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ISSUE 368 / MAY 2019

PRIVATE BANKER INTERNATIONAL

SAFE PASSAGE

NEXT-GEN WEALTH TRANSFER: ARE PRIVATE BANKS REALLY DELIVERING?

FEATURE

London property: as the competition heats up, who is investing in what?

OPINION

Why Brexit-related uncertainty should not put investors off property

REGION PROFILE

An Asian perspective on family succession and the handing over of control

THIS MONTH

NEWS

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Financial News Publishing, 2012. Registered in the UK No 6931627. ISSN 0953-7031

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MEDIA PIONEER AWARDS COMMENDED 2018

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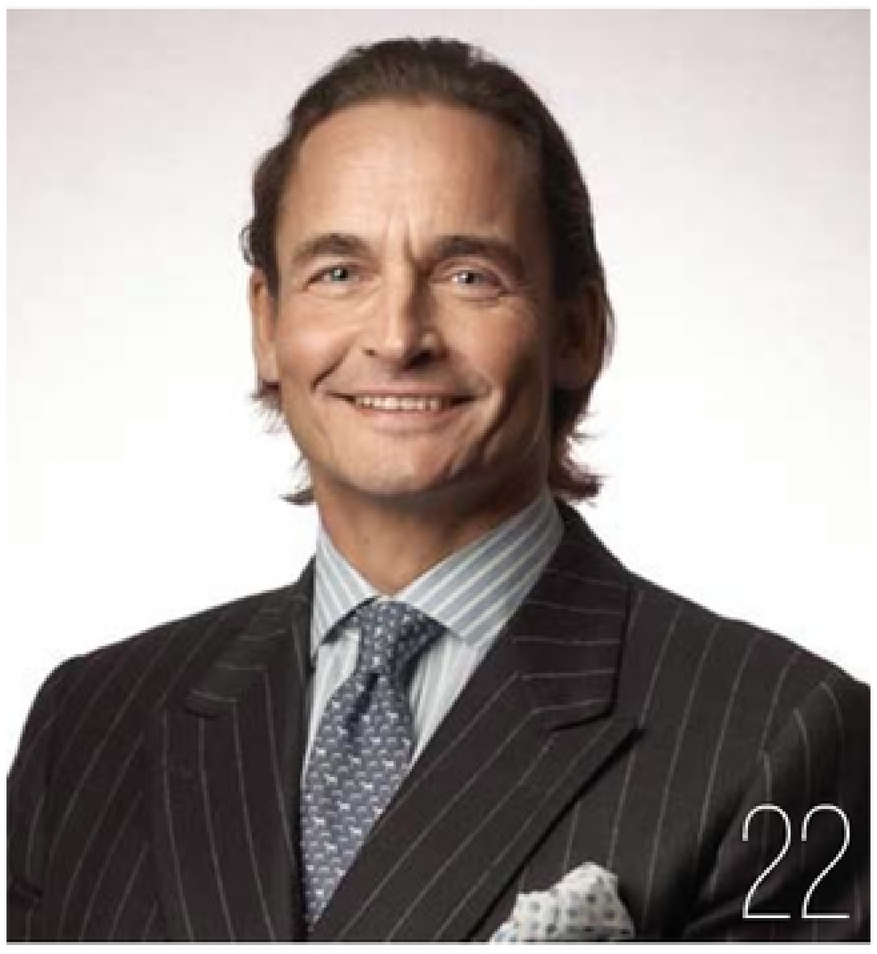


BUSINESS PROFILE

THE RETURN OF SERVICE

Oliver Williams, Editor

Ask yourself: what services does your private bank or wealth manager provide beyond managing money?

You might list a raft of 'services': philanthropy, succession planning, mortgages, tax planning, etc. You might even include online banking or a mobile app among those services.

But then, ask whether those services offered are really sufficient. Our February issue found the philanthropy services of many private banks lacking in the *Giving the givers a hand* feature. This issue finds succession strategies wanting. Experts in this area told *PBI* that many private banks do not offer 'full-service' succession strategies; most tackle only the financial elements, leaving the far more complex human rudiments aside. These 'services' are in danger of becoming a tick-box exercise for private banks seeking to prove their worth against one another, and those dependent on these services could feel misled.

But service is making a comeback – and it is happening, surprisingly, in the fintech space. On our website, *PBI's* Jamie Crawley has been comparing fintech providers. Many, such as Nutmeg and MoneyFarm, are starting to roll out advice services, where clients can talk to a (human) advisor about their financial affairs.

One step better than that is to speak with an advisor who is also a key decision maker at the company. This week's Profile page looks at Mirabaud, a wealth manager with an old-fashion outlook on service that excludes even a mobile app.

Prioritising property

An average HNWI's portfolio is relatively straightforward: equities, bonds and property take up the lion's share. While *PBI* provides regular commentary on financial markets, we have not given enough attention to the property market; this issue seeks to change that. On **pages 12 and 13** we explore London's commercial property market in depth.

In addition, since nobody can discuss British property without mentioning it, on **page 18** Jamie Johnson provides an opinion on how Brexit is really affecting the market. We also provide a round-up on some recent property data in this week's Briefing on **page 7.**

Celebrating regulation

Lastly, we celebrate the first birthday of a regulation that has affected all: GDPR. However, this is an anniversary that also comes with a warning: so far regulators have had their attention diverted by tech, but as Jamie Crawley asks on **pages 16 and 17,** what if they suddenly focus on financial services? Private banking is, after all, a financial 'service' industry. ■

Oliver Williams
Editor, Private Banker International

GET IN TOUCH WITH THE EDITOR AT: **OLIVER.WILLIAMS@VERDICT.CO.UK**

THE BRIEFING

With property markets in flux, *PBI* looks at real estate as an asset class, and asks whether HNWIs should – or are able to – invest in bricks and mortar

11.2%

The total allocation that global HNWIs give to property, according to GlobalData.

Within the asset class, the most popular area for HNWIs is direct residential property investing, which commands 3.9% of the average global portfolio. The least attractive is property ETFs, at 1.1%.

11.1%

The price increase of luxury residential properties in Manila, the fastest-growing luxury market between December 2017 and 2018, according to Knight Frank.

London, on the other hand, had one of the largest falls in prices: luxury London homes decreased by -4.4% over the same period.

6.5%

The average increase in UK house prices between the Brexit vote in June 2016 and January 2019, according to the Office for National Statistics.

£95m

The most expensive house sold in the UK last year.

US hedge fund billionaire Ken Griffin bought the mansion on Carlton Gardens in London. The house set a record as the most expensive sale since Lakshmi Mittal bought a property in Kensington Palace Gardens for £117m ($152m) a decade ago.

12%

The percentage of HNWIs surveyed by Butterfield Mortgages who said they had been turned down for a mortgage in the past decade.

Nearly four-fifths (79%) of the 500 HNWIs surveyed found the process of applying for a mortgage with a bank too rigid, saying they apply “tick box” methods that fail to recognise unique personal circumstances.

35.1%

The percentage of wealth managers who expect demand for property investments to increase over the next year, according to GlobalData.

However, 36.2% expect no change, and 28.7% foresee a decrease, presenting a mixed opinion on the future of real estate.

THE ASIAN STRUGGLE FOR SUCCESSION

Many families in Asia are grappling with next-generation wealth transfers for the first time. From Singapore, *Richard Hartung* looks at succession from an Asian perpective

HNWIs and the mass affluent in Asia hold nearly $40trn in assets, according to consultancy PwC, and a significant portion of it will transfer from one generation to the next within the next decade or two.

In capturing this wealth, private banks in the region have a tremendous opportunity to grow their assets; however, they can also lose out if succession plans go wrong, or wealth transfer is left until it is too late.

SUCCESSION AT STAKE

A key issue for succession in Asia is lack of planning: 57% of Asian HNWIs have done nothing for estate planning and wealth transfer, according to BNP Paribas, compared to 32% in the West. A study by RBC also found that 60% of those without a wealth-transfer plan lack confidence in their children's ability to grow or even preserve their wealth.

While most HNWIs and UHNWIs in Asia have earned their riches through a family business, BNP Paribas said that almost two-thirds of business owners had not named a successor.

And even though Asia's wealthy recognise the importance of family financial planning, most fear that transferring their wealth will negatively affect the motivations of their beneficiaries, and therefore avoid discussing legacy planning with their offspring.

Teddy Chu, BNP Paribas's head of wealth planning Services for Asia, outlines two aspects of wealth planning: the transfer of ownership, and transfer of power or control. Successful Asian businesses are family-owned, he notes. The first generation has control, and wants to remain in charge for as long as possible. The challenge is how to balance the transfer of wealth without them losing control.

> “
> **WE ARE GOOD LISTENERS, TRYING TO FIND THE BEST SOLUTIONS**

While each country and each family is different, those views are common across Asia. Bank of Singapore MD Terence Seow says the Asian model tends to focus on preserving wealth to provide a legacy for children, and filial piety is deeply entrenched. Seow also notes that there are significant differences between countries. In China, for example, the first generation tightly control their businesses, and often do not spend on themselves, even though they have more than enough money. Instead, giving more is their way of showing affection to their children.

Indian families, on the other hand, are better at training children to take over the family business, while in Singapore, Seow says, many in the next generation want to build their own company rather than climb the corporate ladder of the family firm.

WHAT THE NEXT GEN WANT

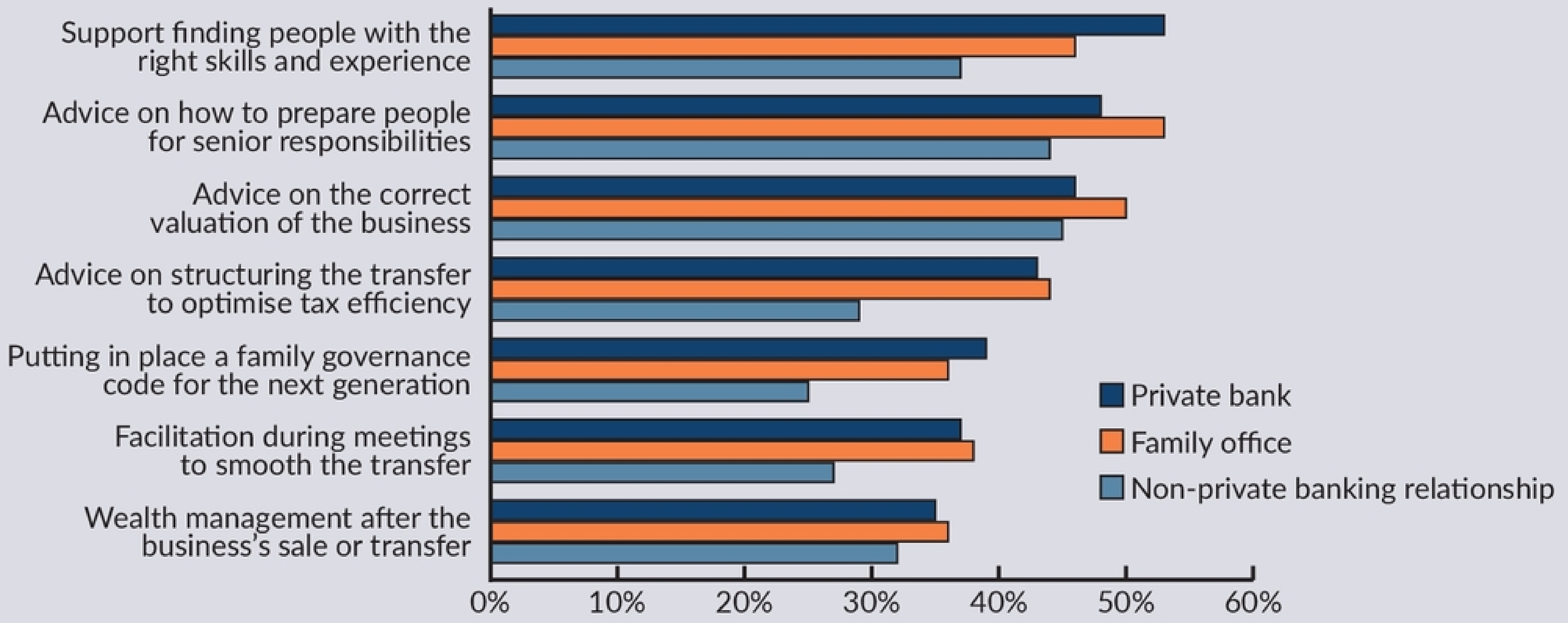
“The first generation is more old-fashioned; there is a different way of communicating,” says Chu. First-generation HNWIs in Asia, he notes, often prefer to meet their private bankers in person, whether in well-appointed offices at the bank or on the golf course, and tend to prefer traditional assets such as real estate or equities. Seow says they are often practical people with practical ideas.

The younger generations in Asia are often sent away to the best schools in the world, Seow observes. They therefore think they know how to manage wealth better than their parents; however, these academic scores have not been tested, and so younger generations tend to be dreamers with aspirational targets.

One of their goals is to invest sustainably, and they often tell their parents to look at

TRANSFER ADVICE

What kind of advice do you anticipate requiring for the successful transfer of your business?



Source: BNP Paribas

more sustainable investments, says Eugenia Koh, head of sustainable and impact investing at Standard Chartered Bank. "We work to help with conversations," she says.

This digitally savvy, sustainability-focused younger generation also prefers different types of wealth advisor – in particular, ones who are comfortable communicating digitally and who are ready to talk about tech trends or green investments, as well as private equity or impact investing.

SUCCESSION STRATEGIES

Fortunately, most HNWIs and UHNWIs realise that they may need some advice. In a survey by Singapore Management University and the Family Business Institute of 290 family businesses across Asia, 39% said they need good advice on succession planning, and 40% said they need advice on corporate or family governance, while only 10% needed advice on investments.

Chu says relationship mangers often team up with wealth planners, or other professionals such as lawyers or accountants, to come up with the right structure. "We will identify in-house or external solution providers such as independent trust companies in order to meet clients' needs," he explains.

Bank of Singapore uses wealth planners to help with asset structure, trusts, foundations and a "letter of wishes", according to Seow. "We, as bankers, share experience based on what we know about the family background, relationships between parents and children, and value systems they have," he says.

Many families set up trusts, Chu observes. This allows the first generation to retain control while the next generation can be involved in decision-making, before taking over eventually.

Whereas Europeans and Americans may transfer control of family wealth to a capable outsider, in Asia it is usually transferred to the eldest son. And while Asia is catching up, Europeans and Americans often have more philanthropic elements to their planning.

> "WE WILL IDENTIFY IN-HOUSE OR EXTERNAL SOLUTION PROVIDERS SUCH AS INDEPENDENT TRUST COMPANIES TO MEET CLIENTS' NEEDS

Bankers also take different family backgrounds into account, Seow says, as different cultures have different styles. Some are more guarded, while others let their children take risks. "We are good listeners, trying to find the best solutions," he adds.

THE THREE TRENDS

As they work to deliver advice and support wealth transfer, three trends at private banks in Asia stand out.

First, they are increasingly using technology to serve clients better. Consultancy Capgemini observes a gap between demands for technology-empowered advisory services and what private banks are able to offer. Leading private banks in Asia such as Credit Suisse and DBS are developing facilities for secure video-conferences, and offering aggregated, digitally delivered portfolio insights. All these help to maintain contact with the next generation.

Next, some private banks are partnering with companies outside their industry. Partners can provide expertise in areas popular with the next generation such as art, culture, sustainability or lifestyle. Standard Chartered Bank in Singapore, for example, partners with Blackrock and Allianz for sustainable investments, and uses a third party to assess companies' ESG compliance.

Finally, private bankers are becoming educators. Multi-day or week-long next-generation programmes run by private banks in Asia have become commonplace, with added events during the year. "We provide training for the second generation about what is available and suitable," says Seow.

While these programmes do not directly generate revenue, they have become an integral feature of a comprehensive service offering, and help to cement relationships with the younger generation of clients, who might not otherwise remain loyal to their parents' bankers. ■

While PSD2 officially comes into force in mid-September, banks were required to provide an interface for testing by third-party service providers by 14 March, a deadline 41% of banks missed according to a survey by Swedish Open Banking platform Tink.

PSD2 has shaken the conservative world of private banking, not helped by differing and, some would say, contradictory legislation that has also demanded a great deal of attention.

EMBRACING CHANGE

Craig Unsworth, CEO at startup Upgrade Pack, has been "pleasantly surprised" by how proactive banks have been with PSD2.

Upgrade Pack – a platform designed to help banks nurture customer loyalty through offering upgrades for flights and hotels – is precisely the sort of company that should be looking to benefit from the new open banking legislation.

"I don't see the major, well-funded high street banks just doing the bare minimum. I've been really, really quite pleasantly surprised by that actually," Unsworth notes.

"There's a real view from everyone I've spoken to – from CEOs down to project managers – that PSD2 offers an opportunity to really provide differentiation, and get the house in order in terms of allowing people to build products and ecosystems quite quickly."

For the less major, less well-funded companies in the private banking space, PSD2 represents an opportunity, but also a risk of proliferation of providers in the market, further accentuating the necessity for a unique differentiator.

Tandem COO Nick Bennett says: "PSD2 presents a big opportunity for private banks. On a basic level, it can provide clients with a seamless view of their financial life. This can then be enriched through value-added services such as wealth management and pension features. The challenge for private banks, though, is likely to be client adoption, particularly given fears over data privacy and security. This will require a particular focus and investment in customer education.

> **"PSD2 OFFERS AN OPPORTUNITY TO REALLY PROVIDE DIFFERENTIATION**

"We designed and launched Tandem with Open Banking very much in mind. While we have ensured that we will be compliant with all PSD2 legislation, our focus has also been on developing differentiated services that improve user experience," Bennett adds. "We already offer a range of services based on aggregation such as money management, and we are intending to launch new services within our app later in the year."

Meanwhile, Graeme Hartop, CEO at Hampden & Co., says: "From an opportunity perspective, moves that encourage individuals to question why they remain with a bank that they are dissatisfied with should be good for competition in the market.

"The risk for banks that specialise in providing a high-quality, personal service, such as us, is that these online comparison sites typically focus on rates, and do not allow for a broader comparison of value."

He continues: "Our experience, for example, is that many people profoundly value the knowledge that when they call us, they will know the individual who will answer the phone to them."

PSD2 PARTNERS

Both Tandem and Hampden & Co. recently announced partnerships with fintech companies in order to comply with PSD2: Hampden & Co. has launched a mobile


Graeme Hartop, Hampden & Co.


Hans Tesselaar, BIAN

banking application developed by Swiss firm Crealogix, while Tandem has partnered with UK-based open banking platform Token. *PBI* spoke to both about the benefits that the legislation can offer private banks.

"Private banks actually have an opportunity," says Jo Howes, commercial director at Crealogix. "They can choose to just be regulatory compliant – make their APIs open and nothing more – but they're missing a trick if they do that.

"If they actually pull in other companies' APIs into their environments, they can maintain themselves as the key brand in the centre of the ecosystem. They should be taking it to those next steps, and thinking about what other long-term opportunities that's going to bring to them in terms of extending their offerings."

Token co-founder Marten Nelson adds: "Private banks are facing many of the same challenges as high street banks: they're struggling with competing priorities, retaining customers, and most importantly, customer growth. Open banking can help them overcome these challenges and attract new customers through the provision of value-added services that keep them at the centre of their customers' financial ecosystems."

It should be borne in mind, however, that clients still have to give consent for data to be shared with third parties, so ultimately it will be the attitudes of customers rather than banks that will determine PSD2's impact.

WEALTHY LEADING THE WAY

There is a tendency to see private banking as a conservative business that will not drive any great revolution in financial services. This is not the view of Unsworth, however, who believes that, if anything, private banking really drives PSD2's impact.

"I think lots of people think banking and innovation point to digital retail banks, but historically, it's always been the case, in every sector, that innovation starts with the wealthy," he explains.

"So, if you think about innovation in fashion, or in real estate, and consumer technology as well, it always starts with people who are able to pay for it."

Hans Tesselaar, executive director at non-profit organisation Banking Industry Architecture Network (BIAN), meanwhile, is philosophical on the impact that private banking can expect.

> " IF YOU LOOK AT THE AVERAGE CUSTOMER FOR A PRIVATE BANK, DO THEY NEED TO SHARE THEIR FINANCIAL DETAILS WITH THIRD PARTIES?

"You need to think about what the customer wants," he says. "If you look at the average customer for a private bank, the question is: do they need to share their financial details with third parties? Probably not, due to the relationship they have with their private bank."

This is where Tesselaar predicts a lukewarm response to the benefits of PSD2 from the HNW client base. While it is likely that there will be benefits in having a holistic view of one's financial picture, he sees less value in other areas that the legislation will offer, such as direct payments.

"Banks have to be ready for PSD2, and they have to be ready to facilitate those requests, but then the question remains about how many requests they will actually receive."

TEST FOR SUCCESS

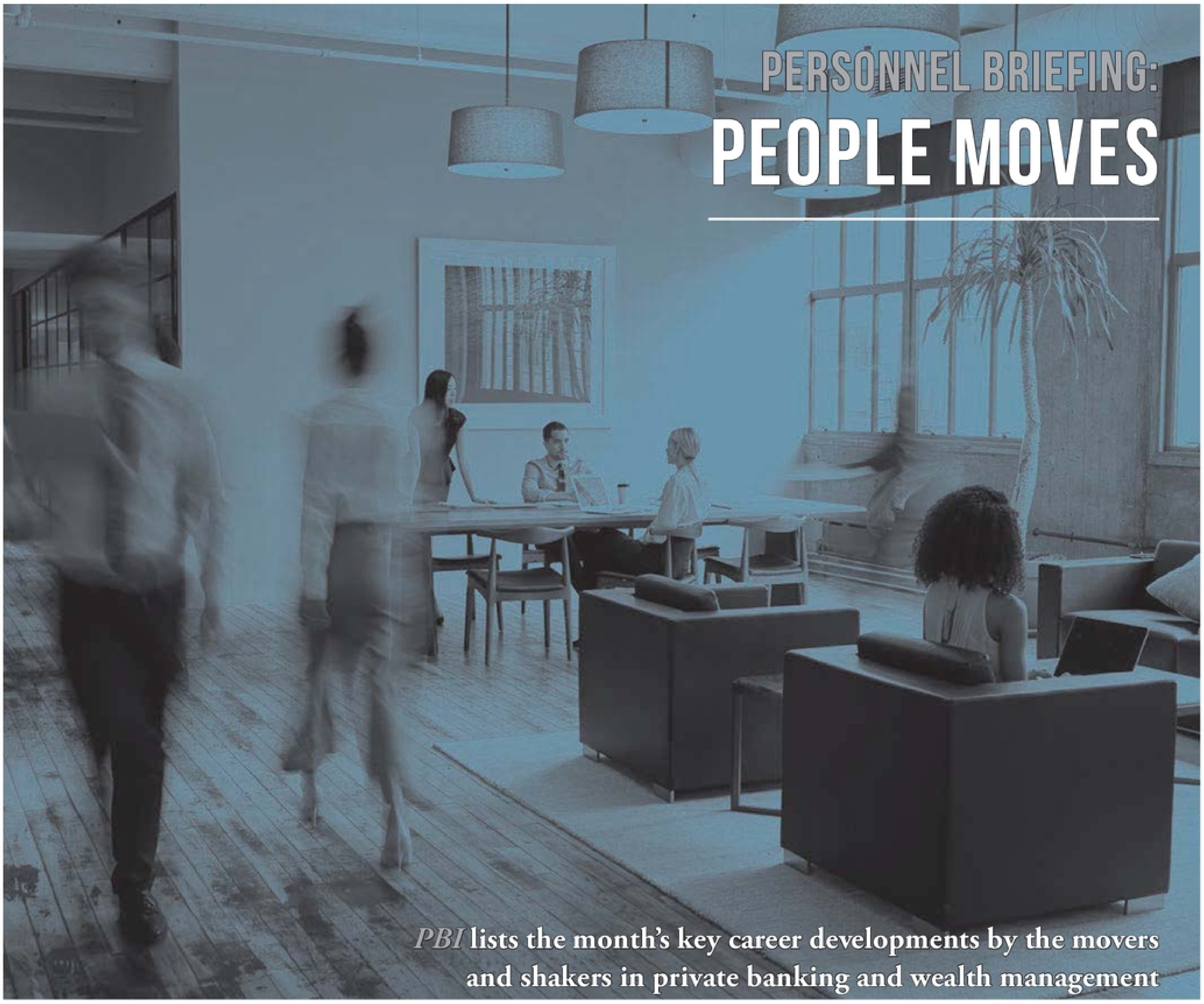
PSD2, like its UK counterpart Open Banking, is designed to promote healthier competition in financial services. One litmus test for its success, then, will be the emergence of different providers and digital-centric banks. These are already prevalent in retail, but are generally absent from private banking; will PSD2 see more emerge?

"That's what I expect, because you're seeing the client base changing," says Tesselaar. "You have more, let's call them 'start-up millionaires', to make up a phrase, and they are used to having everything in the palm of their hands, and they want that to be true of their finances."

However, much as digital banks Monzo and Starling and their kin have not caused any noticeable decline in the market shares of the major retail banks, it seems unlikely that HNW clients will abandon their existing providers entirely, even if they wish to make use of the innovations and solutions that PSD2 can encourage.

"I don't see it as a trigger for full-service entrants in private banking," states Bennett. "My view is the biggest impact we will see is new challengers cherry-picking specific verticals – FX being a great example – that allow them to exploit specific revenue pools."

Hartop agrees, and concludes: "What I believe will happen over time is that individuals will seek out the mix of organisations that provide them with the mix of services they require." ■



AREA	NAME	MOVED FROM	OLD POSITION	MOVED TO	NEW POSITION
Italy	Fabio Bariletti	Kairos	CEO – London branch	Kairos	CEO
Switzerland	Daniel Wild	RobecoSAM	Co-CEO	Credit Suisse	Global head – ESG strategy
UK	Sarah Melvin	BlackRock	Head – institutional client business, US and Canada	BlackRock	Head – UK
USA	Edwin Conway	BlackRock	Global head – institutional client business	BlackRock	Global head – alternative investors
EMEA/North America	PeterPaul Pardi	BNY Mellon	Global head – distribution	Fidante Partners	Head – EMEA and North America
UK	Andrew Shepherd	Brooks Macdonald	Deputy CEO	Brooks Macdonald International	CEO
UK	Dean Proctor	Barclays	MD	Seven Investment Management	CEO
APAC	Richard Hu	Avenue Asset Management	MD	Bank of Singapore	Head – Greater China
Liechtenstein	Robert Löw	-	-	Liechtensteinische Landesbank	CEO
UK	David Hathorn	Mondi	CEO	Maitland	Deputy chair
UK	Chris Reah	Coutts	-	Arbuthnot Latham	Head – regional offices
Singapore	Lee Woon Shiu	Bank of Singapore	Head – wealth planning	DBS	Head – wealth planning, family office and insurance

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