

Is the term 'private banking' still relevant?

We recently conducted a survey and posed the question - do you think the term 'private banking' is still relevant? Surely - the blurring of the lines and business models between the different types of wealth management firms now operating in Asia raises important questions over whether 'private banking' is still relevant. Can any wealth manager clearly define how they differentiate themselves? And to what extent they are unique?

The survey divided

opinions. Some people feel it makes no difference 'Maybe the term 'private banking' is just a label, so it does not matter'. Others think the name should be dropped. "Because there is nothing special or discreet about the service anymore". Maybe it should be more clearly defined as an offering only for UHNW clients?

What does 'private banking' mean in today's world? Are we simply referring the 'private' bankable assets of a client? It's fair to say there

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Do too many advisers refer to themselves as 'private bankers'?

What does a 50-year old Swiss client adviser from UBS Wealth Management have in common with a 25-year old relationship manager from the VIP offering of an Indonesian retail bank? In theory, very little. Yet in the way their respective institutions

cannot get elsewhere? Possibly at a lower fee.

Beyond the relatively small number of more sophisticated and focused institutions and bankers operating within the true sense of 'private banking' in Asia, few so-called private banks can either live up to what they say they do, or to client expectations.

Only if they do, can it be feasible to create a relevant value proposition to a specific client segment amid the competition for new client assets which continues in Asia.

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is little 'privacy' in comparison to the past. Do clients demand the 'human touch'? Does the term denote 'advice' – or is technology able to replicate, in most part, financial recommendations and planning?

As one survey participant comments "It's less relevant over time given the growing requirements around compliance and transparency. Indeed, you could argue that clients will increasingly turn to those who are 'licenced' to offer 'advice' like lawyers and tax advisers. Or firms that are nimbler and more flexible. For sure – with 'advice' comes liability, and in a world where

market each of them, and in the eyes of many newly wealthy individuals in Asia, they are both 'private bankers'.

Although a slightly extreme example, this highlights a pressing question – *what does 'private banking' actually mean anymore?* Does there need to be a clearer and more accurate definition of private banking in today's environment? And how this differs, if at all, from 'wealth management'.

After all, many clients still don't know what a private bank really stands for. What does a private bank offer clients today that they

Blurring the lines

Various types of organisations – not just private banks – are trying to service HNW customers across the region, typically out of Hong Kong and Singapore. These include insurance companies, IFAs, multi-family offices, independent (or external) asset managers and others licenced to advise the wealthy. Not to mention the quickly growing digital platforms.

Some organisations have been called private banks for over 100 years, throughout which they have served wealthy family's interests in Europe, the US and, more recently, Asia. They use well-trained, experienced RMs to tailor centralised investment themes and other solutions to client preferences.

At the other extreme, some local retail banks have set up 'private banking' divisions that are staffed by young, inexperienced salespeople, employed to sell a handful of high-margin funds and insurance products.

Both types of institutions can call what they do private banking, employing RMs as client managers. Yet



their approaches, and the resulting client experience, are poles apart.

Is it now time for the industry to come together and take more responsibility to more clearly define their value propositions – along with their products and services to their clients? Is there also a case for regulators to step in with their own definitions too?

They could, for instance, require institutions designated as ‘private banks’ to meet any one or more of a check-list of best practice guidelines. These might include, for example: Holding a minimum level of AUM; agreeing to provide a certain variety of service; demanding a certain percentage of their revenue is derived through recurring fee income; or committing their client-facing staff to minimum training standards, and adopting a fiduciary approach to their clients.

In the meantime, the current uncertainty leads to a misunderstanding of what a private bank is and what it is supposed to do. Most organisations are then tarred with the same brush by the clients they serve and are trying to attract. Arguably, the concept even becomes irrelevant.

The challenge has also come from those local retail banks carving out an offering targeting HNW clients exclusively. They tend to describe what they do as ‘private banking’ because they think the term possesses cachet.

Yet while Asian clients value quality brands, they are not short-sighted or easily fooled. If self-described private banks don’t offer the substance of quality advice and service they claim in their marketing brochures, they are unlikely to retain much client business.

Moving with the times

In 2000, for example, you could walk around a UBS office and from the mouse mat to the mind-set, the slogan ‘UBS is private banking’ was unmistakable.

Years later, the bank clearly now brands itself under a ‘wealth management’ banner.

So if the world’s largest private bank can drop the term yet still retain its focus, surely anybody can.

When considering the differences in our broad definitions of ‘wealth management’ and ‘private banking’ it seems that many organisations call themselves a private bank when they probably shouldn’t.

Many factors have led to the type of review that UBS went through. Globalisation of markets and economies, technological advances and evolving client preferences for accessing and absorbing information are among them.

As a result, banks of all types have to be innovative and adapt their value proposition. Private banks that wish to be worthy of the name today need to rediscover their purpose – or abandon the term.

Perhaps we will continue to see asset flows out of private banks to independent non-bank firms who will not need to use private banks as the custody and execution platforms for their clients.

Forced evolution

Private banking is certainly less ‘private’ than it ever used to be. The compliance spotlight that has started to shine ever brighter in the wake of the 2008 financial crisis and the race among governments to re-fill their coffers is only likely to further sharpen, especially given the effect of Covid-19.



The allure of ‘secrecy’ which once surrounded private banking is gone, with the most credible institutions going to great lengths to ensure client assets and any new accounts are from legitimate sources and have valid objectives for needing a private bank. Nobody wants to aggravate the regulators and suffer huge fines.

At the same time, the drive towards greater fee transparency and the elimination of retrocessions over time has encouraged true private banks to reinforce the value of their discretionary portfolio management offering.

A clearer role

Senior bankers in the industry say the purpose of private banking should be simple: to offer relationship-based advice and tailored financial solutions to meet specific client needs.

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With HNW and UHNW clients becoming increasingly global, this advice needs to be offered on an international basis, and through digital means.

Banks that employ professionals who are dedicated to getting to know their clients, and then meeting their financial needs in a product-agnostic, transparent manner can rightfully point to their credentials as a private

bank. And they can demonstrate their difference.

Some industry experts debate the exact set of services a true private bank should incorporate, particularly in Asia. Some argue it should include investment banking, given the source of wealth for so many in this region. Others feel a full-service private bank must cater to all needs, including estate planning and tax advice.

Either way, client education has to play a key role. People who think a private banker just processes transaction orders have the wrong understanding.

But if they understand what they can and cannot get from their private bank, everyone will benefit.

For sure, UHNW clients have unique and sophisticated needs. In a world where rising social media and governmental

pressures castigate the wealthy, who will wealthy Asian families turn to protect their interests? Maybe ‘private banking’ is more relevant than ever, as more people build their wealth and as their families grow with diverse interests, ‘private banking’ services can play an important role in managing clients’ assets while ensuring harmony within the family. ■