Getting it Right from the Outset: The Delicate Art of Selecting your Private Bank

All too often, we engage the services of firms, for example, lawyers, without really understanding enough about their capabilities or idiosyncrasies. To help mine down to the specifics of what an HNWI should know about the private bank (or independent asset management firm) they will work with, Hubbis recently assembled a group of wealth management leaders to contemplate the types of discussions those HNWIs should have, and to consider the standard but also often awkward questions they should ask before they select their partner firms and sign on the dotted line.

An expert opened the discussion by observing that the questions to be asked are, quite naturally, partly determined by whether the would-be client is new to the world of private banking, or is more seasoned, and also what the client is actually looking for.

Generalising, he noted that the newer type of client would first choose what he perceives as a solid, safe name, and based on that perception of their profile and their capabilities, would likely choose a bank that is not too localised, that has a broad, global product suite, and a robust platform.

Solidity first, then mine down into the details

The more knowing type of client might ask them about their depth of expertise, whether they are product or solutions-focused, and about the bank's strategy for helping the client protect and grow their wealth over the medium term, for example, the next three to five years.

The same expert added that clients of all types tend to lead with questions about the products and follow with queries about the service. "But," he advised, "I would counsel them to understand the platform, how the bank can service them, what experts they can bring to the table, what sort of depth they have, their typical fee structures, and what additional costs there would be to access different pockets of expertise."

Meeting the market experts

He advised that the client should from the outset aim to meet an investment counsellor who knows the markets well, as well as someone on the trading desk, especially if the client is more of an active, self-directed investor.

He should also ask about the availability and quality of research, what strengths the bank has in fixed income and equities, and how deep the research and expertise go beyond the upper categories of corporate names.

If he understands the options available, he should also dig down into the bank's expertise in discretionary management for more traditional assets, as well as alternative assets, and would seek to meet with those portfolio managers and other experts in each of those areas.

We don't want talking heads

"I don't just want the banker with the PowerPoint," an expert cautioned, "I want the actual experts who prepared it and who understands it all, not some assistant just going through the motions."

This expert also advised clients to find out more about their relationship managers they might work with, for example, their career background, how often they have switched banks, who they worked with before, their core areas of expertise, their personalities, and so forth.

Just as a bank or independent wealth manager focuses intently on the motivations and career plans of the RMs they might hire, the clients can also in all fairness ask about these areas, as this will make a considerable difference to the longevity and reliability of the relationship. After all, the clients will be placing a lot of trust in these individuals.

Are the RM and the firm he or she works with also imbued with the right level of patience? It can sometimes it can take years to adequately build the full relationship between the bank and the client, in order to accurately zoom in on the optimal solutions, in terms of investments, structuring, estate planning, and succession.

Do the clients believe in the advice they are offered or do they sense some ulterior motive in what the RM might propose? Each product or idea should be properly articulated, and the client is well within his or her rights to ask if the bank has any advantageous commission arrangement on any particular product or concept proposed.

If dealing with an independent wealth manager in particular, or even a smaller, boutique private bank, it might be useful for the client to know what sort of management succession plan is in place, so he is reassured as to the future relationship, as wealth management involves a commitment on both sides to building the relationship.

Performance is one factor, the strategy is another

Don't focus too much on performance, focus on the bigger picture issues to discern how the bank's strategy and approach fit the client, or not.

Additionally, does the bank propose performance fees, or offer an all-in fee for advisory or DPM? There is a school of thought that performance fees lead to rash advice, and poor judgement over the medium term, due to too great a focus on short-term performance.

The smart HNWI client should also seek to understand the investment philosophy and approach of the firms they hire. Alignment of interest and approach are essential. For example, if the private bank is 'pushing' leverage to enhance returns, but the client is by inclination debt-averse, then that might create conflict.

Don't be reluctant to ask for guidance

Another expert observed that while HNWIs may know what they want, they may not actually know what they really need. These clients should therefore not be afraid to request guidance from their would-be advisors on what approaches, investments and structures they should consider, thereby helping them form a view of what they could, or should do, and also helping them to gauge the expertise of the banks they might work with.

What is really important?

A guest highlighted how a new client at more of the lower tier of wealth might often be pitched with the bank's concierge-style services, priority lounges at the banks, priority lounges at airports, limousines for flights, and so forth. "But if you are a wealthy client here in Asia," he remarked, "you will have drivers, you will fly business or first class, and you have staff at the office and at home, so only the lower end well-to-do will really be enticed by those concierge type amenities."

The clients should ask to know more of the banks' technical capabilities, the platform, execution, especially as the banks move more towards third-party platforms rather than building or maintaining their own.

Another expert, the representative of an IAM, advised clients to understand that the private banks they work with trade expertly in the key markets the clients prefer. Secondly, he said the range of services should be outside pure custody and execution, for example, loans, cards, mortgages and so forth, although for the last two of those elements local private banks are more capable generally due to their access to local funding and deposits.

Demanding fee transparency

As to fees, a vital area, of course, a guest remarked that his advice to any clients would be to ask for a schedule of fees and then request that this should be updated each year. The fee schedule should be comprehensive and for example, even delve into bonds and split fees between investment and lower-grade paper.

Another expert argued that some banks might on the first appearance seem to be under-pricing themselves, ostensibly seeking to grow assets first and foremost, rather than profitability.

Beware the hidden costs

But this might be an illusion. "If I am of a certain size and knowledge as a client," he remarked, "I would expect the bank to rebate me with any retrocessions or trailer fees they take, although for the typical retail investors those types of fees usually tend to get 'lost' in the machinery.

At the least, the client should be aware of embedded fees in the different types of products. And of the different classes of stock, for example, institutional or retail shares in funds."

Another expert reported that negotiation is vital. The first shot of the private bank might be a discretionary portfolio fee of around 2% and elevated product and trading fees.

Negotiate when you have the chance – at the start!

"Their first offering might be somewhat hefty," he remarked, "but when pushed they will usually drop down, so for example from perhaps 2% on DPM to maybe 1.25% and then the sophisticated client can negotiate from there. You will, of course, need to understand the costs for trading equities or bonds, for investing in alternative assets such as private equity, hedge funds, commercial real estate, and so forth. And of course, custody fees. All these elements will help the clients gauge how much the client will put with the bank."

What rates are on offer for leverage?

The decision and the volume of assets to move to any bank might also be partly determined by what the bank can offer in terms of lending rates. The smart use of leverage in a very low rate environment can boost returns.

The actual cost of funds for dollars, an expert at the discussion noted, even for leading global banks in Asia, is in fact quite high, and certainly far higher than Fed funds. "Offshore dollars are more expensive right now than onshore dollars in the US," he reported.

EAMs can drive costs down and service up

Another guest highlighted how clients can consider working with EAMs and keeping their custody/assets with the private banks. "EAMs are good building new relationships for their clients with private banks and obtaining the best service and the best rates," he stated. "They often obtain the 'honeymoon' rates, whereas if the clients try to negotiate or re-negotiate their rates, the banks generally dig their heels in."

A general concern one guest noted is the weakness of the private banks in establishing pricing structures that work well for the bank and the clients and that are properly articulated as to the value-added. "The RM is all too often in charge of pricing," he remarked, "and that is not his area of expertise. The banks are usually very good on the buy side, the procurement of services, but tend to be very weak on the sell side of their core, what they are actually delivering."

Once in, keep the banks on their toes

Some of the areas that can disappoint once a client is onboard might, for example, be when a client buys into equities on the bank's high conviction list and the stocks fall sharply. All too often, those clients do not receive an update from their banks.

Another problem is where the client has structures for which the underlying assumptions and conditions change, and there is seldom proactive communication from the banks to help the client adjust appropriately.

Offering the big picture view, not only the product sale

"The banks should also be trying to open the eyes of clients to new ideas, from experts or market movers," came another opinion, "not simply asking them to a luncheon presentation where it is someone simply selling a fund. Clients value being able to hear and see a much bigger picture."

The final word sent to a guest who noted that the larger banks are often more flexible than the smaller banks in terms of fees, as it is easier for them to cover their costs with larger customer numbers. "Contrary to what you might think" he observed, "many of the smaller banks, who might be more flexible in their relationships with the clients, on the fee front and due to their limited economies of scale are sometimes either not capable or not willing to give better or more appropriate fees."

The world of private banking in Europe is generally populated by a more knowing customer base, hence the large amount of boutique private banks and IAMs in Switzerland, for example. The wealth those firms manage has been built over more generations, and there is a broader array of family and friends and peers to whom the HNWIs can go to for advice and recommendations.

In Asia, wealth is younger, multi-millionaires and even billionaires are springing up at a remarkable rate. As those HNWIs move towards the preservation of their wealth rather than its creation, it is an obligation of the wealth management community to offer them both high-quality services and transparency. But there is further to go to achieve those goals... ■