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Headline: Private banking industry booming

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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 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, propelled 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, return on asset basis," 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 greater 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 64 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 8.6 per cent to 2.6 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$10.6 trillion in asset under management, behind Japan's US$11.9 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 ABN Amro Private Bank, Asia. "I think it's important to always see Asia in the light of the entrepreneurial spirit of its nationals. And if you look at that, there're a lot of young company activities here, which help to build up, rather quickly, wealth.

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

Gunter Dufey, a professor at the division of banking and finance at NTU's Nanyang Business School, too, observed that the bulk of the clientele in Asia tends to be first and second generation entrepreneurs. And as wealth transfer to subsequent generations takes place, the change in profile of the clientele is something which private banks need to grapple with.

AFP

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

"The sons and daughters of wealthy Asian people, 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 clients is becoming very important." This group of clients would require a different type of relationship manager (RM) and, possibly, even a change in business model.

BCG's Mr Tang reckons that first-generation wealth accumulators tend to be more involved 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 on preservation gives rise to a more conservative attitude. This group of clients is more likely to adopt discretionary products – that means the client gives the private bank the mandate to manage his/her account, according to specified return-risk criteria.

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

"The products are becoming more complex, the bureaucracy is becoming worse with all the compliance issues that are going on," said Prof Dufey. "And the clients are more demanding, so we need very smart, well educated and well-trained relationship managers."

Yet talent crunch is one of the biggest challenges the industry faces today. Many private banks here are unable to fulfil the manpower needs to meet with the growth of the industry. Some have resorted to poaching, a trend that is contributing to unprecedented growth in compensation levels for relationship managers in Asia Pacific.

As outlined in a past BCG report, compensation for RMs in the region doubled from 2004-2006. During the period, the average compensation as a percentage of revenue per RM rose from 17 per cent in 2004 to 23 per cent in 2006. This is higher than in the US, where it went up from 20.7 per cent to 21.3 per cent.

In order not to let the shortage of bankers hinder its development into a private banking hub, Singapore has taken a number of measures.

"In 2003, the Wealth Management Institute was established to spearhead the development of human resources and nurture a pipeline of wealth management professionals," explained Francis Koh, associate dean at the Singapore Management University's Lee Kong Chian School of Business. "It has conducted conversion programmes for professionals to be wealth managers."

In addition, the SMU started offering a specialised masters degree programme in 2004. The course has since graduated about 130 students.

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

But BCG's Mr Tang observed that frontline 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 manager 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 find the ideological system there an issue.

"There're lots 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 available, Hong Kong is perhaps a nose length ahead, but I can buy everything in Hong Kong by having my money in Singapore."

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 Causeway, Malaysia has developed a niche for Islamic funds, and Shanghai may be a potential centre for the wealthy in northern China. SMU's Prof Koh also named Dubai as an emerging hub, but NTU's Prof Dufey is of the view that it will be difficult for Dubai to rival Singapore's position because of political instability in the Middle East region.

"Unless Singapore does something very dumb, which I don't expect...I would say Singapore will be the leading entity," he added. "I don't see any strong competition. Sydney a little bit, but who else is there?

"The language of finance is English. And in terms of English, only Sydney, Singapore and Hong Kong can compete. So that's already one strong factor that speaks for Singapore. I see no reason why Singapore's position in the private banking field cannot grow further. We're almost unchallenged in the region."