Economist Intelligence Unit

The Economist

Brave new world

Outlook for the global private banking industry

A report from the Economist Intelligence Unit

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MIFC MALAYSIA INTERNATIONAL ISLAMIC FINANCIAL CENTRE

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Preface

Brave new world is an Economist Intelligence Unit (EIU) report, commissioned by Bank Negara Malaysia in support of the MIFC initiative. The EIU performed the research, conducted the interviews and wrote the report independently. The findings and views expressed in this report are those of the EIU alone and do not necessarily reflect the views of the sponsor.

Justin Wood was the author of the report and Sudhir Vadaketh was the editor. Phil Davis assisted with further interviews. Gaddi Tam was responsible for design and layout. The cover image is by Ivan Loh.

Our sincere thanks go to the following interviewees (listed alphabetically) for their time and insights:

Ivan Carrillo, CEO, **Creuza Advisors**

Bruno Daher, co-CEO of the Middle East and head of private banking for MENA, **Credit Suisse**

Didier Duret, chief investment officer, **ABN AMRO Private Banking**

Peter Flavel, CEO of private wealth management, Asia, **J.P. Morgan**

Juan Garrido, global head of investment solutions, **BBVA Global Private Banking**

Shiv Gupta, managing director of private banking, India, **Royal Bank of Scotland**

Anuj Khanna, managing director and CEO of wealth management, South Asia, **Pictet & Cie**

Mark Mobius, executive chairman of emerging markets, **Franklin Templeton**

Nigel Putt, head of ultra high net worth, **Lloyds TSB Private Banking**

Jeroen Rijpkema, CEO, **ABN AMRO Private Banking**

Iain Tait, head of UK private clients, **London & Capital**

Rohit Walia, executive vice chairman and CEO, **Bank Sarasin Alpen**

November 2012

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Executive summary

Several major crises, from the financial panic that began in 2008 to sovereign distress in the euro zone, still cast long shadows over the global economy. Central banks in developed markets are resorting to ever more unconventional measures to stabilise their economies. While the outlook for emerging economies is brighter, they too face their own set of challenges, from inflation to a continued dependence on exports to the West to drive growth.

For investors, and the private bankers who advise them, this landscape is challenging and new. Old certainties have evaporated. Investment strategies, and indeed the whole private banking landscape, are in a state of rapid change as the world learns to live with the realities of this new picture.

In these uncertain times, what sorts of assets globally are high net worth individuals (HNWIs) investing in? Do they consider developed or emerging markets as safer havens for their money? What factors, including taxation and regulatory environments, will drive the growth of private banking around the world? Is demand for ethical, social-venture, and sharia-compliant investments rising? What are the main macroeconomic risks to client portfolios? And how are these trends affecting the industry as a whole? This report, based on a survey of 160 private bankers around the world and a series of in-depth interviews with senior private banking executives, attempts to answer these questions.

The key findings of the research include:

- **Since the global financial crisis, investors are struggling to model risk and calculate the value of assets.** For investors, the new economic landscape is challenging and confusing. Core assumptions that were used to manage wealth in the past, such as what constitutes a risk-free asset, have been turned upside down. Thoughts around financial risk and political risk are being comprehensively re-examined.

- **Amidst uncertainty, risk aversion is running high.** Investors are prioritising capital preservation, and our survey shows that private bankers are advising their clients to be overweight in asset classes that are relatively low risk. Indeed, 45% of private bankers are recommending their clients overweight cash. Conversely, hedge funds and other riskier assets are out of favour.

- **The search for yield is driving investors to emerging market fixed-income securities.** Private bankers say that many of their clients are trying to combine a risk-averse approach with a search for decent yield. In the current environment of extremely low interest rates,

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finding relatively safe securities that offer a return is far from easy. One way some are trying to achieve this is by investing in emerging market fixed-income securities on an unhedged basis, in the belief that the more robust financial health of emerging market economies will see their currencies rise in the longer term.

- **Concerns over inflation trump those over deflation.** Despite the focus on the safety of cash, our survey suggests that more bankers are worried about inflation than deflation (certainly for those based in emerging markets). This view is prompting many to recommend that their clients begin to moderate their risk aversion and invest more in assets such as equities and commodities—albeit cautiously.

- **Concern about ethical business practices has yet to translate into wholesale demand for ethical portfolio allocations.** Much has been written about the unethical practices that gave rise to the recent financial crisis. Yet our survey shows that only 26% of HNWIs around the world are currently allocating capital to ethical or sharia-compliant investment classes. But bankers report that demand for these types of investments is rising, albeit from a relatively low base. Some 31% of private bankers expect a double-digit annual percentage increase in ethical investments over the next five years. Meanwhile, 22% expect a double-digit annual percentage increase in social venture capital investments.

- **Interest in sharia-compliant investments is rising, but again from a relatively low base.** Some 25% of private bankers surveyed expect a double-digit annual percentage increase in sharia-compliant investments over the next five years. Such investments are plainly of interest to Muslim investors, but much debate centres on whether Islamic investing offers a superior risk/return profile that should attract non-Muslim investors too. One problem with making investment portfolios sharia-compliant is a lack of securities to buy, most notably in fixed income.

- **Life is getting tougher for private bankers due to rising costs, weaker revenues and less stable client relationships.** Authorities are imposing greater regulatory and compliance costs on banks. At the same time, higher risk aversion means clients are trading less than in the past, putting pressure on revenues. A general loss of trust among many clients in the abilities and motivations of their wealth managers makes the situation all the more challenging. This will force private banks to change their business models and raise their service levels, and is likely to force consolidation in the industry.

- **Private banks are increasing their focus on high-growth emerging markets...** The Economist Intelligence Unit calculates that emerging markets' share of global GDP has risen from 27.5% in 2000 to 45% today. We forecast that this will rise to just over 50% by 2015. The amount of private wealth generated is increasing in tandem with this, leading to huge opportunities for the private banking industry.

- **...but whether this means that wealth management will shift to newer centres like Singapore and Hong Kong remains unclear.** Some argue that wealthy emerging-market investors will want their money to be invested close to home where the wealth is being created. Others argue that the traditional centres such as Switerland, New York and London will be hard to displace given their history, trusted business climate, and deep pool of skills and knowledge. Our survey suggests that both trends are apparent. Emerging centres of wealth management will keep rising, but old centres will continue to do well.

About the survey

The research involved surveying 160 senior executives from private banks around the world. More than half the respondents are in the C-suite or sit on the board. In terms of size, 39% work at companies whose global annual revenues exceed US$1bn. The respondents are spread between Asia-Pacific (31%), Middle East and Africa (29%), North America (22%) and Western Europe (18%).

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1 A fearful new world?

The global financial crisis that began in 2008 continues to cast a long shadow over the global economy. Economies in the West remain mired in debt, with high unemployment, deficient demand and low levels of confidence. Governments and policymakers are struggling to stem the crisis. Debate rages about the costs and benefits of austerity measures, and the pace at which governments should tackle their ever-growing fiscal deficits.

In the meantime, central banks are resorting to ever more unconventional measures to stabilise their economies. With interest rates already at record lows in many countries, and with governments constrained in their ability to spend, more and more nations are applying the last policy lever available to them, that of quantitative easing. The US, the EU, Switzerland, Great Britain and Japan are all increasing their money supply at an unprecedented rate.

In emerging markets, the picture is much brighter. With healthier balance sheets, these economies have been able to continue growing at decent speeds. Over the past year, the emerging world as a whole has grown by around 5%, compared to just 1% in the developed world. And yet, now, even emerging markets are feeling the pain of the fragile global economy. Weak demand for exports, volatile capital flows, and retreating banks are all taking their toll.

For investors, the future looks less certain than ever. Choosing where to invest and what to invest in have become highly challenging.

"The last few years have caused a great deal of confusion among families in terms of setting their investment objectives," observes Nigel Putt, head of ultra high net worth investors at Lloyds TSB Private Banking in Switzerland. "Core assumptions that were used to manage wealth in the past [such as what constitutes a risk-free asset] have been turned upside down. Everyone is struggling to model risk and to calculate the value of assets. The thinking around financial risk and political risk are all being re-examined."

Shiv Gupta, managing director of private banking in India at the Royal Bank of Scotland, agrees. "We live in a much more volatile world now, with a high degree of schizophrenia among investors towards risky assets," he says. "Moments of high optimism turn to moments of risk aversion and extreme fear in no time at all."

Mr Gupta believes the private banking industry is thus going through a period of intense change, as the expectations clients have of their advisers

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is rapidly changing. "We're moving to a 'new normal', but nobody is quite clear yet what this new normal will look like."

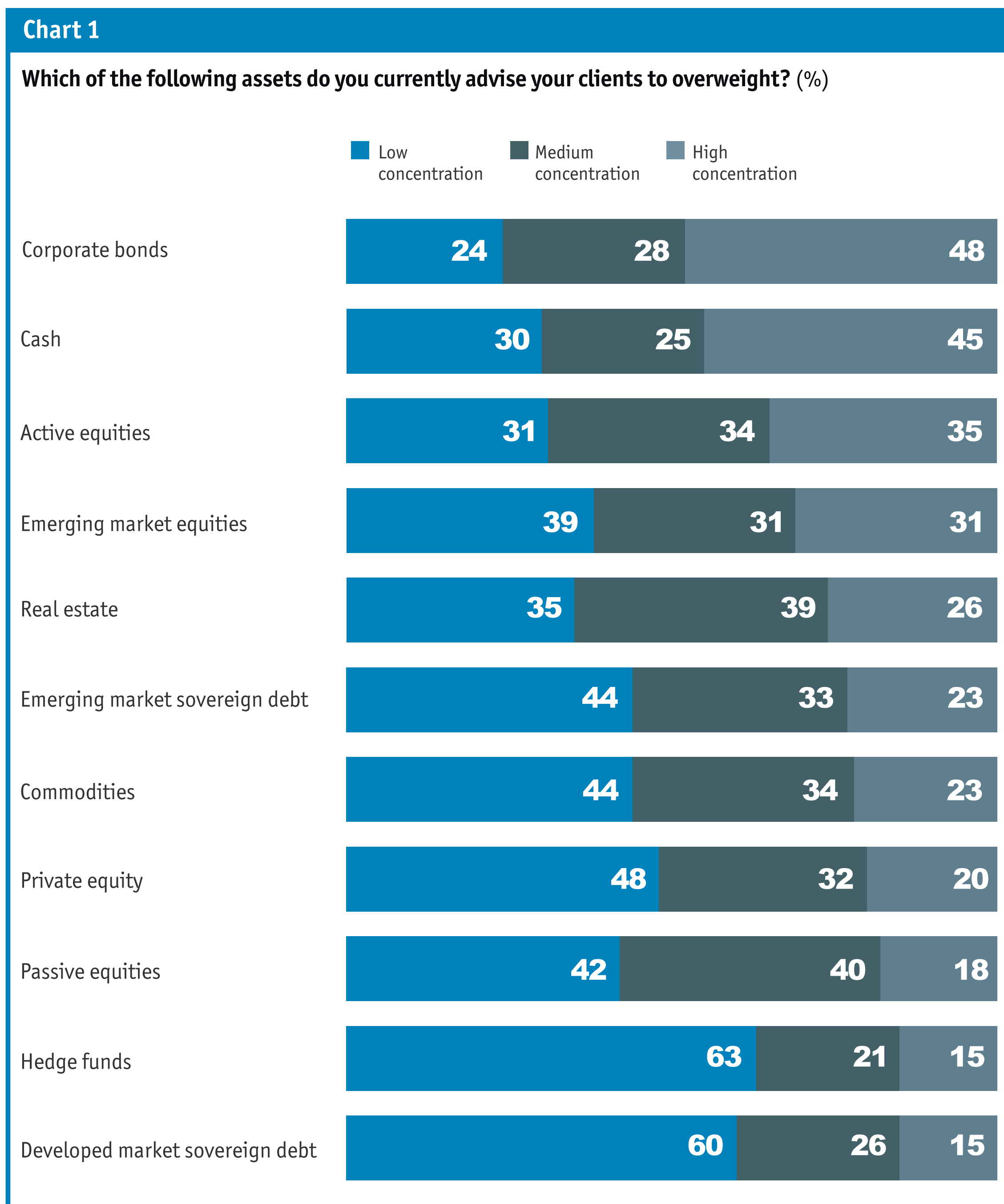
Hunger for safety

Amongst the uncertainty, it's clear that risk aversion is running high in the current climate. Our survey shows that private bankers are advising their clients to be overweight asset classes that are relatively low risk. Indeed, 45% of private bankers are recommending their clients be overweight in cash. Reflecting a greater focus on fixed income, a similar number (48%) are advising investors to be overweight in corporate bonds (see chart 1).

At the other end of the spectrum, bankers are steering their clients clear of hedge funds as well as sovereign debt in developed markets. This is perhaps expected, given the ongoing fiscal

Chart 1

Which of the following assets do you currently advise your clients to overweight? (%)



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troubles and credit rating downgrades in Europe and the US.

This risk-aversion is fairly consistent across the world. Private bankers everywhere say their clients are deeply in favour of fixed income securities, and are avoiding more risky asset classes.

Rohit Walia, executive vice chairman and CEO at Bank Sarasin Alpen in Dubai, says his bank's clients based in the Middle East have at least 50% of their portfolio in fixed-income securities, a level he reckons will stay fairly constant for the next 12 to 18 months. The conservatism also shows itself in a strong preference for investing in local markets rather than less familiar foreign ones.

"The Arab Spring hasn't really had much impact on the countries in the Gulf Cooperation Council [GCC], so investors are confident to put their money in the region," notes Mr Walia. Conversely, he adds, "The appetite for other markets has taken a hit because many investors got badly burnt."

In London, Iain Tait, head of UK private clients at London & Capital, a wealth management business, says his clients currently have around 55% of their portfolios in fixed income. "Most clients are focusing on capital preservation," he says. "Gone are the days when clients were looking to double their money every 10 years."

In Asia, Anuj Khanna, managing director and South Asia CEO of wealth management at Pictet & Cie, a Swiss private bank, sees a similar pattern. "Our clients are risk-averse at the moment, and that matches the advice we've been giving them," he says. "We've been recommending a high allocation to cash, gold and to investment grade, high quality fixed income. Since the ECB's announcement to buy sovereign debt [in July 2012], we've been advising more exposure to risk assets, but in a conservative way, so things like gold-mining stocks and defensive stocks with a good dividend yield."

The high preference for fixed-income securities, particularly corporate bonds, comes at an interesting time for the debt markets. With many banks trying to shrink their loan portfolios and increase their capital, corporate borrowers are finding it easier to raise money in the bond markets. The investment preferences of the world's wealthy are thus filling a gap left by retreating banks. In Asia (ex-Japan), for example, international bond issuance in US dollars, euros and yen in the first nine months of 2012 exceeded US$106bn—a number that is already 20% greater than the previous full-year record for Asia (ex-Japan) set in 2010.[1]

Hunger for yield

Importantly, though, while investors are currently prioritising capital preservation, they are trying to combine a risk-averse approach with a search for decent yield. In the current environment of extremely low interest rates, finding securities that are both relatively safe and offer a return is far from easy.

This hunt for yield often translates into a preference for fixed income in emerging markets rather than developed markets, given the former's relatively higher yields. Many bankers are also advising wealthy investors to take the currency exposure on an unhedged basis, in the belief that the more robust financial health of emerging market economies will see their currencies rise in the longer term.

"Given that deposit rates on cash are near zero for many currencies, investors are definitely looking for yield, but in a protected, conservative way," says Bruno Daher, co-CEO of the Middle East and head of private banking for MENA at Credit Suisse. "They do like to be in emerging market currencies, and they are starting to think about things like commodities to try to take on a little more risk and add a little more yield to what is essentially still a conservative approach."

The ongoing programmes of quantitative easing around the world are adding impetus to the search for yield as investors start to worry about the potential inflationary impact of printing money.

[1] "Asian bond issuance hits new record high", *Financial Times*, September 24th 2012.

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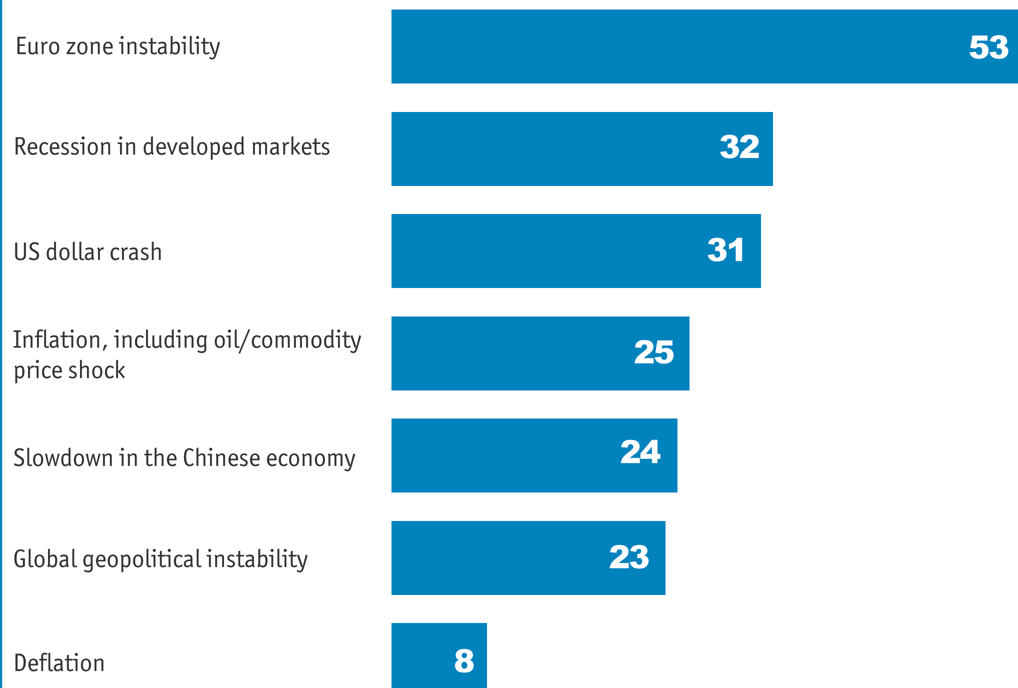
With the global economy still weak and flirting with recession, the prospects for deflation are undoubtedly real, but many believe inflation will become a more significant problem.

In our survey, private bankers still regard euro zone instability as the biggest risk to client portfolios, followed by a recession in developed markets. However, a quarter of respondents cite inflation as a major threat, whereas only 8% believe deflation is a serious concern (see chart 2). This picture varies according to where respondents are based. In Asia, for example, bankers consider inflation to be the biggest risk of all as new money created in the West floods into emerging markets and into commodities.

"Although disinflation may persist for a number of years, clients are starting to come round to the idea that inflation will eventually rear its ugly head," says Mr Tait at London & Capital. "We are very bullish on gold. Printing money won't work because the transmission mechanism between banks and the real economy is broken, but it will result in competitive devaluation and gold will lap that up. In five or ten years' time, when inflation kicks in, in earnest, gold will become a long-standing store of value again, replacing its current role as an alternative currency."

If inflation does rise, then investors will need to reassess their allocation strategies. Asset classes such as equities and commodities are likely to do much better, and it is for this reason that some bankers are starting to advise their clients to increase their exposure to higher risk assets, albeit with great care.

Our survey results suggest that the appetite for risk assets is stronger in North America than in Europe. Indeed, 68% of bankers in the US feel that equities will see the strongest demand among asset classes in the year ahead. Conversely, in Europe, a similar number (67%) feel that fixed



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income will be the most sought-after investment. This perhaps reflects the relative strength of the US economy, and a greater chance for inflation to take hold compared to the depressed character of the euro zone. In Asia and the Middle East, bankers are expecting the demand for property to be much stronger than their peers in other parts of the world, although as one interviewee notes, this is typical of investors in these regions no matter what the state of the economy.

Mark Mobius, chairman of the emerging markets group at Franklin Templeton Investments, a fund management business, believes inflation is already a major threat. "Real levels of inflation are far higher than the official reported levels," he says. "In an environment of quantitative easing and inflation, equities will do much better than fixed income."

Didier Duret, chief investment officer at ABN AMRO Private Banking, says he can already see clients beginning to acknowledge the need to change tack. "Cautiously, more and more clients are willing to move into better yielding instruments like private equity and real estate investment trusts," he says. "There is an outflow from liquid assets and safe haven bonds like US and German debt."

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2 An ethical new world?

Arguably, some of the causes of the recent financial crisis stemmed from questionable corporate behaviour, and investment decisions and business strategies that lost touch with society. So, in this post-crisis world, are wealthy investors taking a stronger interest in the social and ethical character of their investment strategies?

The picture is mixed. Some bankers report that, in times when investors are focused on capital preservation, their desire to be more socially responsible becomes less of a priority. Ivan Carrillo, CEO of Creuza Advisors, a multi-family office in Peru, says his firm has only been asked once to adjust a portfolio for ethical reasons—in order to avoid an investment in a bank that the client felt had unsavoury working practices in Africa. "Our clients want to preserve money and make money, so sustainability is at the back of their minds at the moment," he says. Our survey suggests that attitudes such as these are more prevalent in emerging markets than in developed ones.

However, others see interest growing. In our survey, private bankers say they expect the annual increase in the amount of money directed towards ethical and social investments to increase by an average of 9.1% a year for the next five years. Some 31% of respondents expect a double-digit annual percentage increase in ethical investments. Meanwhile, 22% expect a double-digit annual percentage increase in social venture capital investments.

Juan Garrido, global head of investment solutions at BBVA Global Private Banking in New York, sees a definite rise in the demand for socially-responsible investing (SRI). "Clients are increasingly asking for a range of services with the ability to generate social impact, including philanthropy and social investment," he says. "BBVA has set up a number of impact investment and social investment funds in the past few years."

Jeroen Rijpkema, CEO of ABN AMRO Private Banking, sees similar trends. "Over the past four years, the volume of SRI investments we manage has nearly doubled," he says. Just like BBVA, ABN AMRO is also setting up social impact investment funds. Part of the rationale, he notes, isn't just to be a good citizen, nor even to gain diversification, but because social investments can offer superior risk-return potential. ABN AMRO believes, for example, that microfinance businesses give bond-like volatility but with twice the return.

While this may be true, our survey suggests that many investors, as well as their private bankers, are unaware of such insights. Only 31% of private bankers are actively recommending social and ethical investments (including sharia-compliant ones), and even fewer investors (26%) are

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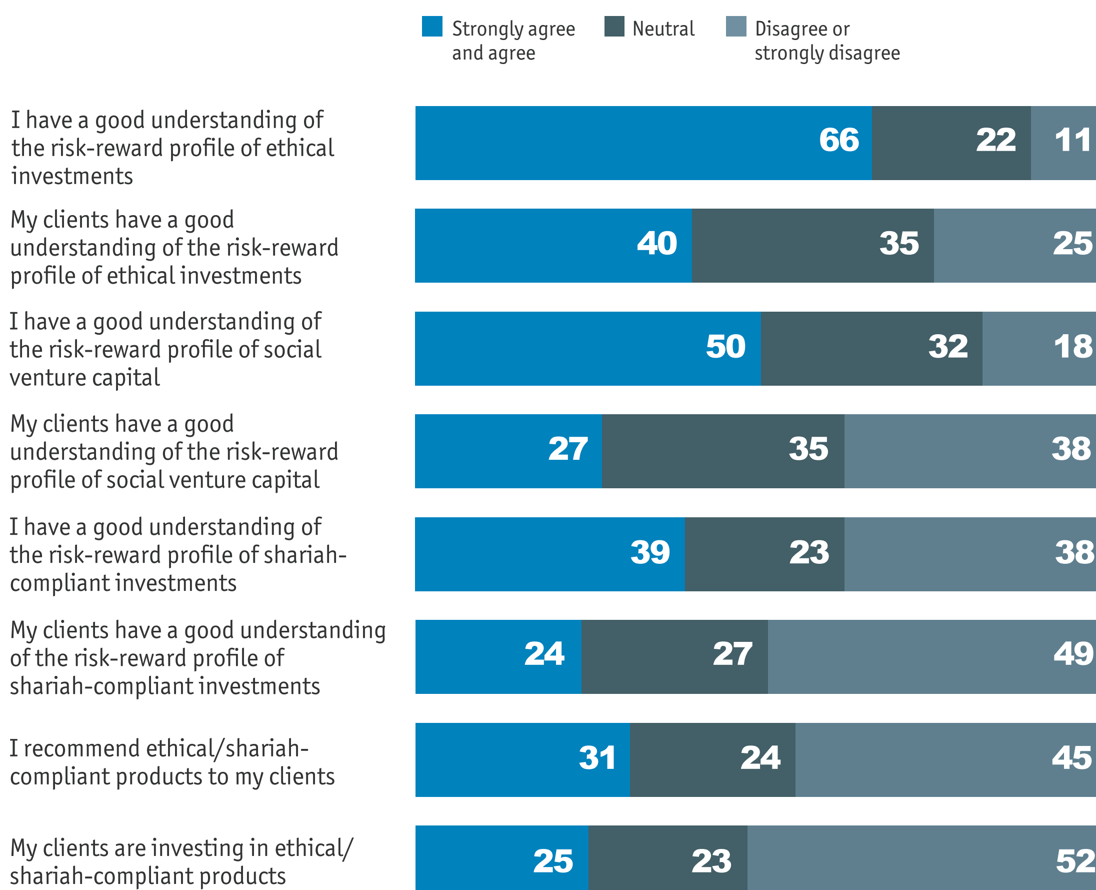
allocating their capital to such ideas (see chart 3). And when investors do choose ethical and sharia-compliant investments, the rationale is rarely driven by a desire to achieve better returns (see chart 4).

Sharia shining

Within the universe of investments driven by ethical and religious considerations, our research suggests that interest in sharia-compliant opportunities is also rising. A quarter of private bankers surveyed expect double-digit annual percentage increases in the amount of money directed towards sharia-compliant investments over the next five years. Such investments are plainly of interest to Muslim investors, but much debate centres on whether Islamic investing offers a superior risk/return profile that should attract non-Muslim investors too.

For example, some commentators argue that, because Islamic finance avoids companies with excessive leverage, investment performance is generally better. Certainly the past few years have seen Islamic equity indices outperform conventional indices, in large part due to the fact that banks and financial institutions are eliminated from a portfolio after applying an Islamic investment filter. Many banks, especially in the West, have struggled since the financial crisis, and so removing them from a portfolio has been beneficial. However, the jury is still out on whether sharia-compliant investment approaches will continue to deliver superior returns.[2]

[2] "Islamic Investing", Christian Walkshäusl and Sebastian Lobe, *Review of Financial Economics*, March 1st 2012



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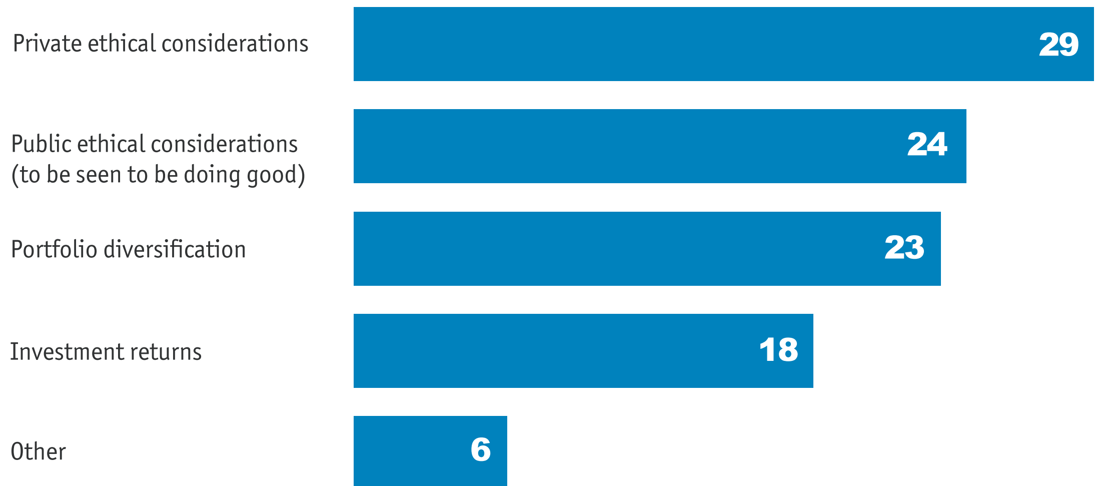

Demand for Islamic financial products is highest in the Middle East, especially in GCC countries. "We are getting increasing numbers of requests to work with family offices in the Middle East to set up vehicles such as private label funds that are sharia-compliant," says Mr Daher at Credit Suisse.

At Lloyds TSB, Mr Putt says his bank is also working with families in the GCC who are strict adherents to sharia investing. "The problem they face is that the universe of potential investments can be rather limited," he says. Other observers agree with him. While the range of equity investments open for Muslim investors is quite large, the range of debt securities remains relatively small. In an environment where investors are risk averse and favour fixed income, as is the case today, a shortage of sharia-compliant debt securities can create difficulties.

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3 A less profitable new world?

For private bankers, it is not only the investment landscape and the appetites of their clients that have changed since 2008. Just as significant are sweeping changes to the way their industry operates and is organised. Few disagree that life is getting tougher, and profit margins are getting thinner.

In the aftermath of the financial crisis, authorities have ratcheted up compliance and regulatory requirements. Many governments are cracking down on what they perceive as tax evasion and fraud. The US, for example, has grown much more aggressive in the way it deals with offshore tax havens, and is starting to hold private bankers accountable for their US clients' tax compliance. Many other regulations, such as anti-money laundering rules, have also been tightened. While few bankers argue against such rules, these regulations do raise the cost of compliance and make life much harder for private banks.

Even as costs are rising, revenues are also under pressure. Private banking clients are trading less than in the past, thanks to higher risk aversion. And when they do trade, often it is in securities such as fixed income that earn less revenue for banks.

The picture is made even more challenging thanks to a general loss of trust among many clients in the abilities and motivations of their wealth managers. Following the crisis, many investors perceived their bankers as profit-maximising "product pushers" rather than genuine, impartial advisers with their clients' best interests at heart. Such sentiment has made it harder to retain client relationships and to win business from them.

During the good years, many banks came to rely on ever-rising markets, and the positive performance of client portfolios, as the basis of their relationship. In today's world of volatility and weak economic growth, relationships built on ever-improving asset prices will be harder to maintain. Some of the wealthiest investors, the ultra high net worth clients, have decided to set up their own family offices to manage their wealth. While these family offices still need banking services, the scope of their business has narrowed dramatically.

Given this picture of rising costs, weaker revenues, and less stable client relationships, private banking margins are under pressure. Research from Scorpio Partnership, a consultancy that advises private banks, shows that the average cost-to-income ratio at the world's private banks rose from 63.7% in 2007 to 80% in 2011.[3]

Opportunity in adversity?

Mr Daher at Credit Suisse acknowledges that

[3] Scorpio Partnership Private Banking Benchmark 2012

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private banks are facing several challenges but also believes that some will force the industry to improve. "Regulations that demand you know your client better, for example," he says. "Good private banks should be doing this anyway. The new environment will force banks to be more efficient and better."

For many banks, the new environment is an opportunity to re-think traditional business models, and to use those models to differentiate one company from another (see box: Winning back trust) Another trend that is likely to grow is industry consolidation. Many private banks and investment advisory firms are small and will struggle to build the scale needed to invest in things such as compliance systems and better IT that this new world demands. Even for large firms, competition in this landscape of constrained profitability will be tough, forcing some to withdraw. In August 2012, for example, Bank of America Merrill Lynch announced that it was selling its overseas wealth-management business to Julius Baer, a Swiss private bank, for US$882m.

Gaining size and scale is not a prerequisite for survival. But for those firms that choose to stay small, the future demands a process of reinvention, whereby they identify certain niches in which to specialise.

Winning back trust

Given the poor performance of many portfolios during the global financial crisis, many investors have become disillusioned with their private banks. Feelings are widespread that banks not only gave poor advice, but also that they used their wealthy clients to offload bank products, especially structured finance securities, with little regard for whether such investments would be in their clients' interest or not.

In the new environment of investor mistrust, many banks are now looking hard at ways to win back client confidence and to improve their service. J.P. Morgan's Private Bank, for example, is using an approach to client management that it hopes will set it apart from its competitors. At many banks, wealthy investors have one main point of contact, a relationship manager, who is the interface between the client and the bank. This relationship manager puts their clients in front of investment specialists as he or she sees fit. J.P. Morgan instead operates with two points of contact for every client, supported by other specialists covering estate, tax planning and credit advice—each being dedicated members of the client coverage team. One of them is a traditional relationship manager; the other is an investment specialist. Both are expected to manage the client equally.

"The world is too complex and the markets too volatile to have just one banker alone," says Peter Flavel, CEO of J.P. Morgan's private wealth management business in Asia. "It's all about being better advisors by using a team approach. The client gets disciplined delivery of better quality service, and because they get better service we win a higher percentage of their discretionary mandates."

Anuj Khanna, managing director and CEO, South Asia, of Pictet & Cie, a Swiss private bank, says the feelings of mistrust are widespread among bankers too. "There is a high level of disenfranchisement among bankers at some of the big houses that they are being forced to put the interests of the bank ahead of the interests of their clients," he notes. "That conflict often arises because banks are under pressure to meet quarterly earnings targets."

But, says Mr Khanna, because Pictet is privately owned, his bankers are not under such short-term pressures. As such, Pictet is positioned to take a much longer-term view when it comes to managing client relationships, without the immediate pressures of delivering profits from those relationships. This philosophy, he says, is helping Pictet not only win and retain clients, but also hire many of the disenfranchised bankers.

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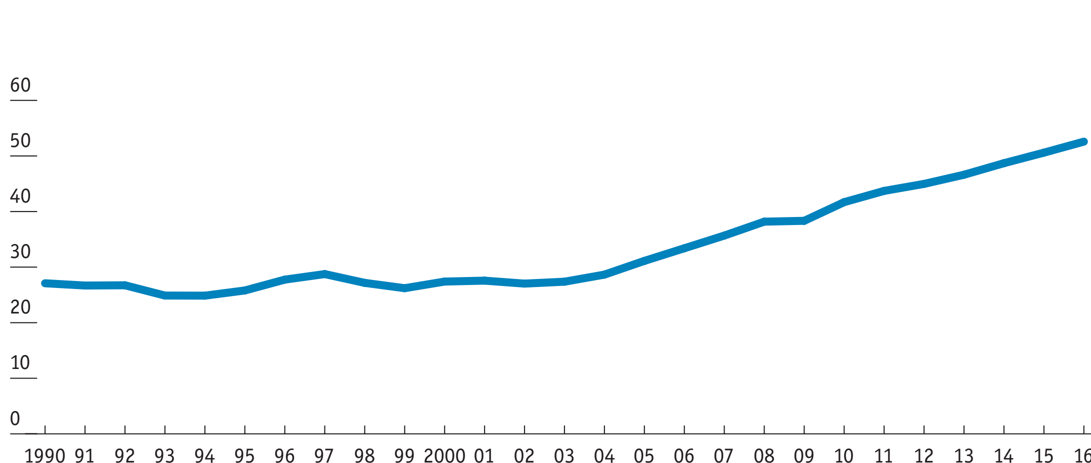
4 An emerging new world?

Looking at the global economy, it is clear that developed markets in the West are growing at a much slower pace than those in emerging markets (Asia ex-Japan, the Middle East and North Africa, Eastern Europe and Latin America). This has been the case for a number of years already, but given the fall-out from the global financial crisis, the growth differential has widened and is likely to stay that way. The EIU calculates that emerging markets' share of global GDP has risen from 27.5% in 2000 to 45% today. We forecast that this will rise to just over 50% by 2015 (see chart 5).

Back in 2009, emerging markets had private wealth of US$27.2trn, or 24% of the global total, according to the Boston Consulting Group (BCG). But by 2016, BCG expects wealth in these regions to rise to US$54.5trn, or 36% of the global total.[4]

Similarly, in 2008 emerging markets had 1.9m millionaires, or 22.4% of the global total, according to a study by Cap Gemini and RBC Wealth Management. By 2011, that figure had grown to 2.6m, accounting for 23.5% of the global total.[5]

Chart 5



Note: Nominal GDP in US$ at market exchange rates
Emerging markets = Asia ex-Japan, the Middle East and North Africa, Eastern Europe and Latin America
Source: Economist Intelligence Unit

[4] "Global Wealth 2012: The Battle to Regain Strength", Boston Consulting Group, 2012

[5] "World Wealth Report 2012", Cap Gemini and RBS Wealth Management, 2012

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[5] "The International Art Market in 2011: Observations on the Art Trade over 25 years", commissioned by TEFAF Maastricht, March 16th 2012

The rise of wealth in the emerging world is evident in many different guises. Consider the market for fine art. A report released in March 2012 shows that China has become the biggest art market in the world. According to the research, China's share of the market rose from 23% in 2010 to 30% last year. The US, with just 29%, has been pushed into second place.[6]

New centres of wealth management?

Given these trends, will the places where wealth is managed migrate to the emerging markets too? Will the established centres of private banking in Switzerland, London, Luxembourg, and New York see their long-held dominance challenged by a new generation of financial hubs?

Given the economic growth in emerging markets, it is no surprise to see that private bankers expect their business to grow much faster in such places. Our survey shows that over the next five years they expect their business to grow by 6.3% a year in developed markets, but to expand by 9.8% a year in emerging markets (see chart 6).

However, just because clients and their wealth are increasing in new parts of the world, it does not necessarily mean that their money will also be managed there. The interviewees for this report had mixed opinions about the changing map of money management.

Mr Walia at Bank Sarasin Alpen feels that his clients in the Middle East still have a strong preference for booking their wealth in places like Geneva. While they may well be investing their money in the GCC, when it comes to managing those investments they appreciate the depth of experience and skills found in traditional banking centres. "There's also a strong sense of tradition, and that takes a long time to break down," he says.

Conversely, Peter Flavel, CEO of J.P. Morgan's private wealth management business in Asia, believes that his clients in Asia favour the emerging hubs of Singapore and Hong Kong. "The role of these places will keep rising, there's no doubt in my mind," he says. "The authorities have done an excellent job building the right kind of environment for the industry to thrive. And Asia is where the wealth is being created fastest. It makes sense for wealth managers to be here too."

Our survey asked bankers what criteria they considered to be most important in determining where clients choose to do their private banking (see chart 7). Of most importance was political stability. Given geopolitical concerns in the Middle East—and in Asia too, such as the dispute

Chart 6

What is the expected annual growth rate of your business over the next five years in the following markets? (%)

Note: As specified in the survey questions, "Emerging markets" include Brazil, Russia, Korea, Indonesia, Malaysia, South Africa, Turkey, and Taiwan; "Frontier Markets" include Saudi Arabia, Bahrain, Qatar, Jordan, Vietnam, Kuwait, UAE, and the CIS countries

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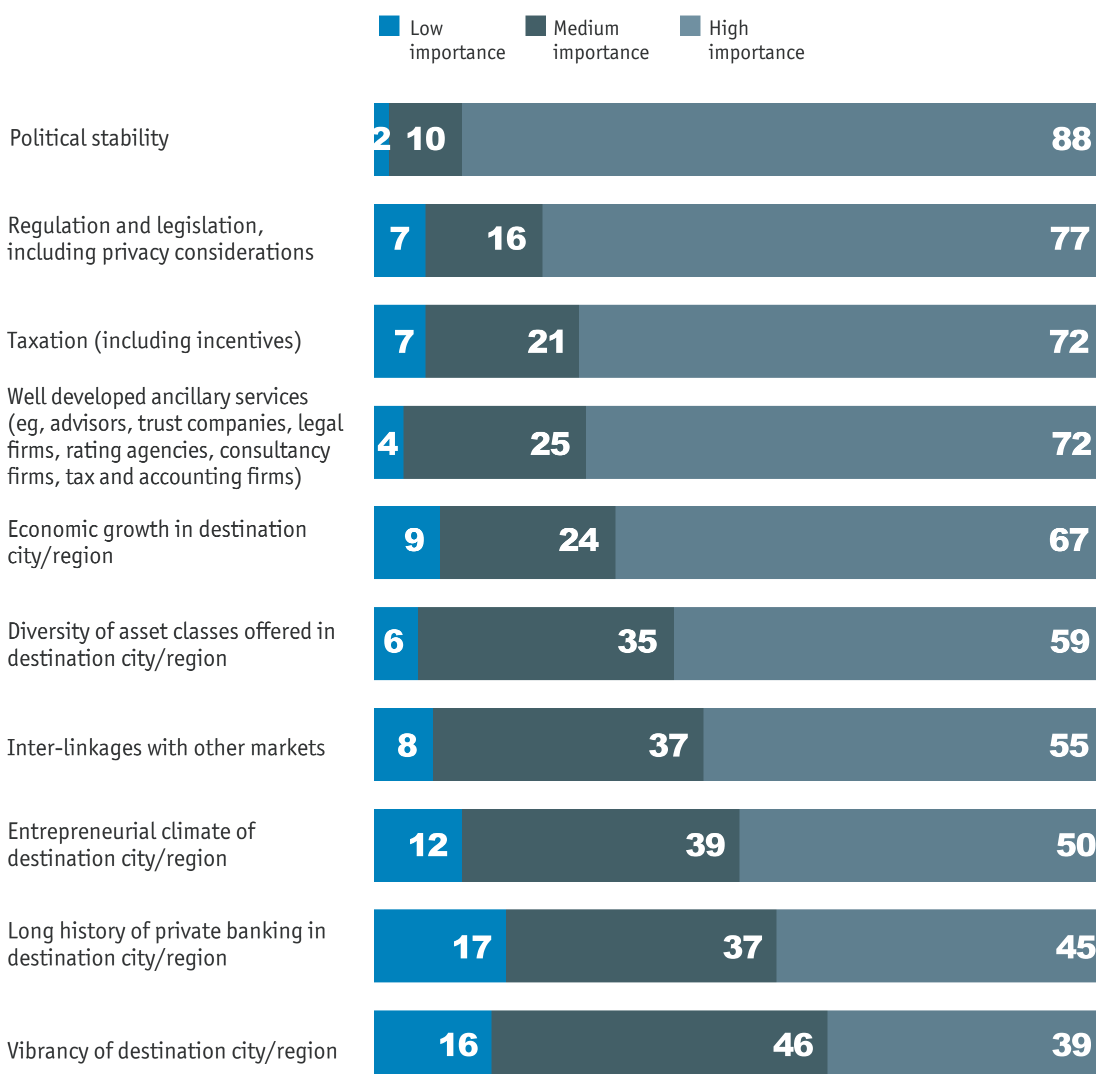

between China and Japan over the Senkaku (or Diaoyu) Islands—the older centres perhaps have an advantage in this regard.

Interestingly, however, less than half the bankers in the survey thought that having a long history of private banking was an important consideration. If this is the case, then it suggests that new centres do have the opportunity to rise and become rivals to the incumbents, assuming they can address the other important factors, notably the quality of legislation and regulation, having a well-developed ecosystem of lawyers and accountants, having low taxation and so on.

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Conclusion

A brave new world?

The future suggests that both investors and their private bankers will need to be bold if they are to succeed. The world is in the midst of an extended period of uncertainty, volatility and change.

The investment habits of investors before the global financial crisis are no longer applicable. Equally, the banking models that predominated before the crisis are no longer relevant. Bankers and their clients are moving into a "new normal", and feeling their way as they go. Both parties are likely to see their performance suffer. On the part of investors, returns will be lower. On the part of bankers, profits will be harder to achieve.

But in adversity lies opportunity, for those who are bold enough to grasp it. HNWIs who are living in fear, concerned only with capital preservation, will miss the opportunities. Likewise, banks that fail to respond to this new reality will also lose out.

Meanwhile, as global economic growth shifts from developed Western markets to emerging economies, opinions are mixed as to whether centres of wealth management will also shift from traditional centres such as Switzerland, London and New York to new ones such as Singapore and Hong Kong.

Some argue that wealthy emerging-market investors will want their money to be invested close to home where the wealth is being created. Others argue that the traditional centres will be hard to displace given their history, deep pool of skills and knowledge, and trusted business climate. Our research suggests that both stories are true. Emerging centres of wealth management will keep rising, but old centres will continue to do well. The key to winning business will be the ability of financial centres to respond to ever-changing industry trends.

Many parties on both sides of the private banking business are responding to the challenges before them. Investors are reassessing their approach to risk and valuation. Banks are adjusting their service models. In this brave new world, these will be the ones who succeed.

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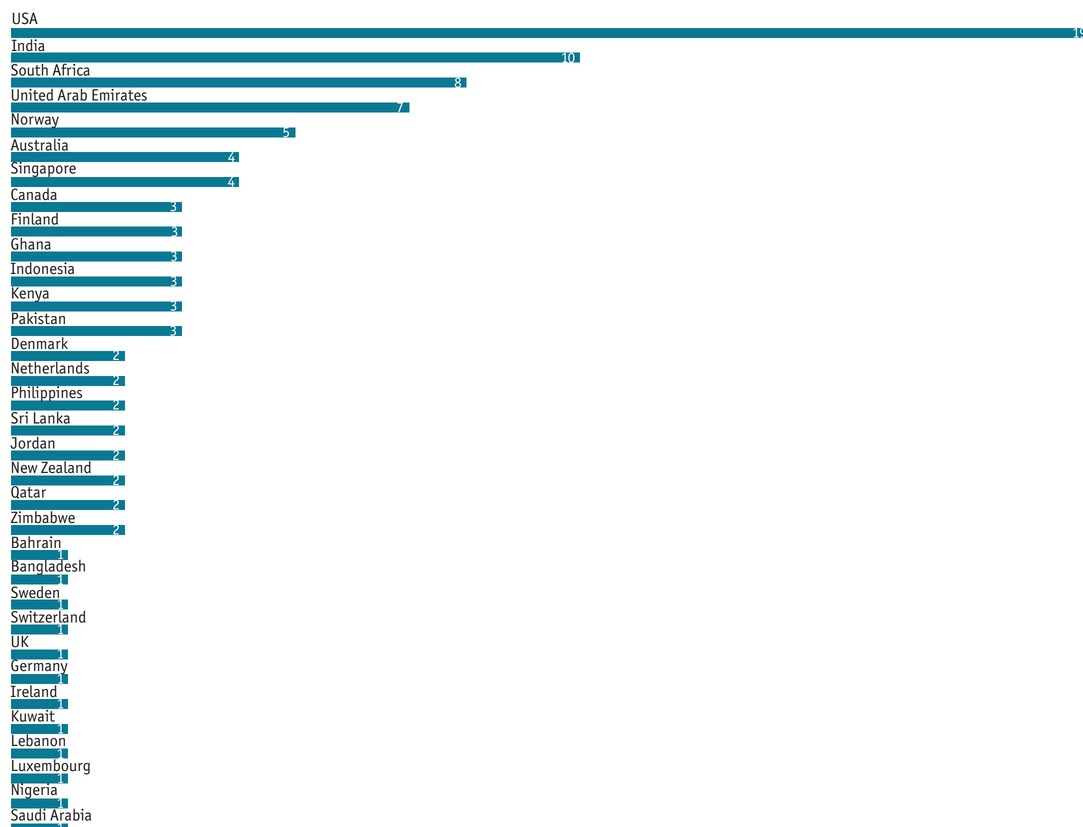
Appendix: Survey results

Note: Percentages may not total 100 due to rounding or the ability of respondents to choose multiple responses

Are you in private banking?
(% respondents)

Yes

In which country are you personally located?
(% respondents)



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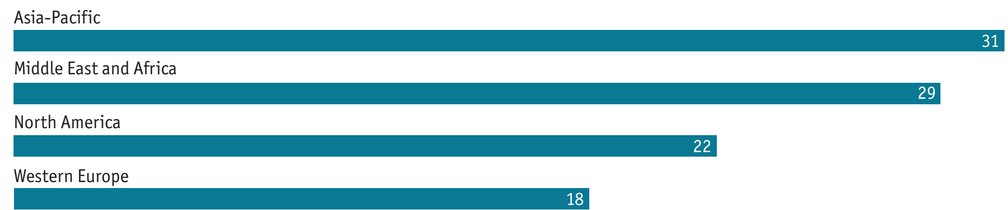
In which region are you personally located?
(% respondents)



In which country is your organisation headquartered?
(% respondents)

Country	%
USA	18
India	7
South Africa	6
Norway	6
Switzerland	6
UK	6
Australia	4
United Arab Emirates	4
Pakistan	3
Canada	3
Denmark	3
Ghana	3
Kenya	3
Netherlands	3
Finland	2
Philippines	2
Sri Lanka	2
Bahrain	2
Germany	2
Indonesia	2
Jordan	2
Zimbabwe	2
Bangladesh	1
Nigeria	1
Qatar	1
South Korea	1
Sweden	1
Taiwan	1
China	1
France	1
Ireland	1
Kuwait	1
Lebanon	1
Luxembourg	1
New Zealand	1
Saudi Arabia	1
Singapore	1
Turkey	1

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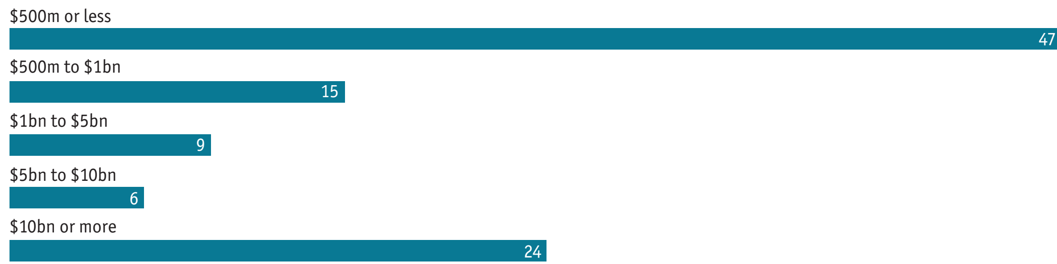
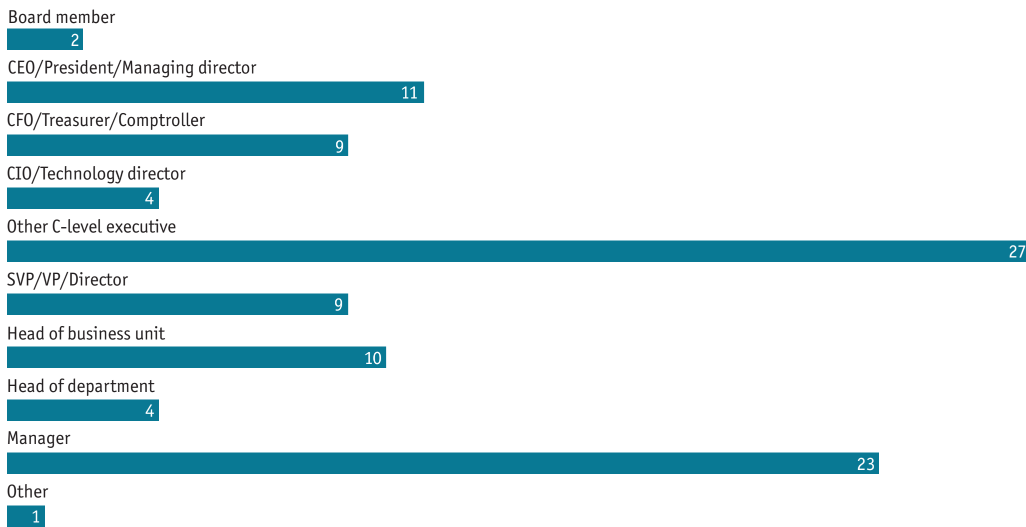
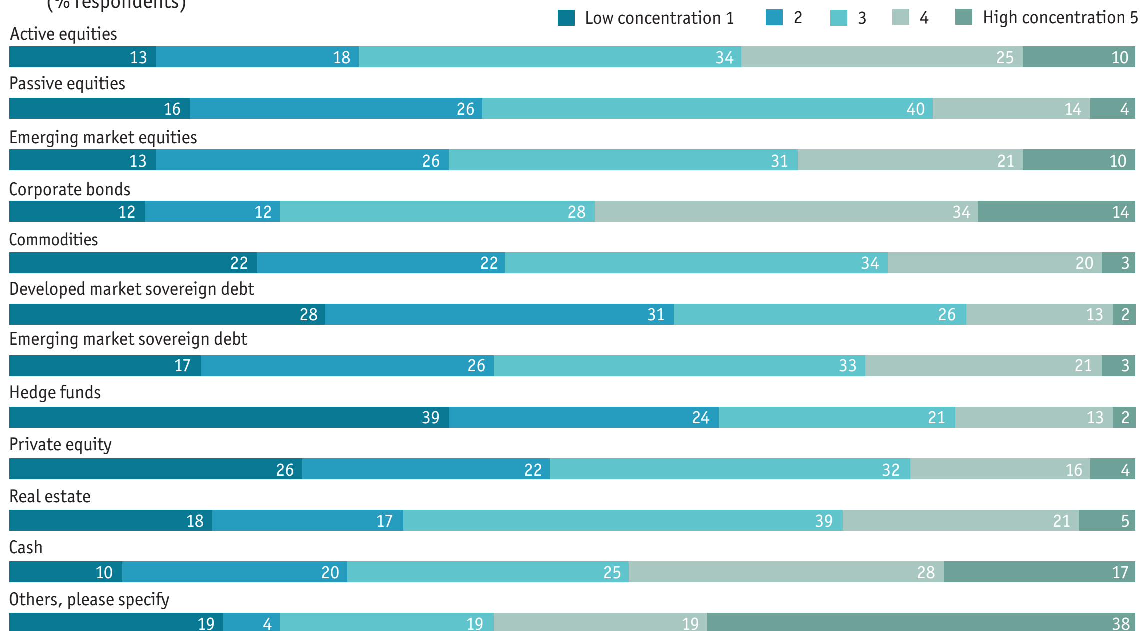
What are your company's annual global revenues in US dollars?
(% respondents)



Which of the following best describes your title?
(% respondents)



1. Which of the following assets do you currently advise your clients to overweight? Please rate on a scale of 1 to 5, where 1=Low concentration and 5=High concentration.
(% respondents)



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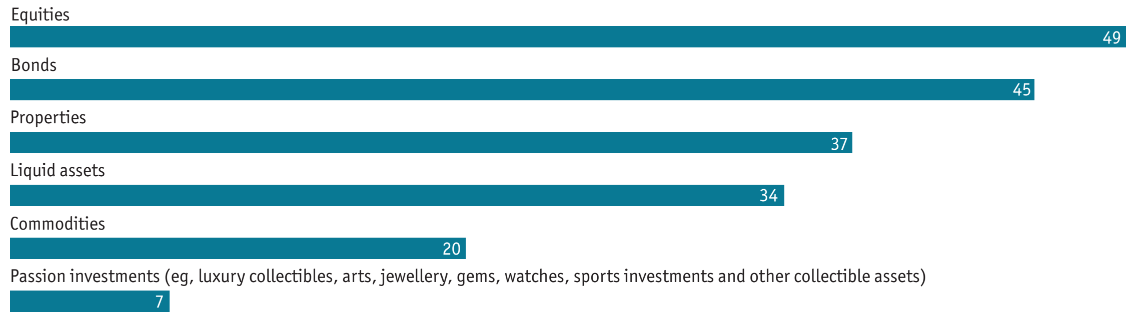
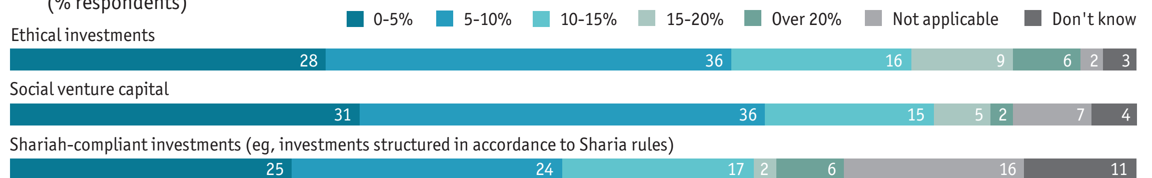
2. Which types of assets do you foresee will be in demand, moving forward? Select up to two.
(% respondents)

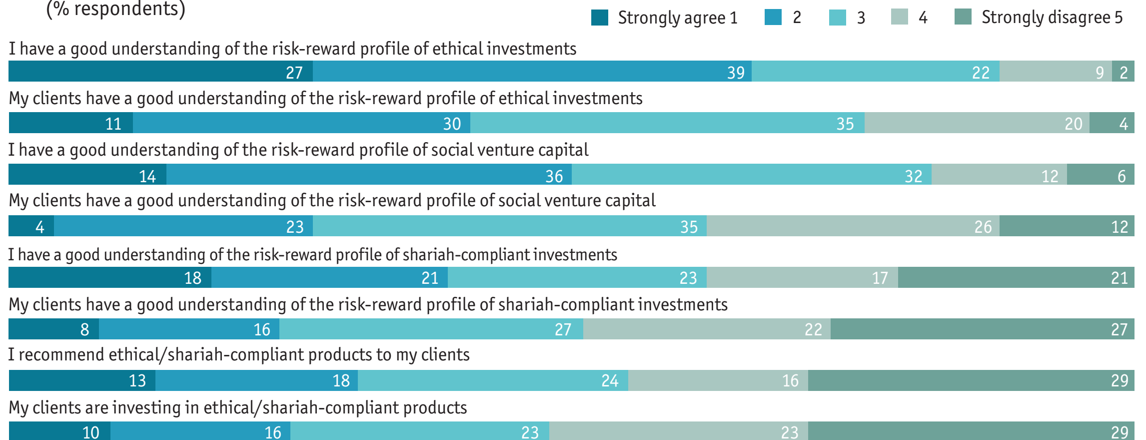


3. Over the next five years what is the annual percentage growth rate you expect to see in client portfolios for the following investment types?
(% respondents)



4. What is the most important factor driving client appetite for ethical investments, social venture capital and shariah-compliant investments?
(% respondents)

5. To what extent do you agree or disagree with the following statements? Please rate on a scale of 1 to 5, where 1 = Strongly agree and 5=Strongly disagree.
(% respondents)



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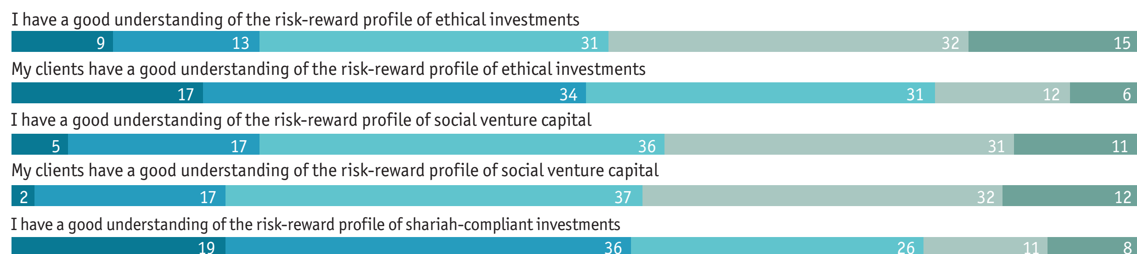
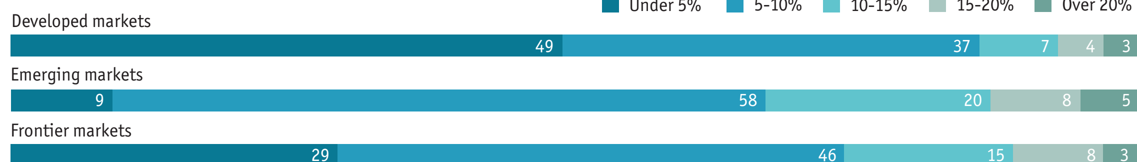
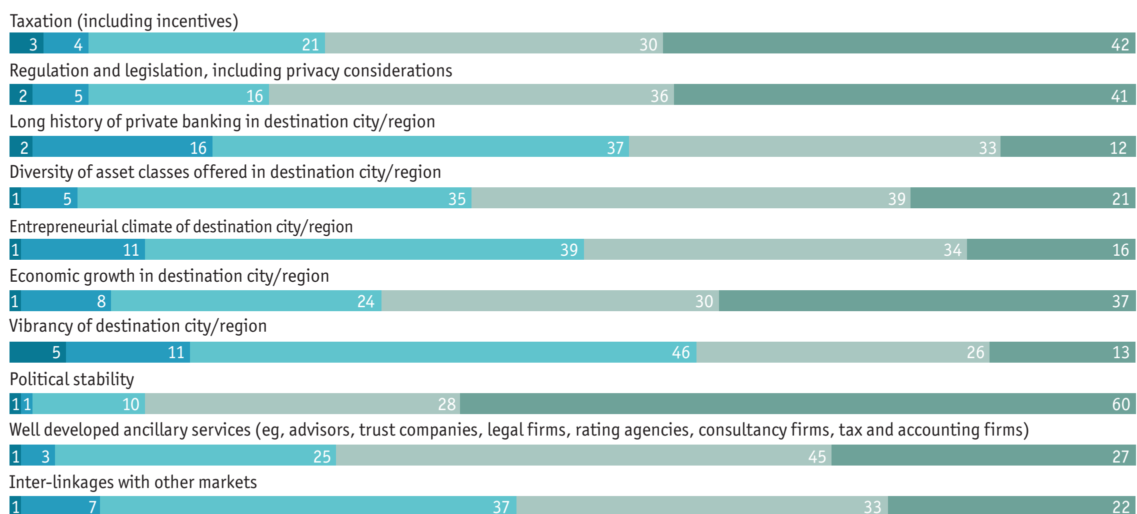
6. How would you rate the following markets as investment destinations for mitigating risk? Please rate on a scale of 1 to 5, where 1=Less preferred destination and 5=Most preferred destination.
(% respondents)



7. What is your likely annual growth rate over the next five years for the following markets?
(% respondents)



8. How important will the following factors be in determining where clients choose to do their private banking in the future? Please rate on a scale of 1 to 5, where 1=Not important, 3=Somewhat important and 5=Very important.
(% respondents)



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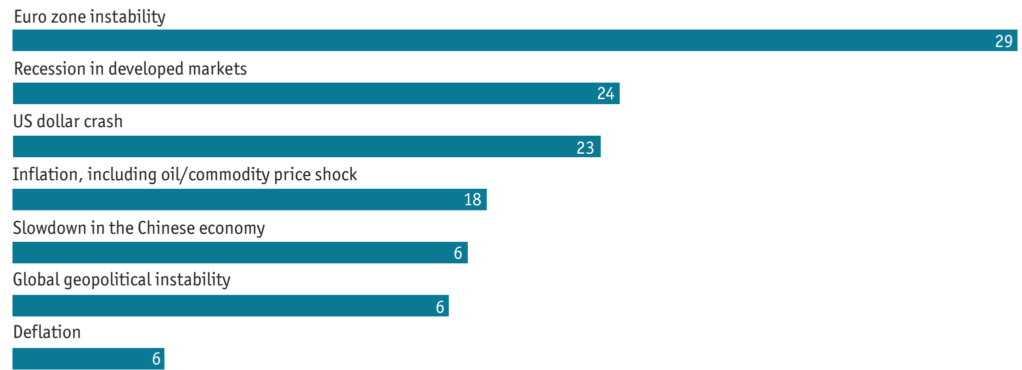
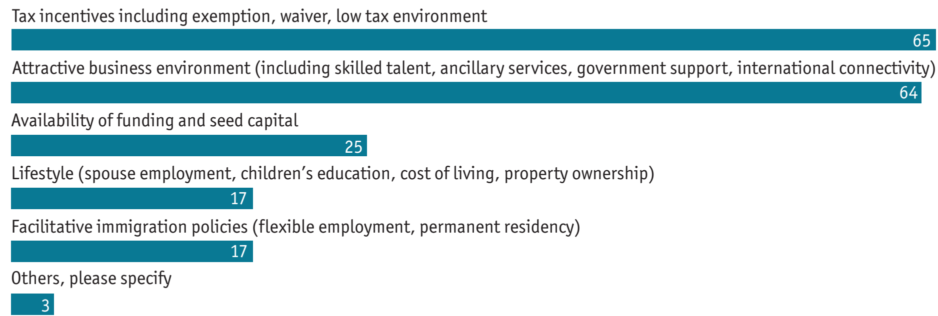
9. What are the biggest risks to your client portfolios? Select up to two.
(% respondents)



10. What are the incentives that would encourage private banks/family offices to re-locate? Select up to two.
(% respondents)



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Cover image - Ivan Loh

LONDON
26 Red Lion Square
London
WC1R 4HQ
United Kingdom
Tel: (44.20) 7576 8000
Fax: (44.20) 7576 8500
E-mail: london@eiu.com

NEW YORK
750 Third Avenue
5th Floor
New York
NY 10017, US
Tel: (1.212) 554 0600
Fax: (1.212) 586 0248
E-mail: newyork@eiu.com

HONG KONG
6001, Central Plaza
18 Harbour Road
Wanchai
Hong Kong
Tel: (852) 2585 3888
Fax: (852) 2802 7638
E-mail: hongkong@eiu.com

GENEVA
Boulevard des Tranchées 16
1206 Geneva
Switzerland
Tel: (41) 22 566 2470
Fax: (41) 22 346 9347
E-mail: geneva@eiu.com