays well

Digitalisation: marrying the old and new

An important goal for Salem in 2017 is to consider more deeply the impact digital can have on the business. The existing development work being done is focusing on a digital platform which can finally mix technology with the unique relationship between the bankers, investment counselors and clients.

Over the last few years, the talk about digital was essentially focused on more of a retail banking model which tries to remove bankers in favor of clients interacting with an interface via iPads and other devices. However, Salem notes, clients at the Citi Private Bank level still want to talk to a human being.

Its existing offering, InView, is getting a lot of time and attention. The bank even has a lab in Tel Aviv, Israel, to analyse more closely what clients are using the app for. So far, the results have been extremely instructive, leading to a simplification of the functionality and tools which are more in line with client activity.

But now the bank is embarking on building something unique over the next few years. "Stay tuned," says Salem, with an entrepreneurial glint in his eyes.

in ensuring that we understand the client and in turn provide them with the appropriate solutions and advice."

The bank's clients also have many touch points – if they choose – within the organisation. "This can allow them to tap on the depth and breadth of services that extend beyond the private bank and to the wider Citi platform. They do so effortlessly through the orchestration by their private banker," he explains.

In particular, Salem adds, the access and partnership with Citi's Corporate and Investment Bank provides it with the opportunity to offer clients a rich menu of capabilities that can serve a wide range of their needs in a seamless manner. "It allows for the opportunity to grow share of mind with our clients and become 'their first call' for anything they want to do."

Partnering within the organisation has additional benefits in the form of referrals, a key source of client acquisition and one of Salem's ongoing priorities. In his opinion, this is a healthier way to grow the business instead of the boom-and-bust of acquisitions. Salem also feels that continuity of the team is equally important and that client stickiness is an important differentiator when it comes to the loyalty of relationship managers (RMs) / private bankers.

Although a few RMs will inevitably leave for various reasons, senior executives at competitor institutions have noted privately that it is virtually impossible to lure a Citi Private Banker. "Very few of our core team leave," says Salem. "If they do, it is generally because they retire." Most of the team he works with, for example, have been with the firm for more than 20 years.

COST ADVANTAGE

An unprofitable business can only be sustained for a certain amount of time before it has no option but to close. The profitability of any business is important if it intends to remain open and satisfy its various stakeholders. Salem and his management team at Citi Private Bank have worked hard to achieve and maintain a fully-loaded cost-income ratio of around 60% as compared with the 80%, or often higher, for many of his competitors in the region. Some banks do not even include their head-office allocations in their calculations.

The road to this enviable achievement was not easy; it was fraught with many difficult decisions. Citi exited those hubs where the predominantly offshore business model wasn't making much financial sense any more. In doing so, Salem was able to slash the bank's cost-income ratio by about 25%. So in making any decision now to go back onshore, in any market across the region, the venture needs to be a cost-effective and money-making proposition. This is non-negotiable for him and the bank.

GRADUAL NOT GREEDY

Having experienced and witnessed many scenarios in the industry over the years, Salem feels that the most likely way forward for Citi Private Bank is steady and sustainable growth. "It is not within the DNA of Citi today to make acquisitions. We believe the best way for us to grow is to do so organically," he adds. This strategy allows them to avoid the noise associated with mergers and the inevitable hiring and firing – none of which adds any value to what they are doing – and which only serves to distract everyone from focusing on clients. Salem also doesn't like the uncertainty of whether assets will necessarily move across with an RM, as well as the possible coverage duplication of a client and the upheaval and confusion that this causes. The worse is when the merger of two cultures is incompatible, which can lead to a whole host of problems such as compliance and control issues. Ultimately, it comes down to viability. After all, asks Salem, who wants to invest in a business where the bulk of the revenue is used to cover costs and fix problems?

2017 priorities: tilting the balance

An important objective for Salem over the next 12 months is to accelerate the move towards more of an annuity business, an effort he began when he rejoined the bank over five years ago.

He says the aim is for the business to be less reliant on an overly volatile capital markets business and increasing the focus on fee-based annuity income. The work that he and his team have done has allowed them to see a significant shift, where around 50% of its investment revenues in Asia Pacific have now come from managed investments.

Salem also sees a trend that will help support his goal and that is the shift underway in Asia towards the second and third generations of UHNW individuals. "They are more willing to allocate their money to us to manage for them and have a great interest in investing in more long term and managed strategies," he says, "such as private equity, real estate and other alternatives."