Boutique wealth managers vs big private banks - who's best?

Structural challenges for international private banks are carving ever-wider openings for more niche, independent players. But firms – and fee models – still need to be assessed on their own merits, debate business leaders from both sides of the fence.

When global brands exit a market as supposedly 'hot' as private banking in Asia, it would seem to be a clear indication that the model needs to be refined – and in the case of many institutions, overhauled.

From Merrill Lynch and Societe Generale in recent years, to BSI, ABN AMRO, ANZ, Barclays and Coutts over the past 12 to 18 months, the number of international players has dwindled. And of those remaining, the percentage which are profitable based solely on their activities in region is much lower than most executives want to admit.

From a client's perspective, this should raise significant concerns too. They would typically have shared a lot of personal information with the bank, yet few institutions would have taken the time or care to explain to that same client what happened with that data.

This might play to the advantage of the very largest, and more stable institutions. Their commitment to the region and ability to maintain viable businesses might well serve as a key selling point to clients looking for some stability.

Yet financial health doesn't imply profitability. Some of the household names in private banking run high cost-income ratios.

But they tend to believe that this has to be analysed in context of the overall business model and growth ambitions – not just read as a headline number at an isolated point in time.

Inevitably, there are advantages of being boutique, as well as challenges – just as there are advantages and challenges of being a big private bank.

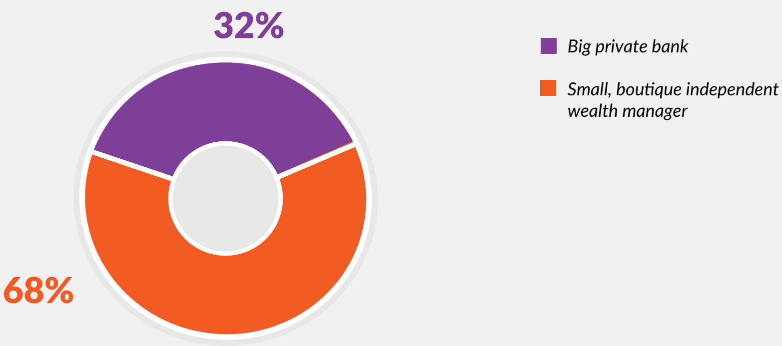
What it comes down to, is what is best for the individual client, based on what they are looking for.

Panel speakers

- ***Bassam Salem**, Chief Executive Officer Asia Pacific, Citi Private Bank*
- ***Francois Monnet**, Managing Director, Head of Private Banking Greater China, Credit Suisse Private Banking*
- ***Antoine Candiotti**, Chief Executive - Hong Kong Branch, Indosuez Wealth Management*
- ***Jessica Cutrera**, Managing Director, The Capital Company*
- ***Rohit Bhuta**, Chief Executive Officer, Crossinvest*
- ***Riccardo Lehmann**, Managing Director, Swiss Asia*

Bassam Salem, Citi Private Bank

A BIG PRIVATE BANK, OR A SMALL, BOUTIQUE INDEPENDENT WEALTH MANAGER. WHO WOULD YOU RATHER WORK FOR?



Source: Hubbis Asian Wealth Management Forum 2017 - Hong Kong

Francois Monnet
Credit Suisse Private Banking

And does it even matter which institution they talk to, and what size it is? Or is it the individual private banker or advisers who makes the difference?

AN INDUSTRY DIVIDED

The complexities in private banking today present big challenges to the traditional model. This includes the greater fragmentation within the business, given the individual nature of the relationships between the banker and client.

As a result, achieving consistency of client experience and service, and being able to deliver the full value of the firm, become problematic.

A polarisation of the wealth management industry in Asia is clearly underway. From the largest financial institutions on one hand, to the boutique, independent firms on the other, the value that each group offers is no less important to a client – depending on individual needs.

Regardless of size, one perspective is that, for a client, dealing with an institution which is a happy place and making money creates a positive experience.

As a result, a genuine client-centric philosophy is achievable at the larger players too – especially at some firms like Citi Private Bank, where not only is the cost-income ratio lower than most of its peers, but the longevity of its bankers and senior management is equally notable.

Many Swiss firms, meanwhile, have had to reinvent their business models give the need to move towards a more open and transparent proposition.

Antoine Candiotti, Indosuez Wealth Management

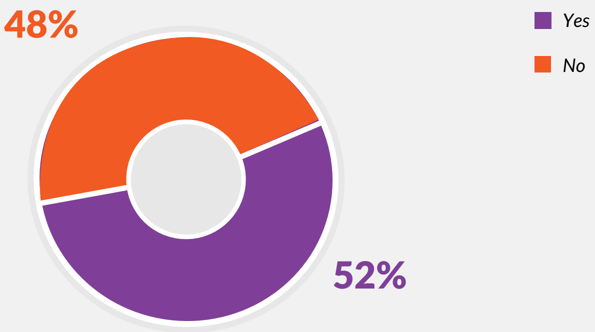
This is where the boutique independent players point to some of the key advantages they can offer clients.

Although they don't take custody, they use a variety of Swiss, European and US banks in exactly the same way a client is used to with their private banker – it's just there are no formal ties.

A smaller, more flexible structure can facilitate closer working relationships with a smaller number of clients overall.

Jessica Cutrera, The Capital Company

DO YOU THINK PRIVATE BANKS ADD VALUE - AND ALSO ACT IN THE BEST INTERESTS - OF THEIR CLIENTS?



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Yet clients need to understand – and accept – the need to pay a fee for advice, if this model is going to become more widespread.

And the independents also need to be able to show clients a proven, audited track record – something many of these newer firms don't yet have this yet.

SUCCESS BY SCALE

Where there remains a question-mark among many industry practitioners, however, is in terms of the size a firm must be to survive in today's environment.

Even some of the boutiques and independent wealth managers are themselves sceptical about the prospects for the smallest firms.

Running a viable business with two senior bankers and a few support staff is to longer really practical – for either the client or firm – given the operational and compliance requirements in today's environment.

Rohit Bhuta, Crossinvest

Yet consolidation is likely to be a good thing at some stage in this segment.

Riccardo Lehmann, Swiss Asia

For example, done well, the technology and processes needed today are expensive. There are also requirements for an interface between banks and the independent firm as clients demand more than just a friendly face in the shape of their adviser; they also expect and need substance in analysing their assets and portfolios.

Those independents which have built some scale, along with a structured approach to their client engagement and product offering, are already reporting a pick-up in terms of clients who are looking beyond the brands of the private banks, say several practitioners from the boutique side of the fence.

Further, some of the boutiques say they are also seeing a greater influx of private bankers.

These individuals now consider this model as a career choice at a time when the administrative burden and regulatory restrictions on their traditional role have become too much for some to bear.

However, there are also a number of so-called pure-play private banks which offer independent options within a larger financial services organisation. A key challenge for them, they admit, is to make this set-up the best of both worlds – not the worst of the two other extremes.

Among the advantages of the model of these firms can be their economies of scale. In some cases, they in-source their IT and back-office functions to achieve scale in wealth management.

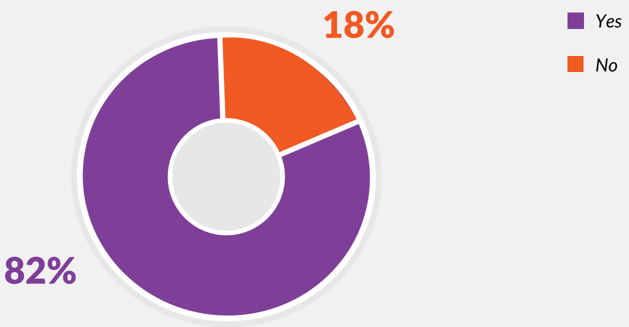
TOO PUSHY?

Where there continues to be some debate is the extent of the product-pushing mentality within the private banks compared with independent firms.

It is a criticism of the industry often levied broadly at the shareholder-driven financial institutions.

The independents, on the other hand, point to the fact that they help their clients to access exactly the same products, as well as lending, commercial services and other offerings as a private banking client can – but under the guidance of an adviser who is truly on their side.

DO BIG PRIVATE BANKS PUSH PRODUCT?



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But some private banking leaders deny that the portfolios of their clients simply mirror what the firm tells its RMs to sell that month.

These executives suggest it is overly-simplistic to divide the industry into larger firms on one side which push product to generate revenue flows, to small firms which are holistic.

Manly large institutions highlight their open architecture platforms. The fact that they might have a large range of products on offer – isn't an indication that they are pushing these, they say.

Plus, they add, if clients felt they were being pressured to buy something they didn't want to, they would look elsewhere.

TIPPING POINT

Ultimately, many senior management are increasingly intolerant of business models which are no longer profitable. This suggests further consolidation in Asia.

At one end of the scale spectrum, this plays to the strengths of the larger institutions –especially when they look to grow through hiring new bankers or other staff.

And for the independent players, they expect to see a quicker pace of development within their segment.

Some practitioners are hoping that the needle will move so that around 5% to 10% of AUM in Asia managed by 'real' independents – especially if there is more alignment with the banks as partners rather than competitors.