Private banking industry booming

With the number of high-net worth individuals in Asia on the rise, relationship managers are in hot demand, reports CHEN HUIFEN

The region’s private banking industry has never had it so good. Even in the current climate of volatile markets, a slowing global economy and rising inflation, observers see a bright future for the sector, propelling by the strength of the Asian economy and growing wealth.

"If you look at markets worldwide, Asia actually is one of the most profitable markets on a pre-tax, revenue on asset base," said Tang Tjun, managing director and leader of private banking practice in Asia for Boston Consulting Group (BCG). "So despite very, very aggressive competition for relationship managers, you’ll find that private banks are still making very good money."

According to BCG’s Global Wealth 2007 report, wealth managers in Asia Pacific reported a median pre-tax margin of 45.5 per cent in 2006, beating the overall global profitability of 34.7 per cent. The industry is expected to continue growing at some 20-30 per cent a year, in line with the rising number of high-net worth individuals and proven awareness that will shift cash sitting in retail banks to private banking accounts.

Much of the wealth generated is coming from China and India, which accounted for over 61 per cent of the wealth in Asia Pacific. On the whole, the number of people in the region with at least US$1 million in assets went up 6.6 per cent to 2.5 million last year, according to a Capgemini Merrill Lynch report. Singapore alone posted the fastest growing number of millionaires, with more than 11,000 added to bring the total number to 67,000.

BCG estimates that Asia Pacific ex-Japan has some US$16.6 trillion in assets under management, behind Japan’s US$21.9 trillion, Europe’s US$33 trillion and North America’s US$36.2 trillion.

"Clearly, the entrepreneurial activity is a growth driver," said Barend Janssens, head of AIM Asia Private Bank, Asia. "I think it’s important to always see Asia in the light of the entrepreneurial spirit of its nationalities. And if you look at that, there’s a lot of young competitive activities here, which help to build up, rather than quickly, wealth."

"The second part is pension and retirement schemes, which are much more known in the US and Europe. And here in Asia, pioneers are managed through private wealth management."

Gunter Dufey, a professor at the division of banking and finance at NTU’s Nancy Gruen Business School, too, observed that the bulk of the clientele in Asia tends to be first- and second-generation entrepreneurs. And as wealth transfers to subsequent generations, the change in profile of the clientele means that private banks need to re-group with.

"The sons and daughters of wealthy Asians, who were educated with MBAs in the US, Canada, Australia and a little bit in Europe, they know how finance works. They are much more sophisticated than their parents," said Prof Dufey. "And that class of private banking clientes is becoming very important."

This group of clients would require a different type of relationship management (RM) and, possibly, even a change in business model. BCG’s Mr Tang reckons that second-generation wealth accumulators tend to be more interested in the management of their wealth and more open to taking risks. They tend to be more active in trades.

As the wealth gets passed on to the second and third generations, however, the focus reverts to their preservation. His firm’s report states that wealth is being passed on to the second generation at a more conservative rate. This group of clients is more likely to adopt discretionary products—that means the client gives the private bank the mandate to manage the client’s account, according to specified return-risk criteria.

The changing profile of the clientele demands that private banks need to be more than mere brokers or dog walkers.

Several local and foreign private banks have also got into the act by creating their in-house training systems to develop bespoke individuals, including those with in-house banking backgrounds. UBS and Credit Suisse, for instance, have set up campuses in Singapore to cater to such rising demands.

But BCG’s Mr Tang observed that fundamental action in the region continues to be led by Hong Kong, where the relationship management teams are growing at the fastest pace.

"The really, really important markets are actually up in North Asia and Greater China, specifically," he said. "The actual clients are from the Greater China region. The assets often are sitting in Singapore, Switzerland and other private banking hubs. But the relationship management teams are very actively close to where the clients are."

Yet Hong Kong’s strength could also be its Achilles’ heel, as some clients may still find the ideological system there an issue.

"There’s a lot of people who don’t like putting their money in Hong Kong because it’s too close to China," said NTU’s Prof Dufey. "In terms of competition and in terms of assets availability, Hong Kong is perhaps a no-go area."

Singapore’s strengths, on the other hand, lie in its infrastructure. It is better known for its access to products, compliance activities, legal regime, IT systems, and other back-office functions.

Across the Gateway, Malaysia has developed a niche for Islamic funds and Shanghai has the bulk of the country’s domestic wealth.

As much as there is competition, however, the Asian market is yet to fully bloom. As one wealth manager put it, "It’s a green field out there. There are very few players building up their business."