How private banks should manage difficult markets

The reality of today's more complex and heavily-regulated financial industry means that private banks need critical mass – both to service clients effectively and also be profitable, says John Williamson of EFG International.

Private banks around the world continue to grapple with the regulatory and reputational implications of the wave of transparency and other initiatives post-2008.

Regardless of whether these government-led reactions are universally well-founded and commensurate with the risks that exist in today's environment, clients and advisers alike have to fall in line.

JOHN WILLIAMSON
EFG International

"Managing wealth is now much more challenging than in the pre-financial crisis environment, not least for HNW individuals with complex international requirements."

Survival is more difficult for some than others. But for those with the resources, commitment, strategy and scale, the current environment presents an unprecedented opportunity to position themselves for the future.

"This is for the simple reason that managing wealth is now much more challenging than in the pre-financial crisis environment, not least for HNW individuals with complex international requirements," says John Williamson, former chief executive officer and vice chairman of EFG International, and new chairman of the board of directors as of the 29 April 2016 annual general meeting.

RISING TO THE CHALLENGE

On the one hand, it is no surprise that so many banks have been looking to rationalise and scale-back their operations in certain markets due to so many complexities and threats to the business.

After all, falling foul of the regulators for both current and retrospective failures of control have led to an ever-brighter spotlight on everyone.

"There is still much to be clarified at a global and political level about what is legitimate from an international wealth structuring perspective, and what isn't," says Williamson.

However, from another perspective, there is clear potential for those banks which can get their proposition right, to help clients to manage through the issues they face.

"It is a challenge for the cost-income ratio and propositions need to be tweaked, but the opportunities are there," adds Williamson.

SIZE MATTERS

The reality of the global private banking industry underscores the importance of critical mass – a key driver behind the EFG International and BSI merger announced in mid-February 2016.

For example, the combined firm will become one of the largest private banks in Switzerland with around CHF170 billion (USD174 billion) in AUM (as at 31 December 2015), and 860 client relationship officers, as at the date of the announcement.

According to Williamson, while there always used to be a place in the middle of the spectrum between the boutique firms and the largest global institutions, this model is difficult to sustain in today's market and regulatory landscape.

FINDING NEW NICHES

Asia and Latin America fall into the category of markets which present certain niches and potential for those private banks with the appetite, size and capability to capitalise on the current environment – including effective compliance management.

Both regions have been subject to a lot of competition in recent years, and subsequently are now seeing fall-out in terms of consolidation and closures of offices, or even entire operations.

This also means that some private bankers have become available as they look around for new employers who can give them longer term prospects. "This again provides a lot of opportunity for our merged entity," adds Williamson.

> **"Clients want to know their assets are being safeguarded by people they can trust and who will look after them."**

GIVING CLIENTS GUIDANCE

One of the key issues that private banks are facing at the moment is knowing what to advise their clients to do with their money. "With investment markets so challenging, it is a difficult period through which to advise clients," explains Williamson. "At the same time, it is tough time to make money [as a bank] because trading volumes are down as clients sit in cash."

With virtually zero interest rates, high volatility and an unpredictable outlook, the priority to weather what feels to the private banks like a perfect storm is to guide clients as to how they should adjust. "Clients want to know their assets are being safeguarded by people they can trust and who will look after them," says Williamson.

AT A CROSSROADS

In a period of 20 years, the global private banking industry has seen a 10-year upswing (initially) and now is experiencing the downswing since.

Amid this volatility, however, Williamson says that what hasn't changed at a bank like EFG, for example, is its proposition and the transparency of the model, and how it deals with clients.

Yet private banking remains a costly business, he acknowledges, making it important to have ancillary but related businesses as a function of the core private banking base. "Consolidation, and therefore growth in earnings through improved critical mass and cost-income ratios are clear and obvious responses to the current market pressures," says Williamson.

But while concern about margin compression is justified to a point, Williamson believes private banking can still be highly-profitable. "Those banks which can manage through the difficult times at the moment will get the returns. Private banking is a long-term business." ■