PRIVATE BANKING: AN INTERNATIONAL AND LOCAL PERSPECTIVE

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ABSTRACT

Since the creation of private banking in the 16th century, it has evolved from a discreet service for the wealthy few to a broader base of services provided for high net worth individuals. Private banking today offers a complex, highly diverse array of personalised wealth preservation, -creation and -management services for a growing population of sophisticated and affluent individuals. Such people have multiple needs that range from banking services to investment and estate planning.

The high net worth market is one of the most promising areas for banks to generate revenues and fee income. It is therefore not surprising that private banking is one of the highest growth services in the banking industry today. Private banking is not a business for everyone, however. Not all providers have the client base, the service background and product range, the market location, the management culture or the shareholder commitment to succeed.

A myriad of service providers are entering the South African market, ranging from trust companies, investment banks, retail banks, stock brokers, treasury operations and foreign players. All these players brand themselves as deliverers of private banking (in the case of licensed banks) or private client (in the case of non-banks) services. A result of the diversity of institutions claiming to be private banks or at the very least deliverers of private client services, is that not only do the products available to clients differ
substantially from institution to institution, but also the service delivery mechanism. True private banking is about relationships and the management of those relationships. Almost any service can be delivered but there is always a cost attached to the delivery thereof. The secret to success in the South African private banking market is the balancing of the costs and the level of service delivery to the appropriate target market.

At present there are no standard entry criteria and service delivery model to guide institutions that wish to enter the private banking arena. The existing private banks are so diverse in nature that an independent study was necessary to find the common denominators that underpin a successful private bank in South Africa.

Private banking in Europe, although not restricted to Switzerland and the United Kingdom, is largely concentrated in these two countries. Private bankers, particularly in Europe, have traditionally focused on “old wealth” or “passive wealth”, which is concerned primarily with secrecy, capital preservation, personal service and relationship longevity. Old wealth has tended to be relatively price insensitive.

There are two main European private banking styles, dubbed the Zurich and London models.
In terms of the Zurich model, the Swiss used their neutrality to offer secure and discreet services, concentrated on wealth preservation. The main focus was on cash deposits and not on actively managing portfolios in order to maximise returns.

Another kind of private bank evolved in London principally around the creation of trusts. Unlike Switzerland, Britain historically suffered from high inflation and high taxes and trust companies had to develop equity management skills and asset selection skills to create wealth and fiduciary skills to preserve and transfer it.

While clients of the original Swiss private banks were happy in times of turmoil to be able to count on the return of their capital, typical private banking clients in the United States of America are keenly interested in obtaining high return on their capital.

In terms of the so-called New York model, American retail banks were setting up private banking divisions as they segmented their client base. The main attraction has been attractive credit facilities with attractive rates of interest and from there moved into managing their client’s assets.

Syfrets Private Bank, BOE Private Bank, Investec Private Bank, Regal Treasury Private Bank, Nedbank Private Bank, ABSA Private Bank and Henry Ansbacher (South Africa) (incorporating the former FNB Private Bank) serve the private banking market in South Africa. Standard Bank services the upper end of their personal market through Standard
Bank Priority Banking. This, however, is a premium banking service offering and not a true private bank. Although a number of the aforementioned private banks offer a full range of services locally and in a few cases also overseas, no one, with the exception of Henry Ansbacher offers the full range of services, both locally and offshore, under the same brand name.

Conclusions from the study include, inter alia, that:

- Private banks are more resilient to periods of market downturn than most other areas of banking;
- The potential private banking target market is growing;
- The private banking industry in South Africa has become a major new source of revenue for the local financial services industry;
- A true private bank should be able to offer a full range of services, both locally and offshore;
- True private banking is about relationships and relationship management.
CHAPTER 1

INTRODUCTION, PURPOSE AND MOTIVATION OF THE STUDY

"Banks have the foundation from which they can be tremendously successful (in the private banking market), it is really a question of whether they have the leadership and vision to pull it off."

Zack (1996:11)

1.1 INTRODUCTION

Since 1997, there has been considerable activity amongst players in the South African financial services industry’s private banking sector. Commercial banks have set up private banking divisions and new players are entering the market in search of low-risk revenue streams while old players are restructuring to meet the demands of their “new-money” clients. Private banking relationship managers are beginning to replace asset managers as the financial service sector’s most sought after specialists. This sudden flurry of activity is in line with global trends (Wood, 1999:69).

Private banking is one of the highest growth services in the banking industry today (Lawton, 1996:34). Virtually all authors on the subject, including Zack (1996:11), Palmer & Scheide (1996:11), Davidson (1997:3) and Beck (1997:47) confirm this.
For banks that decide to enter the business of private banking, the actions of market leaders suggest at least three critical requirements for success (Trott & Sjogren, 1997:20):

First, a long-term commitment to the business that is shared throughout the institution is required. This commitment is reflected explicitly in those organisations' resource allocations that persist through periods of cutbacks and re-engineering campaigns.

They also redesign the existing performance-measurement systems and implement effective cross-referral and incentive compensation programmes.

Second, success requires recognition that private banking is a distinct and separate line of business. True success in serving wealthy clients requires more than simply providing the top end of the institution's retail offering. Serving the wealthy is a "different" business; as different as wholesale banking for investment-grade corporations is from banking for the corner store. In fact, it is so different that in many countries it is recognised and regulated as a unique banking discipline.

Finally, investment in advanced technology has become a fundamental success factor for any private banking group. "High touch" is important but there is no escaping the fact that "touch" will be far more effective and reliable if supported by technology that links the client closely to his or her accounts and portfolios. Much of the new wealth, whether it is created by entrepreneurs, professionals or corporate executives, is being accumulated
by individuals who are themselves successful users of advanced technology, and they expect no less from their financial advisors.

The aforementioned, according to Trott & Sjogren (1997:21), does not conclude that banks cannot successfully position a private banking business within the structure of a larger institution. It can do so only if the business is structured to allow the business leaders a high degree of autonomy along several dimensions. These include:

- Human resources, in terms of recruitment policy and practice, compensation and benefits, and training and development.
- Information technology, covering overall design, vendor selection and systems support.
- Marketing, in terms of product research and development, image creation, advertising and public relations.
- Sales management, from the perspective of target setting, sales-force management and monitoring, referral network management and financial and non-financial incentives.
- Strategic investments, covering the development of third party alliances, partnerships and acquisitions.

For those who have the personal income and wealth to qualify, private banking is a ticket back to a more civilized era of banking, an era when bankers knew their customers well and business was done on the basis of character and a handshake (Cline, 1997:18).
1.2 MOTIVATION

The high net worth market is one of the most promising areas for banks to generate revenues and fee income. Despite this, Payment Systems Inc., as quoted by Zack (1995:4), estimate American private banks' share of the market fell from 44 percent in 1992, to 24 percent in 1994. Non-bank rivals, especially brokerage firms, have been gaining market share at the cost of the banks. According to Zack (1996:12), the same trend is evident in the number of personal trust assets managed by banks in the United States of America. In 1995, banks controlled just 40 percent of all personal trust assets, down from 42 percent in 1994 and 54 percent in 1993.

In spite of the above decline, banks have the foundation from which they can be tremendously successful – the question is whether they have the leadership and vision to pull it off.

Private banking is not a business for everyone, however. Not all providers have the client base, the service background and product range, the market location, the management culture or the shareholder commitment to succeed (Trott & Sjogren, 1997:18). Private banking was once considered the banking haven for the well to do, an area where a Rockefeller or Getty could get the special treatment expected for depositing their old money in a bank's vault. It was, in a sense, their own private bank.
The marketplace is becoming increasingly crowded and fragmented. In addition, the degree of strategic resource commitment to the wealthy and ultra-wealthy segments has increased substantially. According to Trott & Sjogren (1997:18), there are four key reasons for this:

- The relentless pursuit of wealthy clients by stock brokers, financial counsellors, mutual fund companies, investment managers, professional services firms and others.
- The restructuring, consolidation and renewed focus that are taking place within the trust and private banking units of commercial banks.
- The emergence of boutique banks devoted to servicing affluent, multi generational client families.
- The presence of foreign banks seeking to take advantage of the growing trend towards international investment, which has added to the number of service providers.

Many private banks, both locally and overseas, no longer insist that their clients are worth a few million to gain entry into the private bank. These institutions defend the fact that they are lowering the entry criteria by stating that all their clients have the potential to become wealthy. This watering down of entry criteria is taken even further by for example Bank One in the USA, where according to King, as quoted by Willis (1997:22): “There are no hard-and-fast rules as to who is in private banking... a private banking customer could also be a client that is a center of influence in the community. They are
in the private banking group not because of their wealth, but because of the referrals they
draw our way.”

This argument is fundamentally flawed. The kind of relationship management and
service delivery that true private banking clients demand and deserve do not come
cheaply. To afford this level of service delivered by the right kind of relationship
manager is expensive. The only way that a bank can afford to deliver this, is if it aims its
private banking operation at the top end of the wealthy, where there are sufficient assets
to manage and the provision of credit and fiduciary services are large, thus providing
sufficient income to the private bank to deliver true private banking service to the client.

To be able to serve their valued clients, private banks have to develop a service delivery
model. This model should be based on the nature of the business as well as the needs of
the bank’s client base. The elements of such a service delivery system is discussed in the
ensuing section.

1.2.1 A service delivery model defined

According to Lovelock & Wright (1999:49) the level of contact that a service business
intends to have with its customers is a major factor in defining the total service system. A
service system includes three overlapping subsystems, namely service operations (where
inputs are processed and the elements of the service product are created), service delivery
(where final “assembly” of these elements takes place and the product is delivered to the
customer) and service marketing (which embraces all points of contact with customers, including advertising, billing and market research). This is shown in figure 1.1.

FIGURE 1.1: THE SERVICE BUSINESS AS A SYSTEM

Whilst all three elements shown in figure 1.1 are important in defining the total business system, service delivery as a sub-system of the total business system is a crucial element in differentiating private banking services from any other banking service. Specifically, service delivery is concerned with where, when and how the service product is delivered to the client (Lovelock & Wright, 1999:50). Some parts of this sub-system are visible to customers, while other parts are hidden (e.g. the technical core).
In order to achieve goals ranging from cost reduction and productivity improvement to greater client convenience, banks all over the world are increasingly embracing technology to reduce direct interface with the client. Examples of this trend in the banking industry include Automatic Teller Machines, Internet Banking facilities and telephone banking to name but a few.

Private banking by its very nature entails a much greater level of so-called “high touch”. This does not mean that technology is not important in the service delivery model to these clients. What it does mean, is that technology is vitally important in assisting the relationship manager in delivering a superior personal service to private banking clients (Biggar, 1997:26). It also means however that the cost benefit – replacing an expensive client delivery channel (the relationship manager) with an inexpensive alternative (for example the personal computer) - associated with using technology as a service delivery system is forfeited. This provides a major challenge to private banks.

1.3 PROBLEM STATEMENT

Since the creation of private banking in the 16th century, it has evolved from a discreet service for the wealthy few to a broader base of services provided for high net worth individuals. Private banking today offers a complex, highly diverse array of personalised wealth preservation, -creation and -management services for a growing population of sophisticated and affluent individuals. Such people have multiple needs that range from banking services to investment and estate planning.
Private banking is increasingly gaining momentum in the financial services industry, both locally and overseas. A myriad of service providers are entering the South African market, ranging from trust companies, investment banks, retail banks, stock brokers, treasury operations and foreign players (Private bankwese – Dit ..., 1999:50). All these players brand themselves as deliverers of private banking (in the case of licensed banks) or private client (in the case of non-banks) services.

A result of the diversity of institutions claiming to be private banks or at the very least deliverers of private client services, is that not only do the products available to clients differ substantially from institution to institution, but also the service delivery mechanism. Some Swiss institutions, provide services “...from walking a client’s poodle to advising him which car he should buy; from picking up a child at boarding school in England to making sure a family member has cash for a shopping spree in Tokyo” (Gwynne and Zagorin, 1998:45). Other private banks limit their services to a specific area of expertise. A prime example of such an institution is Darier Hentsch, a Swiss private bank. According to managing partner Benedict Hentsch, as quoted by Gwynne and Zagorin (1998:45): “The only thing we do is money management. It’s the only thing we have ever done”. In this bank there are no tellers and it is not possible to get a loan.

True private banking is about relationships and the management of those relationships. Almost any service can be delivered but there is always a cost attached to the delivery thereof. The secret to success in the South African private banking market is the balancing of the costs and the level of service delivery to the appropriate target market.
At present there are no standard entry criteria and service delivery model to guide institutions that wish to enter the private banking arena. The existing private banks are so diverse in nature that an independent study is necessary to find the common denominators that underpin a successful private bank.

1.4 OBJECTIVES OF THE STUDY

The overall goal of this study is to find the common denominators that underpin a successful private bank in South Africa. The specific objectives of the study are:

- To define private banking.
- To gain an understanding of the history and development of private banking, both internationally (specifically in the United Kingdom, Switzerland and the United States of America) and in South Africa.
- To describe the service delivery models adopted by South African private banks.
- To investigate new trends in global private banking.

1.5 METHODOLOGY OF THE STUDY

The study takes the form of a literature study. Articles, as well as surveys on private banking were used to research the history and development of private banking locally as well as off shore. Personal interviews with a number of South African private banking
experts were also held to gain an understanding of developments in the South African private banking industry.

While the preliminary literature study indicates that the role of relationship management in the delivery of private banking services is very important, this must be viewed at in conjunction with a private bank’s chosen business focus. A private bank can deliver almost any financial service in the most exclusive and personalised fashion. The more exclusive and elaborate the service however, the more expensive the cost attached to the delivery thereof.

1.6 BARRIERS OF THE STUDY

Whilst this dissertation includes international private banking (limited to the United Kingdom, Switzerland and the United States of America) as part of the study, emphasis is placed on South African players. The following aspects receive specific attention:

- Entry criteria
- Relationship management
- Service delivery model
- Offshore capabilities

Due to the importance of confidentiality, especially in private banking, no detailed information on the above issues could be obtained. Information as published in various
local private banking surveys were therefore used, as well as information gleaned from personal contacts within the industry.

1.7 DIVISION OF THE STUDY

This dissertation consists of five chapters. In addition to chapter one, chapter two provides an international perspective on private banking. This includes definitions of private banking and the history and development of private banking. In this chapter, private banking in Europe (with specific emphasis on the United Kingdom and Switzerland) and the United States of America are also discussed.

Chapter three focuses on private banking in South Africa. The history of private banking are tracked and the current players are examined, specifically in relation to their client entry criteria, as well as the relationship management – and service delivery models employed by them.

New trends in global private banking are discussed in chapter four. Specific emphasis is placed on the importance of developing an appropriate business focus, the leveraging of technology and approaches to relationship management.

Chapter five consists of the summary and conclusions of the study and finally the conclusions that were reached are provided.
CHAPTER 2

PRIVATE BANKING – AN INTERNATIONAL PERSPECTIVE

“Private banking goes back to the essential: there is a human being who needs to see a human being who needs to talk things over.”

(Patrick Odier, as quoted by Bicker, 1996)

2.1 INTRODUCTION

By any standards, 1998 has been a traumatic year for the financial services industry. The financial services sectors of just about all major stock exchanges were undoubtedly the stars early on in 1998. The Asian crisis however caused a dramatic turnaround in the fortunes of stock exchanges, more so in the financial services sectors than in any other sector. This change in fortunes caused many banks to consider downsizing their operations and redundancy notices replaced expectations of huge bonuses. What had been remarkable however, was that the redundancies included very few private banking personnel, despite being one of the sectors most directly hit by the stockmarket downturn. Private banking has largely escaped the air of general pessimism (Maslinski, 1999:49). According to Gill (1999:88), many private banks are still recruiting personnel.

The number of institutions active in the market has expanded substantially in recent years. The target market for private banking is growing and becoming both more
sophisticated and heterogeneous as far as product and service preferences and risk tolerances are concerned. These factors are all combining to make the market much more competitive.

The growing interest in private banking extends, according to Brown-Humes (1998:2), to retail and investment banks, insurers and fund managers. Their ambitions are understandable.

In the first instance, for retail banks private banking offers an escape from the increasing restriction of their industry where margins are under constant pressure from new entrants and intensifying competition. Clients can be offered a value-added, tailor-made service and charged more. This provides scope for making decent profits from a niche activity when the conventional wisdom is that size, economies of scale and cost-cutting are the only way to increase profitability. “In private banking there is no reason why a very small private bank could not be extremely successful if it could give good service to customers”- (Pitman, as quoted by Brown-Humes (1998:2)).

Secondly, private banking appears to be less risky than investment and retail banking, a point the volatile world economy has proved. This is confirmed by Maslinski, as quoted by Brown-Humes (1998:2): “A relationship-based business is more sustainable and lower risk in the long term than trading businesses or investment operations that rely on continually outperforming the market”.
Thirdly, there is the old 80-20 rule, which says that 80 percent of an organisation’s profits come from 20 percent of its clients. According to Brown-Humes (1998:2), it is estimated that the most affluent 10 percent of the population account for well over 70 percent of total personal spending on financial services.

The ever intensifying competition world wide for a slice of this lucrative financial services market, is however forcing private banks to explore innovative and non-traditional ways to improve their service proposition to existing and potential clients. An extract from a report by Gemini Consulting, as quoted in The Banker (1997:8) confirms this: “Private banks, therefore, can no longer expect to receive handsome fees for providing old-fashioned trust and investment management services merely to protect assets from inflation or domestic taxation.” Stewart (1998:161) agrees: “To many of the small family-owned firms of Switzerland’s Lac Léman, private banking is still about providing a discreet service to those old-money Europeans who still have time to contemplate their investments amid champagne corks and peacocks. This leisurely approach is under threat from aggressive global institutions who see private banking as a lucrative market to capture.”

Technology can be used throughout private banks to stay ahead in the race for market share and specifically to strengthen and expand client relationships (Waddell, 1996:8). Many private banking clients are also sufficiently technology literate to expect their relationship manager to not only be able to use technology for internal purposes, but also to use it extensively in managing the relationship with the client. According to Tomalin,
as quoted by Stewart (1998:161), many of Barclays Private Banking clients have Bloomberg screens on their desks and they know what's happening in the market in Hong Kong, Korea or Japan just as quickly as relationship managers do.

Tomalin, as quoted by Stewart (1998:161), regards the private client of today as a person who is looking for investment performance in a transparent relationship. Although the service is still delivered with absolute discretion, the sophisticated investment type is replacing the flight-capital type private client that was the hallmark of the traditional old-fashioned Swiss private banks.

### 2.2 DEFINITION OF PRIVATE BANKING

Private banking is a nebulous concept. There are as many definitions of private banking as there are authors on the subject or institutions claiming to be private banks: a package of specially designed services that provide premium resources via a single contact person – the private banker (Arrizza, 1999:24); one-stop banking for individuals with a six figure income or a high net worth (Delano, 1995:2); the provision of banking services to high net worth and professional people (Russell, 1998:3); any service that the client wants it to be (Bicker, 1996:1); a business of craftsmanship rather than one of industrial processing (Stewart, 1998:161), to name but a few.

In attempting to define private banking, it may be easier to have clarity on what private banking is not. Private banking is not just about providing the right products to a client.
This is an approach carried over from the retail and mass market, both of which are transaction-orientated. Private banking is not prestige or status accounts with pretty cheque books, guaranteed cheques, preferential rates and favourable hire purchase terms. Private banking is also not just about relationship banking, as good relationships without the appropriate expert products and services to provide in the needs of clients, is unlikely to add value to the relationship.

Private banking is at the far end of the scale from retail banking (Bicker, 1996:1); it is something which wealthy people will happily pay for, in the expectation that the service proposition will add real value to their financial peace of mind.

In truth, a true private bank should be able to offer seamless local and offshore services, encompassing transactional banking, asset management and fiduciary services, aimed at a selected target market where the clients are both able and willing to adequately compensate the private bank for the delivery of these services at a superior level, through relationship management - and product experts.

2.3 THE HISTORY AND DEVELOPMENT OF PRIVATE BANKING

Originating in the 16th century's mercantile economies of the Renaissance, private banking is the oldest manifestation of money management (Bicker, 1996:1). These merchant houses were mainly situated in Switzerland and the Swiss have since been regarded as the fathers of private banking.
Two centuries later, London emerged as a center of world trade and great individual wealth, thanks to the Industrial Revolution, and that city's banks provided merchant families special services to manage their growing wealth.

At the same time, across the Atlantic, the United States of America was exploding onto the scene as the largest industrial country in the world, and great fortunes were made by an astounding number of individuals who required specialised banking services. Except for a few sleepy British and Swiss institutions, or private banks that followed the Swiss model in other parts of the world (Gwynne & Zagorin, 1998:45), the private banking industry did not take cognisance of this and other opportunities, until the 1980's. But then, according to Gwynne & Zagorin (1998:45), the United States of America began to deregulate its banks and brokerages. Suddenly the old Swiss idea of low-risk, fee-based money management seemed appealing to commercial banks like Citibank and Chase, which were suffering diminishing returns from commercial banking. The new industry also appealed to brokerages like Merrill Lynch, which were eager to invade the banks' turf.

Since then private banking has evolved from a discreet service for the wealthy few to a broader base of services provided for high net worth individuals, pioneered by Citibank and J. P. Morgan in the United States and refined by refocused traditional private banks in Europe.
Private banking today offers a complex, highly diverse array of personalised wealth preservation, creation and management services for a growing population of sophisticated and affluent individuals. Such people have multiple needs that range from banking services to investment and retirement planning. Private banking typically offers all of these through one centralised source, custom designed for each client according to his or her particular situation and delivered in a highly personal way that emphasises confidentiality and personal attention (Fleming, 1997:9).

The amount of money deposited in the world’s private banks has steadily increased over the past decade. It grew from $4.3 trillion in 1986, to $10 trillion in 1997 and it is estimated that it will total $13.6 trillion in the year 2000 (Gwynne & Zagorin, 1998:46). The same authors ranked private banks by size of their assets as follows:

- UBS: $580 billion
- Credit Suisse: $290 billion
- Citibank: $100 billion
- Chase: $100 billion
- Merrill Lynch: $100 billion

According to Tilden (as quoted by Wood, 1999:65): “Private banking used to be reserved for traditionally passive, old-money investors who often inherited their wealth and were looking for a lot of cachet, discretion and glamour. That kind of banking is in decline. There’s been an explosion in new wealth. Now there’s a much more demanding,
knowledgeable investor whose primary desire is to see returns on investment and service.”

There are three main private banking styles, dubbed the Zurich, London and New York models (Cranston, 1998:10).

In terms of the Zurich model, the Swiss used their neutrality to offer secure and discreet services, concentrated on wealth preservation. The main focus was on cash deposits and not on actively managing portfolios in order to maximise returns.

Another kind of private bank evolved in London principally around the creation of trusts. Unlike Switzerland, Britain historically suffered from high inflation and high taxes and trust companies had to develop equity management skills and asset selection skills to create wealth and fiduciary skills to preserve and transfer it.

The third model, the New York model, saw American retail banks set up private banking divisions as they segmented their client profiles. The main attraction, according to Cranston (1998:10), has been attractive credit facilities with attractive rates of interest and from there moved into managing their client’s assets.

Whilst Beck (1997:47), agrees with Cranston in that, particularly in Europe, private bankers have traditionally focused on “old wealth” or “passive wealth”, more new millionaires with new assets are being created by a continuing demographic shift, as
enormous wealth is being transferred through inheritance to a group of aging baby boomers in the developed world, who are now borrowing less and saving more.

This segment of new, “active wealth” places greater importance on investment performance, possesses a higher risk profile, likes to leverage assets and tends to be less loyal to any one financial institution. Moreover, continued low inflation and low interest rates, especially in the USA and Europe, have meant lower returns from deposit markets, causing investors to look for higher returns from more sophisticated products. This while the currency and asset controls that used to inhibit offshore investments have been deregulated, spurring demand for greater multi-currency, multi-market investments by high net worth individuals (Beck, 1997:48).

2.4 PRIVATE BANKING IN EUROPE

Private banking in Europe, although not restricted to Switzerland and the United Kingdom, is largely concentrated in these two countries. Hence the decision to focus, for the purposes of this study, on private banking activities in these two countries only.

Private bankers, particularly in Europe, have traditionally focused on “old wealth” or “passive wealth”, which is concerned primarily with secrecy, capital preservation, personal service and relationship longevity. Old wealth has tended to be relatively price insensitive (Beck, 1997:47). The 1980s, a decade of unprecedented economic growth that created a large segment of entrepreneurial wealth, changed private banking forever.
Tax minimisation is the driving force for European high net worth individuals. These individuals tend to be sophisticated, multi-currency oriented and very concerned about confidentiality, causing them to favour Switzerland. Luxembourg has been a popular location for affluent northern Europeans, who have taken advantage of Luxembourg's lower account minimums and lower prices. However, Luxembourg's membership in the European Union and the recent militancy of the German tax authorities have begun to limit Luxembourg's popularity. Some industry analysts have noted an outflow of German money from Luxembourg to Switzerland.

According to Beck (1997:48), Europe, the home of private banking, is the most overcrowded and difficult market in which to succeed, especially for non-Swiss foreign players. Despite this, BankAmerica, Citicorp, Bank of New York, Chase Manhattan, J. P. Morgan and State Street banks all have private banking offices in Switzerland (Kraus, 1997:11).

Beck's view was confirmed by the 1998/1999 PriceWaterhouseCoopers' European Private Banking Survey (1999:22), which found that although European wealth management is continuing to grow rapidly, new entrants and the expansion plans of existing providers will ultimately put pressure on the profitability of private banks. According to this survey there are 108 institutions active in the European market. Orton (1999:10) also confirms this: "The European (private banking) market, which currently oversees around $6 trillion of client assets, will continue to enjoy extremely buoyant growth. But competition is set to accelerate as new entrants pour into the market and
existing participants continue to expand their operations." Within this scenario, profits are likely to come under increasing pressure.

2.4.1 Private Banking in Switzerland

The best way to understand the rapid growth of private banking, is to go to the cradle of the industry in Geneva, Switzerland. Private banks here have perfected the fine art of serving wealthy clients over the past two centuries. Private banking has prospered in Switzerland due to several factors such as political and monetary stability, strong currency, geographical location and neutrality (Datamonitor, 1998:2). One of the most important factors that draw people to Switzerland is the existence of financial secrecy. The legal basis for Swiss banking secrecy is based on personal rights created in the Swiss Constitution, the Civil Code and the Code of Obligations, supplemented by provisions in the Criminal Code. In addition, the Swiss Banking Act of 1934 actually differentiated between the private banks and other types of banks. At that time, private banks did not have to publish their balance sheets or comply with the same ratios between capital, reserves and assets as the more mainstream banking institutions. The traditional private banks today, according to a report by Datamonitor (1998:3), are subject to the same capital requirements and the same supervision as other banks, but they still do not publish their accounts. Shrouded by these strict secrecy laws, Swiss banks are the pre-eminent safe havens in a world of political instability, financial chaos and, of course, high taxes.
These institutions provide some of the best service in the world, as Gwynne and Zagorin (1998:45) put it: “from walking a client’s poodle to advising him which Miro he should buy; from picking up a child at boarding school in England to making sure a family member has cash for a shopping spree in Tokyo”. This of course, in addition to taking care of his fortune.

A prime example of such a Swiss private bank, is Darier Hentsch. This bank, founded in 1796, served as paymaster to Napoleon’s army. According to managing partner Benedict Hentsch, as quoted by Gwynne and Zagorin (1998:45): “The only thing we do is money management. It’s the only thing we have ever done”. In this bank there are no tellers and it is not possible to get a loan. If you hold an account at such a bank, no one other than a criminal court can find out.

Switzerland’s 400 banks have long been the industry’s global heart. It now holds some $2 trillion, or one third of the world’s wealth that resides outside its country of origin. Switzerland also boasts what are by far the two largest private banks in the world: UBS with $580 billion in private banking assets; and Credit Suisse, with $292 billion (Gwynne & Zagorin, 1998:45).

More competition for the business of the world’s high-net worth individuals, a gradual watering down of Switzerland’s banking secrecy laws in recent years and a greater tendency for clients to use banks in their own regions, have resulted in Swiss banks in general capturing a smaller portion of the world’s new money. Often they are seen as

Switzerland has however acted upon these threats and has taken a number of important steps to strengthen its competitiveness as the dominant offshore location for private wealth. Cartel pricing was removed in 1990 and “all-in” fees have since become more popular. Stamp duty regulations were revised in 1993. These moves have put pressure on margins for institutional fund management in Switzerland, but retail margins have been largely maintained.

Hoping to build on their reputation for private banking leadership, Swiss banks are developing Internet capabilities for serving wealthy clients (Clark, 1998:12). According to Clark (1998:12), each of the Big Three Swiss banks invested more than $120m in all types of private banking technology in 1997. This amount was about three times the largest investment made by an American institution. UBS offers transactional Web sites, as does Credit Suisse. They allow for on-line inquiries, cash executions and securities trading.

Switzerland’s decision to remain outside the European Union is perceived as a relative strength. On the other hand, secrecy in general has become more porous and is perceived as such by European high net worth individuals.
The dominant city for private banks in Switzerland is Geneva, followed by Zurich and Basel.

2.4.2 Private Banking in the United Kingdom

In the United Kingdom, private banking can be separated in two ways: traditional private banks and merchant banks, or stockbrokers and the private banking arms of the major clearing banks (Datamonitor, 1998:3).

The traditional private banks arose in the seventeenth century from two unconnected and distinct traditions: money scrivening and goldsmithing. Scribes often copied financial and legal documents and ultimately they became known as notaries. However, some of them focused on managing clients' estates and trusts and eventually developed money-brokering functions. This role afforded them the opportunity to serve the landed gentry as financial intermediaries. Most of the current United Kingdom private banks have however, goldsmith origins (Datamonitor, 1998:3). The destruction of monasteries led to an unexpected rise in gold supplies and as a result, the position of goldsmiths was fortified.

Child & Company is the oldest private bank in the United Kingdom and it has goldsmith origins that can be traced back to 1584. Other old private banks include C. Hoare & Company, Coutts & Company and Drummonds.
By the late eighteenth century, the gradual change from goldsmith merchants to bankers was completed. According to Datamonitor (1998:4), these bankers provided many services such as keeping current and deposit accounts, dealing with the receipt of payment and transfer of money or acting as trustees for their clients. They focused on serving personal clients and sometimes each banker developed relationships with different parts of society. For example, Child & Company’s main clients were made up of three categories: Oxford University, the legal profession and long standing family connections. C. Hoare and Company only accepted clients, which were introduced by existing clients, thus ensuring that they have clients that are from a homogeneous background. (H.J. Du Toit, personal communication, September 21, 1999).

During the First World War, there was tremendous growth in the overall volume of banking business, prompting a series of bank mergers and resulting in the creation of the “Big Five” (Barclays, Lloyds, Midland, Westminster and National Provincial). Also during this time, the bigger banks acquired many of the private banks. For example, Coutts & Company was absorbed by the then National Provincial Bank in 1919 (now Natwest) and Drummonds by the Royal Bank of Scotland in 1924.

In addition to the private banks, many United Kingdom merchant banks and stockbrokers have also been accustomed to providing private banking services. However, private banking services have not usually formed the main part of their business.
Conventionally, merchant banks have been providers of trade credit. Since their services were often used by businesses that were typically owned by wealthy individuals, it was normal for such individuals to seek the advice of the merchant bank with relation to their personal financial affairs. Companies such as Rothschilds, Kleinwort Benson and Cazenove & Company are just some of the merchant banks and stockbrokers that offer private banking or private client services (Datamonitor, 1998:4).

The number and wealth of high net worth individuals is expanding rapidly in the United Kingdom. According to Datamonitor (1998:11), by the end of 1995, the United Kingdom had more than two and a half million high net worth individuals (according to Datamonitor's definition, persons possessing £50 000 or more in liquid assets), double the 1990 figure. As a result, private banks and other service providers in the United Kingdom are making great efforts to capture this market.

According to Gwynne & Zagorin (1998:44), an interesting distinction between private banks in the United Kingdom and private banks in Switzerland and the United States of America, is that the United Kingdom developed a more localized form of private banking. Its prominent banks such as Coutts (who is also banker to the British Royal family), tended to serve only a national clientele.

There is however also evidence that the private banking industry in the United Kingdom is making efforts to establish it as a global private banking centre. For example, London-based Kleinwort Benson Investment Management, which embraces the United Kingdom...
private banking activities of Dresdner Group, has during 1999, launched a new arm to
cater for very wealthy clients (New Dresdner unit..., 1999:1). The unit will target high
net worth individuals and their families with at least $10 million (£6 million) of
investable assets from one location. It is called Dresdner Private Banking London
(Dresdner). Dresdner provides a complete range of wealth management products and
services. These include credit and investment banking, investment management,
financial planning and offshore banking facilities.

2.5 PRIVATE BANKING IN THE UNITED STATES OF AMERICA

While, according to Gwynne and Zagorin (1998:45), clients of the original Swiss private
banks were happy in times of turmoil to be able to count on the return of their capital,
typical private banking clients in the United States of America are keenly interested in
obtaining high return on their capital.

Private banking in the United States of America emerged in the late 1980’s out of the less
traditional trust services that many banks provided for the extremely wealthy. It became
the best way for most banks to rebound from enormous losses suffered from pursuing
large corporate clients and institutional investors. With the recession of the late 1980’s
the banks faced falling interest rates and competitions for corporate loans from alternative
investment sources such as investment bankers and insurance companies. That forced the
banks to attract a new segment of customers (Lawton, 1996:30).
Heady stock market gains and lump sum buy-out packages have created many millionaires in the United States of America (Espinoza, 1998:124), thus giving impetus to the development of services aimed at this market.

The entry level for most private banks, according to Gwynne and Zagorin (1998:46), is $1 million in investable assets, though one will find boutiques like Donaldson, Lufkin & Jentrette and J.P. Morgan, that require $5 million, as well as aggressive players like Bank Leumi USA, that accept as little as $100 000.

Chase Manhattan Corporation has beefed up their entry criteria for private banking clients. The threshold has been raised from $1 million to $3 million, but the bank would really like to concentrate on clients that are worth more than $5 million (Merrill, 1995:2). This is interesting, as many newcomers to the private banking arena, in stead of becoming choosier to whom they offer private banking services, is lowering their entry criteria and fees in order to attract clients. A result, according to Espinoza (1998:124), is that becoming a private banking client in the United States of America, is not only getting easier, but also more affordable.

Chase has embarked on this route of increasing its client entry criteria, as according to Zeigon (as quoted by Merrill, 1995:2), the bank would like to be a trusted investment adviser to all its clients – a goal best achieved with a smaller (more profitable) universe of clients. “To service clients you need time to think – the more down-market you go,
the less time you have.” Chase’s goal is to have a maximum of 15 000 global private banking clients.

Private banking brings together bankers, investment counselors, mortgage specialists, lenders, trust officers, tax advisers and estate planners all under one roof (Lindberg, 1999:14). A variety of services are available to clients of a private bank, including short-term cash management, investment management, trust and estate services, residential mortgages and personal loans (Lindberg, 1999:14).

According to Elkins (1999:8) the new Bank of America now rates as the biggest private bank in America, with $120 billion under management. This private bank serves 95 000 individuals and families and has 100 offices in 24 states in the USA and is present in 9 countries.

2.6 SUMMARY

From its early roots as managers of merchants’ and goldsmiths’ wealth, private banking has developed into a highly specialised banking service offering. It is recognised as a separate banking business and not just as an add-on to the arsenal of a retail bank.

Despite the fact that 1998 has been a traumatic year for the financial services industry, the private banking market is booming. Rapid growth of entrepreneurial businesses, privatisation, stock market appreciation, low inflation and interest rates and the stable
economic growth in the West in recent years led to the accumulation of huge sums of money in the hands of a concentrated group of wealthy individuals.

Private banking clients are prepared to pay a premium for value-added, tailor-made services and financial institutions are thus presented with an opportunity to escape from the mass-market industry, where margins are under constant pressure. This does not imply, however that private banks are free to do as they want. To the contrary, ever intensifying competition worldwide is forcing private banks to be innovative in the service offering to clients. Technology can play an important role in providing a competitive edge to a private bank.

There are many definitions of private banking. It is essential however, that a true private bank should be able to offer the full range transactional banking, asset management and fiduciary services. These services should be provided seamlessly, both locally and offshore and aimed at a carefully selected target market.

Although private banking had its origins in the United Kingdom and Europe, the United States of America represents the largest private banking market. It is estimated that in the year 2000, a total of $13,6 trillion will be under management by private banks.

As a consequence, wealth management in both Europe and the United States of America is continuing to grow rapidly. Stiffer competition will however put pressure on the profit
margins of private banks in some instances force private banks to make significant changes to their operations in order to enable them to remain competitive.

Whilst Switzerland, generally accepted as the cradle of the private banking industry, as well as the United Kingdom have the reputation of being home to passive wealth, private banks in both countries are adapting quickly to the demand for active wealth management.
CHAPTER 3

PRIVATE BANKING IN SOUTH AFRICA

"...targeting the cream of the crop is a fruitful endeavour."

(Connolly, 1996:41)

3.1 INTRODUCTION

In line with global trends, the private banking industry has become a major new source of revenue for the financial services industry in South Africa. It is an industry that every player defines differently, while opinions of the size and nature of a private bank vary. South Africa’s volatile economy in recent years has led to a new generation of entrepreneurial wealth. As an emerging economy, subjected to the influences of internationalisation, vast opportunities have been created and South Africa’s growing number of entrepreneurs have only been too keen to take advantage of a changed business environment. The restructuring of the economy and the emergence of black economic empowerment has also resulted in a new breed of black millionaires. Furthermore, the number of new Johannesburg Stock Exchange listings and the sale of very successful companies to those newly-listed entities has created a new list of self made millionaires, many of whom do not have private bankers. This new wealth is
rapidly becoming the core issue to the future of private banking in South Africa (Chasing old money and..., 1999 [On-line]).

The traditional ("old money") client base of private banks is shifting and their requirements are becoming more global. Clients are no longer moving geographically within South Africa, but internationally, which means that bankers must have global expertise. This trend was exacerbated by the relaxation of exchange controls and the greater freedom to invest beyond South Africa’s shores.

According to Stewart (Focus on individual..., 1999 [On-line]), private banking is often a misnomer in South Africa. Many South African banks that offer nothing more than an exclusive suite of "own label" products to high net worth clients use the term private bank. This anomaly may be partly due to South African banking legislation, which permits only registered banks to advertise using the word bank.

One of the biggest challenges facing the private banking market in South Africa is the competition for customers, as the pool of potential clients is quite small in global terms and a number of new players are entering this market (The challenge will be...,1999 [On-line]).

There are differences in opinion amongst analysts of the South African private banking market about the size of the market. Jones (1999:50) estimates the South African market for private banking to be somewhere between 60 000 and 100 000 households, while a
much lower number of between 10 000 and 20 000 households is placed on this market by other sources (Old banking habits..., 1998:6). The truth probably lies somewhere between these extremes and the estimate of FirstRand, supported by that of ABSA Private Bank of 50 000 households is regarded as a more realistic figure.

Although there appears to be some controversy about the definition of what a private bank truly is, most players in the South African private banking market agree that the following elements are essential ingredients for a successful private bank:

- The employment of suitably qualified staff with a passion for the delivery of outstanding service.
- Services offered are tailor made to the specific needs and personality of the client. There are no “off the shelf” products.
- Clients need to be provided with independent advice.
- Clients need to be assured that their affairs will be handled with absolute discretion.
- Clients need to have a single contact point at the private bank – a designated relationship manager or private banker.

Big players in the global private banking market, for example Citibank and Barclays Bank, have been reluctant to enter South Africa’s private banking market. This can be ascribed to the high costs associated with the setting up of the operation, as well as the relatively few families in South Africa that can be described as wealthy in global terms.
In this chapter, the role players in the South African private banking market will be identified and discussed. Attention will be given to their history and development, their entry criteria and service offering as well as the service delivery model employed by them. Specific emphasis will be placed on Henry Ansbacher (South Africa), as the service offering, as well as the service delivery model employed by this private bank, is regarded as being particularly relevant in South Africa.

The private banks that will be discussed are Syfrets Private Bank, BOE Private Bank, Investec Private Bank, Regal Treasury Private Bank, Nedbank Private Bank, ABSA Private Bank and Henry Ansbacher (South Africa).

3.2 SOUTH AFRICAN PRIVATE BANKS

Syfrets Private Bank, BOE Private Bank, Investec Private Bank, Regal Treasury Private Bank, Nedbank Private Bank, ABSA Private Bank and Henry Ansbacher (South Africa) (incorporating the former FNB Private Bank) serve the private banking market in South Africa. Standard Bank services the upper end of their personal market through Standard Bank Priority Banking. This, however, is a premium banking service offering and not a true private bank and therefore does not fall into the scope of this dissertation.

Although Origin, a division of Rand Merchant Bank and Mercantile Lisbon bank are also mentioned in surveys done on Private Banking in South Africa by the Finance Week (RMB forms new..., 1997:34) and the Professional Management Review (Don’t manage
wealth..., 1998:48), the Chief Executive Officers of both institutions are adamant that they do not compete in the South African private banking market. According to Greenstein of Mercantile Lisbon Bank (Van Helsdingen, 1998:48): “We do not consider ourselves to be a private bank”. Similar sentiments were also expressed by Jordaan of Origin (Emphasis is on..., 1999 [On-line]): “We portray ourselves as ‘the merchant bank for individuals’ and we do not fall within the ambit of the traditional private bank, even though our client market would be similar to that targeted by other organisations.”

Both Mercantile Lisbon Bank’s Mercantile Professional Bank and Origin operate predominantly in the high-income market as opposed to the high net worth market.

3.2.1 Syfrets Private Bank

The roots of Syfrets Private Bank can be traced back to 1851, when an emigrant from England, Edward John Maynard Syfret, started a business as an estate-, house- and stockbroker. When he died in 1885 the business was taken over by his son, Edward Ridge Syfret, who managed the personal financial affairs of amongst others, Cecil John Rhodes. In 1918 a dedicated public company, Syfrets Trust Company, was established to undertake the fiduciary business of the firm. This included investments, executorships, property administration, trusteeship of insolvent estates, liquidations and property transactions, plus the trade in stocks and shares (The history of..., 1998:30).
During the late 1960’s Syfrets and the South African Association merged. The latter organisation, established in 1834, was the first trust company in the world to administer deceased estates. In October 1968 Old Mutual agreed to take a 20 percent stake in Syfrets and this paved the way for a listing by Syfrets on the Johannesburg Stock Exchange. Syfrets Bank was formed in 1971. From 1 October 1997, Syfrets Ltd, UAL Merchant Bank and Nedbank Investment Bank merged to form Nedcor Investment Bank. Syfrets Private Bank came into being late 1997/early 1998.

Although Syfrets Private Bank concentrates on people with wealth, this is a very loosely defined definition and the bank remains flexible in its entry criteria for clients into the private bank (New broom to..., 1999:3). Heberden (personal communication, October 10, 1999) is of the opinion that a benchmark of two and a half million rand in investable assets is set.

Syfrets Private Bank’s traditional clients were people who had accumulated or inherited wealth. Many were retired or approaching retirement (New broom to..., 1998:3). In order to ensure growth, Syfrets Private Bank is now also targeting the younger generation that need assistance in creating wealth. The bank has thus defined its mission as being “to manage and create wealth, locally and internationally, through generations”.

Macready, as quoted by Jones (1999:50), believes that the bank essentially focuses on service rather than products. “Products are crucial, but making superb investment decisions based on a rigorous analysis of a client’s financial objectives comes first.”
Syfrets Private Bank’s core services are international investment planning, private portfolio management, lending and fiduciary services related to wills, trusts and estate and tax planning. In addition, the bank also offers complementary value-added services such as transactional banking facilities (limited to credit cards, high-interest deposit accounts, credit facilities, mortgages and account payment services), safe custody, stockbroking, valuation of assets such as property and art, short-term insurance, emigration advice, travel and foreign exchange.

Syfrets Private Bank has entered into a strategic partnership with the Associated Trust Company, a company registered on the Isle of Man and which provides Syfrets Private Bank with offshore asset management and trust services capability. Clients’ access to these services comes through their personal, private banker, who is backed by a team of technical specialists and support staff.

Syfrets Private Bank’s competitive strength lies in a combination of its long history, the fact that it holds more than ten billion rands in client funds (Jones, 1999:50) and its access to asset management and fiduciary services expertise through Nedcor Investment Bank.

Syfrets Private Bank has recently been through a number of restructures and has also lost experienced relationship managers to the opposition. This, as well as its inability to offer a full range of transactional banking services, are two of its main weaknesses.
3.2.2 **BOE Private Bank**

BOE Private Bank was launched in 1995 and brought together the traditional trust company activities offered by the Board of Executors since 1838 (First-class asset..., 1998:40). In 1996 it entered into a strategic alliance with Coutts and Company, a 300-year-old bank which is the global private banking arm of the Natwest Group in the United Kingdom. Coutts and Company is renowned for handling the affairs of the British Royal family.

According to Bechet (The Rolls Royce..., 1999:37), the ideal BOE client should have R1 million in investable assets. This is however not the only criteria, as clients who do not have R1 million in investable assets, but have the potential to generate wealth in the future, would also be welcomed.

The traditional BOE Private Bank client is older, more conservative, loyal, yet very demanding. It is very important to BOE Private Bank that there is a commonality between the client and the private banker assigned to service the client (A close client..., 1999 [On-line]).

According to Stroobach (First-class asset..., 1998:40), BOE Private Bank operates with total independence from its parent in terms of the investments it recommends to its clients. This, according to Stroobach, may result in them recommending a competitor's product, if BOE Private Bank does not have a similar product.
New clients are reference checked and are often referred by existing clients. This has the benefit that new clients come from the same background as existing clients and makes for a good fit with BOE Private Bank. The procedure for a new client would typically involve examining comprehensively their assets and liabilities, making a financial plan in consultation with the client and then implementing the agreed structure. His private banker will see the client at least twice a year and often much more often if necessary.

BOE Private Bank has, through its parent, the Board of Executors, a long and successful history of managing wealth in South Africa. It has, however, no full transactional capability and this may be a weakness in a market where competitors with close links with retail banks offer this facility.

3.2.3 Investec Private Bank

Investec evolved from its inception in 1981 as a private bank offering a personalised banking service to professionals (Investec goes for..., 1997:32). Private banking is the single largest division of the bank, with R20 billion in private client assets under management and more than 600 staff devoted exclusively to private banking.

Investec Private Bank also ascribes to the premise that private banking is not about being all things to all people, but is focused on customised solutions for identified niche markets. Investec Private Bank’s success in delivering these customised solutions to the
market hinges on the identification and recruitment of the best staff available in the market.

Investec Private Bank has recently decided to recategorise their private banking operation and to divide it into three niches. This, according to Investec Private Bank, recognises the fundamental differences that exist between wealth creation clients and wealth management clients.

The first level of private banking is aimed at the so-called international private banking client, with a net asset value of R50 million or more or investable assets in excess of R10 million. This client is served by a private banker, preferable older than 35 years and who is fully conversant in local and international, structured and “off the shelf” lending, investment and fiduciary products. The ideal candidate should be a chartered accountant or have and MBA/M.Com (Business Management) or B.Com LLB degree and have four years experience in the financial services sector.

The second level of private banking is aimed at the so-called private banking client, with a net asset value of at least R5 million, an income of at least R600 000 per annum or investable assets of at least R1,5 million. This client is served by a private client financial planner, preferable 28 years and older and who is fully conversant in local structured and “off the shelf” lending, investment and fiduciary products. He or she should have similar qualifications as the so-called international private banker, but only two years experience in the financial services sector is required.
The third level of private banking (better described as professional banking) is aimed at salaried professionals and graduates who earn in excess of R350 000 per annum or self employed professionals who disclose an income of more than R200 000 per annum. These may include chartered accountants, medical specialist, advocates or actuaries. This client is served by a professional banker, preferable 25 years and older and who is fully conversant in local “off the shelf” lending and investment products. He or she should be a B.Com or LLB graduate and exposure to the financial services sector, albeit not a prerequisite, will be an advantage.

According to the Finance Week (Investec goes for..., 1997:32), most services are available in-house, including (but not limited to) asset management, fiduciary services (including trusts and wills), stock broking, foreign exchange, credit services, tax and estate planning services. Investec Private Bank provides offshore asset management and trust services through the London based Guinness Flight.

Similar to other South African private banks that do not stem from retail banks, the lack of transactional banking capability has always been a serious draw back in Investec Private Bank’s service offering. To counter this gap in their service offering, Investec Private bank recently announced the launch of the Investec Private Bank Card (Roberts, 1999:10). The Investec Private Bank Card Account is pinned on Internet banking for everyday current account transactions and it uses Visa’s credit card automated teller machine network for cash withdrawals. It features most of the characteristics of a normal current account, including salary credits, debit orders, account
transfers and third party payments. It offers credit facilities at prime and pays the going credit card interest rate on credit balances.

Investec Private Bank however still do not offer a cheque account and in that regard, it still remains at a competitive disadvantage to private banks that do.

3.2.4 Regal Treasury Private Bank

Regal Treasury Private Bank is a wholly owned subsidiary of Regal Treasury Bank Holdings Limited, a company listed on the Johannesburg Stock Exchange.

Regal Treasury Private Bank is a relatively newcomer to the South African banking scene and its roots can be traced back to 1995, when Rand Treasury Limited was incorporated as a public company (Regal Treasury Bank Holdings Limited, 1999:9). During the latter half of 1995, a private placing of shares resulted in Regal Treasury Private Bank. The receipt of a banking licence on 30 December 1996 enabled Regal Treasury Private Bank to aggressively expand its activities into the South African private banking market.

There are no formal entry criteria set for clients to Regal Treasury Private Bank but, according to J. A. Springett (Personal communication, September 15, 1999) each potential client is treated on his or her merits.
Regal Treasury Private Bank, strives to provide the classical European style private banking that would distinguish itself from private banks that are created within the large commercial banks (Regal Treasury Bank Holdings Limited, 1999:9).

While some private banks regard transactional services to be important, Regal Treasury Private Bank plans to offer their clients the full range of banking services outside cheque and credit card facilities: investment management, fiduciary services, lending facilities and broking and foreign exchange services. It believes that the benefits from offering transactional banking services are outweighed by the advantage of keeping its infrastructure and cost base small. It plans, according to Wood (1999:70), to outsource asset management administration and the administration of deceased estates. It plans to have in a short space of time a full, seamless, international service.

Regal Treasury Private Bank signaled its intention to strengthen its private banking activities with the establishment of the new position of head of private banking. During June 1999, Regal Treasury Private Bank also took on five ex-Syfrets private banking relationship managers to grow assets under management from their current R1 billion (Wood, 1999:69).

According to J. A. Springett (Personal communication, September 15, 1999), Regal Treasury Private bank do not have relationship managers or private bankers who act as single contact point with clients, but a client deals with the relevant product expert directly.
Regal Treasury Private Bank is a small, but very successful niche player in the private banking industry in South Africa. It however lacks transactional banking capability.

3.2.5 **Nedbank Private Bank**

In their quest to service the triple A client base within the Nedcor group, Nedbank established a VIP banking division in 1994 (Walker, 1998:34). During 1997, the bank commissioned an extensive market research amongst the VIP clients of South African banks. The results of the survey indicated that there was a very strong positive feeling among the respondents about Nedbank’s VIP banking division, although very few of them would consider approaching their VIP banker for advice on issues such as investment, insurance and estate planning. The reasons, according to the research, were that the respondents believed that they would only be recommended with in-house products and that the VIP banker did not possess any expertise beyond transactional banking (Walker, 1998:34).

The results of the survey prompted Nedbank to extend the VIP banking division into a full private bank (Special treatment for..., 1999 [On-line]).

According to Bond, as quoted by Harris (1998:32), there are three basic entry criteria: a net worth of more than R3 million; annual income of at least R750 000; or sphere of influence.
According to Bond, as quoted by Walker (1998:34), Nedbank VIP banking division followed four steps in their approach to become a full private bank:

- The first step was to ensure that private bankers serviced a portfolio of clients within a defined geographical area. This is requested in order to cut down on travelling.
- The second step was to strengthen the management team.
- Thirdly, a team of specialists to take care of fiduciary issues such as tax planning, investment management and insurance needs of clients were assembled.
- Finally a number of outsourcing suppliers to handle very specific financial issues such as tax compliance and offshore investment advice, were garnered.

Nedbank Private Bank has 150 managers servicing the private bank client base of 13 500 people. This equates to nearly 100 clients per manager. According to Harris (1998:32), personal relationship managers are typically social sciences graduates. This constitutes a shift in employment policy, as indicated by Walker (1998:34): “Whilst chartered accountants were initially hired as relationship managers, it was found that their skills base and commitment to service was often not ideally suited to the Nedbank Private Bank client base.” Nedbank Private Bank also specifically refrains from hiring anybody with existing banking experience (Walker, 1998:34). The lack of experience or financial skills is overcome by a two year, tailor made course designed and presented by the Rand Afrikaans University.
Whilst Nedbank Private Bank’s commitment to delivering the highest level of service to their clients ("We’ll do everything but walk the client’s dog") is a competitive strength, the relatively low entry criteria and associated relatively high number of private banking clients, may be considered a weakness amongst private banking purists (Harris, 1998:32).

3.2.6 ABSA Private Bank

ABSA Private Bank operates with the backing of the ABSA group, but broadly functions independently and is therefore, according to Robinson (Full spectrum of..., 1999 [On-line], able to offer the wealthy client appropriate tailored solutions, sourced from ABSA and external institutions.

ABSA Private Bank’s approach center around what they term the three pillars of wealth management, namely wealth creation through local and international investments; wealth protection, through estate and retirement planning, trust services, assurance and insurance; and wealth support services, including transactional and credit facilities. All must be delivered through a single point – the private banker. These private bankers are typically postgraduates with extensive experience and likely to be in their late thirty’s or older. They take a holistic view of the client’s affairs and call on specialists in particular fields when necessary.

ABSA Private Bank offers the full range of transactional products, including cheque and credit card accounts. ABSA Trust provides local asset management and trust services.
Through a controlling stake in Stonehage, a Swiss-and UK based financial institution, ABSA Private Bank’s clients can be provided with specialist international services such as offshore investments and other offshore structures.

ABSA Private Bank targets individuals with a minimum in net assets of R5 million and/or R2 million in investable assets (Delport, 1998:48). It does not, however, ignore the potential a client might have to grow into a private banking client (Full spectrum of..., 1999 [On-line]).

ABSA Private Bank is well placed to become a significant player in the South African private banking market. It has a full product range and can feed off the substantial client base of the ABSA group. A potential draw back may be that their name is too closely linked to that of a retail bank and this may create the impression ABSA Private Bank is no more than a mere extension of ABSA’s retail offering in the form of a super VIP service.

3.2.7 Henry Ansbacher (South Africa)

FirstRand Holdings Limited (a company registered on the Johannesburg Stock Exchange) was formed when the financial interests of Anglo American Corporation Limited (First National Bank and Southern Life Association Limited) and Rand Merchant Bank Holdings Limited (Rand Merchant Bank Limited and Momentum Life Assurers Limited) were merged on 1 April 1998. The entities within the FirstRand Group report for
operational effectiveness into two divisions, namely FirstRand Insurance Holdings and FirstRand Bank.

The executive management of FirstRand Holdings Limited viewed the provision of a full range of seamless local and off shore private banking services, incorporating transactional banking, asset management and fiduciary services, as an absolute necessity in addressing the financial requirements of South African families who satisfy the entry criteria.

Henry Ansbacher, the private banking group within the larger FirstRand Group, offers private banking services to local clients through two distinct, but closely related entities, namely Henry Ansbacher Holdings Limited and Henry Ansbacher (South Africa).

This section contains a short discussion on the history and development of these businesses, as well as the services offered by them.

3.2.7.1 Henry Ansbacher Holdings Limited

Heinrich (he later changed his name to Henry) Ansbacher founded Henry Ansbacher Holdings Limited in the City of London in 1894. Under the name of Henry Ansbacher & Co., it originally started operating as a small stockbroking firm (Henry Ansbacher, 1999:3). During the ensuing hundred years Henry Ansbacher & Co (renamed Henry
Ansbacher Holdings Limited in 1979), expanded its services to merchant banking and
specialist banking services, trust and corporate management services.

In 1992, Henry Ansbacher Holdings Limited became a wholly owned subsidiary of First
National Bank of Southern Africa Limited (First National Bank). With the formation of
FirstRand Limited in 1998, Henry Ansbacher Holdings Limited decided to exit the
merchant banking market and to concentrate on specialist — and private banking as well
as trust and corporate management services.

Henry Ansbacher Holdings Limited today operates through a network of banking and
fiduciary companies spanning the United Kingdom and the leading offshore financial
centres. In addition to South Africa, the Group is represented in London, Birmingham,
The Bahamas, British Virgin Islands, Cayman Islands, Guernsey, Hong Kong, Isle of
Man, Jersey, Monaco and Switzerland.

A full range of offshore private banking services is provided by Henry Ansbacher
Holdings Limited, including multi-currency deposit and loan facilities, cheque accounts,
Visa debit cards, personal computer banking, money transmission, foreign exchange,
investment administration and custodianship. Henry Ansbacher Holdings Limited also
offers comprehensive trustee and corporate management services in its offshore
locations. The full range of trustee services covers personal and corporate trusts, sole-
purpose trusts, family trusts and administration of estates. Corporate management
services include, where appropriate, the provision of directors, officers and nominee shareholders, preparation of financial statements and submission of statutory returns.

Specialist offshore marine financial services for owners of pleasure and super yachts are available. Marine services include yacht financing, corporate yacht ownership, yacht registration, financial administration and arranging marine insurance.

3.2.7.2 Henry Ansbacher (South Africa)

The formation of the FirstRand Group in April 1998 presented the opportunity to introduce the Henry Ansbacher brand to the South African market.

There are three distinct profit centres within Henry Ansbacher (South Africa), namely Henry Ansbacher Private Banking Services, Henry Ansbacher Investment Services and Henry Ansbacher Trust Services. The background to the formation of each of these profit centres, as well as the services provided are discussed in the ensuing sections.

3.2.7.2.1 Henry Ansbacher Private Banking Services

During the mid 1990’s, First National Bank was alerted to the fact that a vast majority of its ultra high net worth clients also had relationships with other financial institutions, where their asset management and fiduciary services requirements were met (L.E.F. Wright, personal communication, September 22, 1999). This resulted in these clients’
relationships with the First National Bank group being one dimensional, namely the provision of transactional banking services only. Apart from the potential income being lost to the First National Bank group, it was also easy for these clients to move their transactional banking business to a competitor.

In response, First National Bank commissioned an investigation in 1996 into the feasibility of establishing a private banking unit. It was decided to set the minimum entry criteria at a net asset value of £1 million (R7 million in 1996). (The standard of a net asset value of R7 million is still used as the client entry criteria for Henry Ansbacher (South Africa)). The investigation concluded that since there were between 50 000 and 100 000 families in South Africa who met the minimum entry criteria, sufficient potential existed for the establishment of a private banking unit (J.H. de Wet, personal communication, October 16, 1999).

In February 1997, the private banking unit, known as First National Bank Private Banking, opened its doors and the first clients were acquired. This business unit was initially set up as a cost centre within First National Bank’s banking division, primarily with the intention to halt the erosion of the high net worth client base to the competition and also to ensure that First National Bank has a full service offering from the youth and mass market to the high ultra high net worth market.

With the implementation of First National Bank’s segmentation strategy in the retail bank during the latter half of 1997, in terms of which separate business units were established
to serve the business and commercial market (First Commerce), the personal market (FNB Personal Bank), the mass market (BOB Bank) and the rural market (First National), First National Bank Private Banking's name changed to FNB Private Bank. This was in recognition that the private bank serves a different market to, for example, FNB Personal Bank. It was also during this time that the profit potential of private banking within the First National group was realised and FNB Private Bank converted to a profit centre from 1 October 1997 (L.E.F. Wright, personal communication, September 22, 1999).

The status of FNB Private Bank as a potentially viable business was reconfirmed subsequent to the formation of the FirstRand group, when it was identified as a profit centre within the new private banking cluster (consisting of FNB Private Bank, Ansbacher Investment Managers and Ansbacher Trust Services).

In keeping with the philosophy of providing private banking under one brand name, FNB Private Bank was renamed Henry Ansbacher Private Banking Services during the latter half of 1999.

Henry Ansbacher Private Banking Services offer the full range of transactional banking services, including cheque and investment accounts, credit facilities, credit cards, foreign exchange and electronic banking facilities, from branches in Sandton (including an office in Pretoria), Cape Town and Durban. Each branch is managed by a Senior Manager, who has a number of relationship teams (consisting of an account manager and an account
analyst) reporting to him or her. Each relationship team, in turn, manages approximately 80 transactional client relationships. The Senior Managers, as well as the credit team (responsible for all credit provided), report to the Managing Director of Henry Ansbacher Private Banking Services.

It is the responsibility of each relationship team to ensure that transactional banking of the highest possible standard is delivered. Account managers almost always call on the client and this often entails visiting the client at home after hours.

3.2.7.2.2 Henry Ansbacher Investment Management Services

Henry Ansbacher Investment Management Services, a division of FirstRand Bank Limited, is an integration of London & Dominion Trust and FirstCorp Asset Management.

London & Dominion Trust, a provider of asset management services to high net worth individuals and selected institutional clients, was established in 1956, with £1 400 as initial capital, by Messes C.A. Redgrove and C.H Jewell, both of whom were previously employed by stockbrokers G J C Turner and Company.

London & Dominion Trust were the first portfolio managers in South Africa and also the first institution to provide industry and company reports to its investors. The regulatory authorities regarded London and Dominion Trust with suspicion and they were not
allowed to advertise. Investors were acquired by word of mouth, a strategy that is still followed by Henry Ansbacher Investment Management Services today.

Upon the retirement of Clifford Jewell in 1980, fifty percent of the business was acquired by an entity by the name of National Discount House. National Discount House was liquidated in the late 1980’s and Rand Merchant Bank, who were involved with the liquidation, acquired the fifty percent owned by National Discount House, with options to acquire more of London and Dominion Trust in the future. Rand Merchant Bank followed all their rights and the final five percent of the business was acquired in 1995. London and Dominion Trust operated as wholly owned division of Rand Merchant Bank (C.F. Schlimmer, personal communication, October 19, 1999).

FirstCorp Asset Management, previously a division of FirstCorp Merchant Bank Limited, provided portfolio management services to both institutional and retail clients. The division was incorporated into FirstCorp Merchant Bank Limited in 1987. The provision of retail portfolio management services was undertaken from 1996, when First National Trust outsourced the asset management function of their extensive client base to FirstCorp Asset Management.

In addition to the opportunity to introduce the Henry Ansbacher name to South Africa, the formation of the FirstRand group in 1998 also provided the opportunity to restructure the asset management activities across the group. Rand Merchant Bank Asset Management assumed responsibility for the management of FirstCorp Asset
Management's larger institutional accounts, while personal and retail clients, as well as smaller institutional portfolios have been transferred to London and Dominion Trust, whose personal and interactive style of management was considered to be more appropriate.

The combined businesses of London and Dominion Trust and FirstCorp Asset Management were renamed in 1998 to Ansbacher Investment Managers. This was changed in late 1999 to Henry Ansbacher Investment Management Services.

The investment team currently consists of ten portfolio managers. All portfolio managers contribute to the research effort and portfolio decision-making process by participation in regular investment strategy meetings. Henry Ansbacher Investment Management Services follows a “top-down” approach by evaluating economic and market trends and then deciding into which industry to invest, while a rigorous “bottom-up” approach is followed in deciding which shares to pick from this industry.

Henry Ansbacher Investment Management Services provides offshore investment services through Henry Ansbacher Holdings Limited and RMB International Limited.

3.2.7.2.3 Henry Ansbacher Trust Services

Henry Ansbacher Trust Services was established in 1997 under the name RMB Trust Services (Jersey) Limited, as a wholly owned subsidiary of RMB International Limited, in turn a wholly owned subsidiary of Rand Merchant Bank Holdings Limited.

Three specialist teams within the company deliver offshore investment structuring, offshore trust services and international tax advice to clients. These three teams in turn report to the Managing Director of the company.

In keeping with the single brand identity of Henry Ansbacher as being the private bank of the FirstRand Group, the name of RMB Trust Services (Jersey) Limited was changed to Henry Ansbacher Trust Services on 1 July 1999.

3.2.7.3 The Henry Ansbacher (South Africa) service delivery model

According to H.J. Du Toit (personal communication, September 21, 1999), the secret of success in the highly competitive private banking industry lies in the ability of a private bank to accurately identify the target market appropriate to its service delivery model. Inability to do this will inevitably result in either failure by the private bank to reach its profit targets (profit failure) or failure by the private bank to deliver the hundred percent error free service expected from it (service failure).
An example: If a private bank sets its entry criteria too low, and if the 80-20 principle is applied (80 percent of a financial institution's profit is generated by the top 20 percent of its clients), more “lower value” clients need to be signed on to generate the same profit than a lower number of “high value” clients. This may lead to service failure. Conversely, in this example, if the number of “lower value” clients is limited to manageable numbers, then this may lead to profit failure.

Each of the three profit centres within Henry Ansbacher (South Africa) (Henry Ansbacher Private Banking Services, Henry Ansbacher Investment Managers and Henry Ansbacher Trust Services) operates, from a budget point of view, independently. Each of these profit centres has its own client interface officers and manages the relationships with their clients independently. Whilst this ensures that the client deals directly with the product expert, it does not satisfy the relationship management needs of a client that utilises more than one profit centre’s products and prefers a single relationship manager. Introducing clients to the services of other profit centres within the group, also do not receive sufficient attention.

To address the abovementioned issues, account directors were appointed within Henry Ansbacher (South Africa) to act as so-called “high level relationship managers”. Account directors are situated in Sandton, Cape Town and Durban and report directly to the Chief Executive Officer of Henry Ansbacher (South Africa). They specifically fall outside any of the three profit centres in order to ensure that they remain removed from the day-to-day management activities of the clients’ accounts in the profit centres.
Only clients who make use of more than one of the profit centres have access to the services of an account director. Their responsibilities are three fold:

- to be the custodians of the relationships with clients who make use of the services of more than one profit centre;
- to ensure that the services of profit centres are introduced to clients of other profit centres who have the need for them;
- to be custodians of the Henry Ansbacher brand name in South Africa.

The introduction of an account director to a relationship adds additional costs to the maintenance of the relationship. To justify the costs, care must be exercised that only clients who generate sufficient profits for Henry Ansbacher (South Africa), are introduced to the services of an account director.

3.3 SUMMARY

In line with the international trend, the huge growth in the number of high net worth individuals in South Africa, has led to a fast growing and vibrant private banking industry. The league of new clients are essentially busy entrepreneurs demanding a different type of service which will remove the “hassle” from their financial services requirements. For this reason, while wealth protection remains a priority issue in private banking, its is now less dominant than in the past.
The institutions active in the local private banking market come from diverse backgrounds, be it asset management, fiduciary services, treasury services or retail banking. A problem with having such diverse players in the South African market is that private banking has a business definition that tends to differ markedly from one market and region to the next. While there is agreement on basic elements such as discretion, personalised service and convenience, there are wide disparities over the range of services on offer. There are also different views about the threshold of wealth needed by a private banking client. For South African banks this tends to range from R1m to R50m, sums that could either represent the total value of the individual or the size of investable assets.

“Personalised service” must be the most overworked cliche in the private banking market. An important issue therefore is how a private bank differentiates itself from the competition when they, too, promise the ultimate in personalised service.

Given the sums of money involved and the globalisation of the world economy, it is critical for any private bank to have an international presence to be able to diversify their client’s interests across the world in order to reduce the unnecessary risk of exposure to only one market.

While some of the South African private banks mentioned in this chapter are able to provide a full range of services, both locally and offshore none, with the notable exception of Henry Ansbacher (South Africa), is able to deliver these services under the
same brand name outside South Africa. With the formation of FirstRand in 1998, the
group was in the position to provide a full range of private banking services locally, as
well as to have access to an internationally renowned offshore financial institution, Henry
Ansbacher Holdings Limited. Henry Ansbacher (South Africa), the private banking
group within the larger FirstRand group, lends its name from Henry Ansbacher Holdings
Limited.

Henry Ansbacher Limited provides a full range of offshore private banking services,
including multi-currency transactional banking accounts, investment administration and
trust services from offices in London, Birmingham, the Channel Islands, Hong Kong,
Switzerland, The Bahamas, British Virgin Islands, Cayman Islands and Monaco.

Henry Ansbacher (South Africa) serves the South African private banking market from
three distinct profit centres, namely Henry Ansbacher Private Banking Services, Henry
Ansbacher Investment Management Services and Henry Ansbacher Trust Services, thus
providing a full range of local private banking services. Each profit centre is responsible
for maintaining their client relationships, while account directors are responsible for the
relationships with clients who utilise the services of more than one profit centre.

There is constant change in the make-up of the players in the South African private
banking market. It is expected that Nedbank Private Bank and Syfrets Private Bank, both
in the Nedcor stable, will move closer to one another in the near future. Similarly, BOE
Private Bank feed off Boland Bank in the rural areas and NBS Bank in the metropolitan areas.

Whatever the differences between South African private banks, there is unanimity that quality of service, personal contact and tailor-made services are key cornerstones. Outsourcing has become common, with very few private banks offering only their own products.
CHAPTER 4

NEW TRENDS IN GLOBAL PRIVATE BANKING

"The dimension to be introduced is profitable relationships"

(P. R. Pretorius, personal communication, April 22, 1999)

4.1 INTRODUCTION

Despite the fact that the market that has been created by high net worth individuals is alluring to financial institutions all over the world, Beck (1997:49) argues that, except for a handful of global institutions, not everyone who has been attracted to this market has found it profitable. Reasons for this can be found in the fact that competition in the international private banking market is not only intense, but also highly fragmented. Few players effectively cover the full range of client investment needs, as competitors have traditionally focused on different portions of the high net worth individual’s wealth. In order to survive, also as a result of the squeeze on their profit margins due to increased competition, players in the private banking arena needs to capture a bigger portion of the high net worth individual’s “wealth pyramid”.

The increased competitiveness of the global private banking market has forced private banks to rethink their approach to relationship management and service offering to the market. Beck (1997:50) refers to this as the “New Terms of Competition”.

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In order to be a successful player in the ever-changing global private banking market, it is essential to understand the changing needs of private banking clients. This in turn necessitates an understanding of the changes in the private banking environment worldwide.

In this chapter, changes in the global private banking environment will be discussed. Specific emphasis will be placed on the impact of these changes to the business focus of players in the global private banking industry, the role of technology in dealing with these changes as well as the increasing importance of relationship management in providing a successful private banking service.

4.2 THE COMPETITIVE GLOBAL PRIVATE BANKING ENVIRONMENT

According to Palmer & Scheide (1996:11) private banking today bears a dangerous resemblance to the U.S. motor industry of the 1980s. A decade ago, America’s Big Three automakers (Ford, General Motors and Chrysler) were on the edge of bankruptcy because they committed three big mistakes:

- They underestimated the intelligence and common sense of their consumers.
- They forgot that customers’ needs are paramount.
- They thought that their competitors’ growing success was a fluke.
It is the opinion of Palmer & Scheide (1996:11) that banks are committing those same three mistakes in their approach to private banking. As a result, they are losing millions of dollars a year as well as the trust and loyalty of affluent consumers.

According to PSI, a Tampa, Florida research firm, U.S. banks' share of the high net worth individual market (clients with $1 million or more to invest) dropped, in 1994 alone, from 34 percent to 23 percent. At the same time, full-service brokers alone increased their share from 31 percent to 38 percent. This is confirmed by Zack (1996:11), who comments that although private banks are doing well, they are not living up to their potential. Beyer, as quoted by Zack (1996:11) states: “Banks have the foundation from which they can be tremendously successful.....It is really a question of whether they have the leadership and vision to pull it off”.

Banks are clearly not just competing with each other for clients on the super-high end; they are also competing with investment counsellors and boutiques. On the high end, it is brokers and on the low end, competition comes from discount brokerages.

Palmer & Scheide (1996:11) suggest that private banks that are serious about beating non-banks for high net worth individuals' follow the following steps:

- Implement an integrated, targeted strategy that combines trust services, transactional banking and investment management. A bank’s private banking
efforts should be spent focusing bankwide, rather than just on one unit. Internal turf barriers between credit, retail and other departments must be eliminated.

The best referrals are inside a bank and need to be tapped before attention is given to the much more difficult task of gaining clients from competitors.

- Creating an integrated strategy means having banking officers that understand the person’s total financial picture. It follows therefore that relationship managers must be well trained. Support for training must start right from the top.

- More time should be spent courting and keeping clients. According to Palmer & Scheide (1996:11), the average private banking relationship manager spends just 10 percent to 15 percent of his or her time in proactive business development, compared with non-bank competitors, who devote 40 percent to 60 percent or more of their time developing and gaining new business.

- Relationship managers need to be provided with high-level support on two levels. Firstly, relationship managers must have the backing of the top structure of the financial institution. This will provide them with credibility and will also eliminate any potential resistance from within the ranks of the institution. In the second instance, it is also essential that relationship managers have back-up in the form of competent and reliable support staff.
Productivity-driven compensation schemes should be implemented. In most banks, including private banks, to progress in stature and income, most bankers must get promoted into management and away from their customers. Brokers on the other hand, have no cap on income and get constant recognition for professional performance.

Performance based compensation attracts risk takers, produces increased effort and keeps effective people not only in the bank, but in their most productive positions within the bank.

Improve the effort to target the strongest clients. This is imperative if a business wishes to succeed in private banking. It is generally accepted that 20 percent of a private bank’s client base is responsible for 80 percent of the private bank’s profits (the 20/80 principle).

Provide technological support for the relationship managers. Most private banking clients today are technologically well versed and expect the same from their relationship managers. Relationship managers should therefore be able to count on having access to relevant, state-of-the-art technology and technological support.
The successful private bank of the future will need to score highly in each of four interrelated areas: image, product range, service and investment performance (Beck, 1997:50).

- Image is and will remain an important barrier to entry into the market and will limit the access of certain groups of players to the established wealth. The advantage here, according to Beck (1997:50), will continue to reside with the Swiss Banks.

- Product range is growing in importance, as the segment of newer, more active wealth demands new investment vehicles and global market access. The bigger private banks in Switzerland and the United States of America have the edge in product range.

- Service depends on the quality and consistency of relationship management provided by the bank and on faultless administration.

- Investment performance is increasingly important as the size of the “active wealth” segment grows in relation to the “passive health” segment. Global research capabilities, global market access, broad product capabilities and professional investment management people and processes are prerequisites to strong investment performance. According to Beck (1997:50), the brokers and investment banks in the United States of America have the advantage here. However, Beck stresses that it is not the objective performance that will count in the end. It is the perception of performance versus expectations that matters. If
expectations are not well managed (relationship management), the best investment performance will never be good enough.

In order to achieve high scores on the abovementioned areas and therefore be successful in the private banking market, a private bank must select an appropriate business focus, leverage technology and achieve client focus through active management of client relationships, by well-trained, competent relationship managers. This view is supported by a number of authors, including Willis (1997:22), Lawton (1996:33) and Beck (1997:50).

4.2.1 Business focus

Choosing an appropriate business focus can be daunting. Should the bank pursue international private banking, or domestic, or both? Should the private bank offer a full product range, including all domestic banking services, or limit products to investment and trust services? Should the business focus on so-called Affluent High Net Worth Individuals or Ultra High Net Worth Individuals? Although the choices seem endless, they are, in fact, interdependent. The international private banking market clearly favours players with global scale and reach, but few can compete successfully across the board. Even the large, successful players have clearly identified a focus for their business and have aligned their organisations to particular segment-, product- and distribution strategies. According to Beck (1997:50), players lacking a clear strategic focus for their
business will find their position increasingly difficult, as the competitive pressures in the
business will only intensify.

4.2.2 Leveraging technology

At first sight, technology like the Internet, which brings mass communications and
transparency into virtually any area it touches, looks an unlikely bedfellow for private
banking, with its personal contact and cachet of exclusivity. The utilisation of technology
in private banking is not limited, as perhaps may be expected, to private banks in the
United States of America, but is employed by private banks the world over as an essential
tool to enhance their service delivery capabilities. It also provides them with a cost-
effective competitive edge.

In Europe, Credit Suisse Private Banking for example, is launching Fund Lab, an Internet
service that will allow investors to compare and transact on investment funds of both
Credit Suisse and competitors (Credit Suisse plans web..., 1999:2). Even at Coutts, a
traditional British private bank, the World Wide Web is now an integral part of their
service delivery methodology and it budgeted for a £35 million investment in new
technology during 1999 (Banking on the web, 1999:4). This will modernise the Coutts
back office and prepare for a range of Internet and telephone banking services.
Leveraging technology is not only a requirement in this brave new world of international private banking, but also a strategic opportunity. Virtually every part of the value chain of the business depends on information, from targeting potential clients, to assessing their needs and objectives, to managing their portfolios, to gathering and disseminating global market research, to building investment strategies and making asset allocation and asset selection decisions. Winners will exploit information technology as a competitive weapon rather than merely suffer it as a necessary expense. All international service providers will need to incur large investments in the back office to build and enhance multi-currency systems and the like. “But it is the creative use of information technology at the front end of the business in sales, marketing and relationship management that in the future will separate winners from mere survivors” (Beck, 1997:51).

4.2.3 Client focus through relationship management

In order for private banks to meet the expectations of their clients (and also appoint the correct relationship manager to the client), it is imperative that private banks understand the make up of the particular client. Is the client an aggressive risk taker, or does he or she have a very low tolerance for risk? Barnewell (1995:21) researched the subject of understanding the personality traits of private banking clients. She came to the conclusion that there were two basic types of private banking clients, namely low risk, security motivated passive/market investors and active/self investors.
The term “passive investor” should not be confused with a passive person. “Passive” in a financial services sense refers to people who acquired wealth passively, for example through inheritance. Similarly, “active” in a financial services sense refers to people who have created their own wealth. They see risk as something one takes with one’s own assets. They require an environment that allows them, the risk-takers, to control the risks being taken with their assets. This is not to say that they are all entrepreneurs, but rather people who wish to invest in entrepreneurial ways.

Passive/market investors are primarily motivated to gain sufficient power to feel secure and are, according to Barnewell (1995:21), the targeted market segment for trust, not credit services. This type of investor have a team ego and this is the basic reason these people are willing to turn their investments over to outside, third party advisors. They believe that risk is something one spreads around, not something one takes.

Active/self-investors believe that no one cares as much about their money as they do. If they do not control the risks an investment requires, they will not proceed. They have individual, not team egos. It is, of course, not to say that a client that is currently passive in his/her investment style will never change to an active investor. Passive investors may, after acquiring sufficient assets to ensure that their lifestyle will not be threatened should a loss occur, change to an active investor.

From a private banking point of view, Barnewell (1995:24) suggests that understanding the personality traits of clients, is key to satisfying the needs of these clients and therefore
establish a clientele that is non price sensitive. Although active investors may tend to be more demanding than passive investors are, they are also, according to Barnewell (1995:24) four times more profitable than passive investors are.

Knowing your client and his or her investment style, i.e. active of passive, is the value-added service a good private banker brings to the marketplace. It makes possible the critical difference in a private bank’s ability to profitably sell bank services on the basis of banker expertise. Without this edge, the only alternative is to compete with other private banks on the basis of pricing.

4.3 THE PRIVATE BANKING RATIONALE

Why would well-off professionals, or especially the wealthy, turn over responsibility for their entire financial lives to a bank or anyone else? According to Huber (1996:16) for the following reasons:

- **Time** – For many private banking clients time means money. Many of these clients are often too busy to attend to their personal financial affairs. Private banking relationship managers take care of their banking business on their behalf.
- **Convenience** – Clients seek one-on-one service from a private banker with whom they have had long term relationships. These private bankers must be available to call on the client also outside normal banking ours.
• Products – While most private banks would prefer to cross-sell as many products as possible to the client, the way they approach the client makes a big difference. Private bank clients do not appreciate bankers who try to solve their problems by selling them more products, but rather prefer private bankers that seek to establish what exactly it is that the client needs.

• Expertise – Private banking is also attractive because of the access to financial expertise it offers to clients. The client no longer needs to deal with an array of financial experts, including bankers, trust officers, investment managers and legal professionals, but is provided with this expertise at his or her private bank.

Private banking clients require privacy, stability and services for every lifetime need (Fleming, 1997:10).

According to Fitz (1997:3) it takes a special banker to provide private banking services. As a result, he suggests that before a client decided to sign on with a private bank, that he or she consider the following factors:

• Experience – A private banker should be a seasoned professional with broad experience in general banking operations and a proven performer at the bank.

• Continuity – A private banker should know the customer and his or her needs. That requires a long-term commitment.

• Organisation and support – Each private banker or relationship manager should have his or her own group of clients. An assigned support staff person who is
familiar with the client should serve as backup when the private banker is unavailable.

- Specialisation – Strong private banks have relationship managers who specialise in meeting needs of particular types of clients, such as health care providers, executives and other professionals like lawyers and accounts.
- Authority – A private banker should be a decision-maker capable of understanding and approving the client’s requests.

Fitz (1997:4) also advocates the model where a private bank functions as a bank within a bank, combining the full resources of a major national bank with personal attention and service.

4.4 APPROACHES TO RELATIONSHIP MANAGEMENT

True private banking is about relationships and relationship management. This is confirmed by Willis (1997:22): “The key for successful private banking is to continue to focus on the client relationship”. The implementation of a proper relationship management model is however, expensive. It is therefore very important for the private bank to set its entry criteria very clearly.

Worldwide, high net worth individuals hold some $12 trillion of investable assets, nearly a third of which are invested outside the country of domicile, and this number has been growing at approximately 8 percent to 15 percent per year. Understanding who such
customers are, how to serve them and how to compete in the new environment they have created is the key to succeeding in this lucrative new market (Beck, 1997:47).

According to Davidson (1997:3), $8 trillion in wealth will change hands through inheritance in the next decade – more wealth transference than in the past 230 years combined. It is the role of private banks to help all those people handle their money and help them keep the Receiver of Revenue’s hands off of it.

The high net worth individual segment is considered to be the fastest growing and most profitable segment of the population (Zack, 1995:4).

Historically the emphasis has been on increasing sales volumes, but this will be insufficient to deal with the growing competition, particularly as the rate of globalisation increases (Russell, 1998:1). It is therefore essential that another dimension to the successful Private Banking service delivery model be introduced. This, according to Russell (1998:1), is what relationship marketing is all about: making the most of existing clients. If the potential of the client is such that, even if his or her potential has been realised to the full and insufficient revenue is generated by the relationship to sustain the relationship, then it is in the private bank’s interest to terminate the relationship with the client. The dimension to be introduced is therefore profitable relationships (P. R. Pretorius, personal communication, April 22, 1999). H.J. Du Toit (personal communication, September 21, 1999) confirms this and the service delivery model employed by Henry Ansbacher (South Africa), is based on this approach.
According to Zack (1995:4), more focus on building relationships and less on the selling of products will result in a bigger market share of private banking business. This is also the opinion of Scheide, as quoted by Zack (1995:4): "I think a lot of banks are taking a product sales approach. They aren't building relationships with these people. And as long as that happens, they are just going to be another purveyor of products as far as the customer is concerned. They won't build any kind of loyalty. And they can lose those people just as fast as they got them."

There seems to be two approaches that are advocated by authors on the issue of where relationship management begins and the selling of services ends. Zack (1995:4) and others believe that the industry should focus more on the building of relationships and less on the selling of products (see also Scheide above), while Baker, as quoted by Zack (1995:5) is of the opinion that "...private bankers are spending too much time on tasks other than selling".

Relationship managers should also take time to gather an in-depth knowledge of their clients. Questions like: "Can you please take some time and explain to us at some length what you are interested in, where you come from, what you are trying to accomplish?" should be asked more frequently.
4.4.1 Single contact point versus the team approach

Another dichotomy is the relationship manager (single contact point) versus team approach (investment manager, transactional banker and trust expert).

There are, from a private banking client point of view, benefits to both having a single contact point at a private bank and to having direct access to the product expert within the private bank.

Direct access to the product expert can shorten the lead-time in obtaining specific expert advice on, for example, the short-term outlook pertaining to a specific share, considerably. However, if a client makes use of more than one service from the private bank, he or she will then have to contact a number of people in order to address service issues across the spectrum of services offered by the private bank.

Beck (1997:52) suggests an approach that matrixes relationship managers and portfolio managers in teams organised around markets. In this team model, the relationship manager is the client’s contact with the bank. He or she has primary responsibility for the relationship and sells the full range of products. The portfolio manager is the discretionary product specialist. He or she is responsible for portfolio performance and reviews portfolios with clients. The portfolio managers have dual reporting in this model: (1) to the senior investment officer for assessment of performance and
development and (2) to the sales manager for client and relationship manager interaction and service.

4.4.2 Differentiation in the private banking target market

According to Kim & Perrin (1998:8), it is economically impossible to justify the same level of personalised service to all clients of a private bank. Clients worth R50 million or more with a bank probably have a different service quality expectation than those with R5 million.

If a bank decides to differentiate its private banking market, then for the upper end of the private bank's clientele, the traditional, private banking relationship manager paradigm may apply. This model, properly applied, can however also become extraordinarily expensive. For the lower end of the private banking clientele, Kim & Perrin (1998:8) recommend a more formal structure. This works well where a client has multiple contact points at a private bank, for example his portfolio manager and his provider of transactional banking services or where a "lower level" relationship manager is assigned to him where the relationship manager is serving 50 to 100 clients. The formal structure must ensure that the multiple points of contact are working closely together to maximise the relationship with the client.
This lower level relationship manager serves a dual role: business development officer and client relationship manager. Kim & Perry (1998:9) provide the following guidelines for making this model work:

- **Target a narrow market segment.** Determining the appropriate level of personalised service is critical to achieving profitability.

- **Define roles and responsibilities.** In this team delivery model, where everyone is equal, it must be made clear that some relationship managers are "more equal" than others. Product specialists pretending to be relationship managers cause confusion and can lead to missed cross-selling opportunities.

- **Hire sales-orientated relationship managers, even though they are a scarce breed,** as these managers are also the primary business development officers. If a relationship manager, according to the authors, says: "I am a private banker, not a used-car salesman", then he or she does not fit into this model.

- **Make sure the bank and not the relationship manager owns the client.** Do not, in this model, confuse personalised service with a single point of contact. A client with multiple points of contact at the bank is less likely to leave if the relationship manager decides to go to a competitor.

- **Build a contact management infrastructure.** With multiple points of contact, it is virtually impossible to keep track of who did what to whom. Communicating through memos and e-mails within the team is ineffectual and inefficient. Things will inevitably slip through the cracks. Streamline and improve this process with
a suitable contact management system. Although it may be painful to install and maintain, the benefits flowing from such a system, will be well worth effort.

- Manage the potential client pipeline and measure sales results. Business development activities are time consuming and although they may not result in new business immediately, it is essential to spend sufficient time on these activities, as future business depend on it.

- Set reasonable profit productivity expectations. Eliminate traditional performance standards, as this is a higher-cost sales-and-service-delivery model. Kim & Perrin (1998:9) recommend the use of total revenue and a substantial team-based payout. This will reinforce the team-based delivery model.

- Align compensation plans with business objectives. If it is the objective of the business to acquire more clients in the following twelve months, then performance measurement criteria must be heavily weighted towards numbers of clients signed on as against, for example, cross selling of company products to clients. Employees will do as they are paid, not as they are told.

Although this service delivery model is more complex, Beck (1997:52) is of the opinion that those banks that can make it work will hold onto clients longer, deepen their share clients' wallets and benefit from more and higher quality referrals.
4.5 SUMMARY

Whilst private banking has been identified by a number of authors as being one of the most profitable banking segments, the increasingly competitiveness of private banking globally, has forced private banks to both better understand the environment in which they operate, and to reconsider their service offering to clients.

There are indications that private banks are losing market share in the high net worth individual market to brokerages, investment counsellors and investment boutiques. To counter this trend, private banks need to implement an integrated, targeted strategy that combines trust services, transactional banking and investment management. Understanding the clients' total financial profile forms an integral part of this strategy.

In order to be successful, a private bank needs to pay specific attention to the image of the institution, be able to offer a full range of services on a global scale, deliver outstanding service and very importantly, produce constant, top notch investment performance. A private bank will only be successful in these areas if it selects an appropriate business focus, leverage technology and achieve client focus through will trained, competent relationship managers.

Choosing an appropriate business focus can be very difficult. The international private banking market clearly favours players with global scale and reach and as very few can
compete successfully across the board, private banks need to align their organisations to particular segment, product and distribution strategies.

While the utilisation of high technology service delivery applications and the traditional "hands-on" approach of private banks seem to be a contradiction in terms, it provides private banks with a cost-effective competitive edge. Many private banking clients are also sufficiently computer literate to expect their private bank to make use of technology in the service delivery mix.

From a private banking point of view, understanding the personality traits of clients, is key to satisfying clients' needs. Active investors (aggressive risk takers) may tend to be more demanding than passive investors (low risk takers) are, but then research has indicated that active investors are four times more profitable than passive investors are.

Relationship managers form an essential link between the client and the private bank. In order to be successful, relationship managers need to receive support from both the private bank's top management, as well as from competent support staff. Compensation schemes should also be designed to ensure that good relationship managers remain within the private bank and do not need to move to other areas within the bank to improve their financial position.

There are a number of differences amongst authors on private banking, especially regarding the role and function of the relationship manager. On the one hand, more focus
on relationship management is advocated at the expense of selling private banking services, while on the other hand, it is suggested that private bankers are spending too much time on tasks other than selling.

Another dichotomy is the relationship manager (single contact point) versus the team approach (investment manager, transactional banker and trust expert). There are, from a private banking client point of view, benefits in both these approaches. Which one is preferred would very much depend on a private bank's target market.

Finally, some authors suggest that a differentiated private banking service should be offered to clients of a private bank. For the upper end of the private bank’s clientele, the traditional, private banking relationship manager paradigm may apply. For the lower end of private banking, a more formal structure is recommended. In this formal structure, the client would not have access to the services of a relationship manager, but would deal directly to the relevant product expert. The formal structure must ensure however, that the multiple points of contact are working closely together to maximise the relationship with the client.

Whatever the service proposition or service delivery model decided upon by a private bank, it is of paramount importance that the private bank accurately defines its target market and ensures that the appropriate service delivery model is employed in order to ensure that the clients’ expectations are profitably met.
CHAPTER 5

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

"The private bank client has one entry into the bank and that is the relationship manager...that individual is a No. 1 priority”

McKinney, as quoted by Willis (1997:22)

5.1 INTRODUCTION

The tremendous growth in the number of high net worth individuals has spurred a renewed global interest in private banking. The term “private banking” however, is often ambiguous. There is no consistency amongst so-called private banks regarding entry criteria for prospective clients, services offered and service delivery models. There are many reasons for this phenomenon, not the least of which is the fact that private banking traditionally provides for high profit margin business.

In line with the international trend, private banking has also been identified as a growth area by South African banks. Although South African private banks can trace their roots back to the previous century, true private banking is a relatively new concept in South Africa. The creation of new wealth by entrepreneurs and black empowerment leaders gained momentum from the early 1990’s onwards. The requirements of these possessors of new wealth differ from inheritors in that wealth creation, by actively managing the
portfolio of investments, has become a priority. Wealth preservation, although still important, is very much a secondary requirement. The provision of a full range of services, ranging from transactional banking, asset management and fiduciary services, locally and offshore are also increasingly important requirements.

At present there is no service delivery model to guide institutions that want to enter the private banking arena. The existing private banks are so diverse in nature that an independent study is necessary to find the common denominators that underpin a successful private bank. The overall goal of this study was therefore to provide broad, generic guidelines for a true private bank in South Africa. The specific objectives of the study were:

To define private banking and also to investigate the international history and development of private banking, with specific reference to private banking in the United Kingdom, Switzerland and the United States of America. The development of private banking in South Africa and the service offering by the major players in the South African private banking market were also followed.

Finally, the history, development and service delivery offering of Henry Ansbacher (South Africa) as an example of a true private bank in South Africa were investigated.

In the next section of this chapter, a summary of the research undertaken will be given. This will be followed by the conclusions derived from the study and finally,
recommendations for success to existing and potential players in the private banking market in general, but specifically in the South African market will be provided.

5.2 SUMMARY

5.2.1 Private Banking – an international perspective

From its early roots as managers of merchants’ and goldsmiths’ wealth, private banking has developed into a highly specialised banking service offering. It is recognised as a separate banking business and not just as an add-on to the arsenal of a retail bank.

Despite the fact that 1998 has been a traumatic year for the financial services industry, the private banking market is booming. Rapid growth of entrepreneurial businesses, privatisation, stock market appreciation, low inflation and interest rates and the stable economic growth in the West in recent years led to the accumulation of huge sums of money in the hands of a concentrated group of wealthy individuals.

Private banking clients are prepared to pay a premium for value-added, tailor-made services and financial institutions are thus presented with an opportunity to escape from the mass-market industry, where margins are under constant pressure. This does not imply, however, that private banks are free to do as they want. To the contrary, ever intensifying competition worldwide is forcing private banks to be innovative in the
service offering to clients. Technology can play an important role in providing a competitive edge to a private bank.

There are many definitions of private banking. It is essential however, that a true private bank should be able to offer the full range of transactional banking, asset management and fiduciary services. These services should be provided seamlessly, both locally and offshore, and aimed at a carefully selected target market.

Although private banking had its origins in the United Kingdom and Europe, the United States of America represents the largest private banking market. It is estimated that in the year 2000, a total of $13.6 trillion will be under management by private banks.

As a consequence, wealth management in both Europe and the United States of America is continuing to grow rapidly. Stiffer competition will however put pressure on the profit margins of private banks in some instances force private banks to make significant changes to their operations in order to enable them to remain competitive.

Whilst Switzerland, generally accepted as the cradle of the private banking industry, as well as the United Kingdom have the reputation of being home to passive wealth, private banks in both countries are adapting quickly to the demand for active wealth management.
5.2.2 Private banking in South Africa

In line with the international trend, the huge growth in the number of high net worth individuals in South Africa has led to a fast growing and vibrant private banking industry. The league of new clients are essentially busy entrepreneurs demanding a different type of service which will remove the "hassle" from their financial services requirements. For this reason, while wealth protection remains a priority issue in private banking, it is now less dominant than in the past.

South African institutions active in the local private banking market come from diverse backgrounds, be it asset management, fiduciary services, treasury services or retail banking. A problem with having such diverse players in the South African market is that private banking has a business definition that tends to differ markedly from one market and region to the next. While there is agreement on basic elements such as discretion, personalised service and convenience, there are wide disparities over the range of services on offer. There are also different views about the threshold of wealth needed by a private banking client. For South African banks this tends to range from R1m to R50m, sums that could either represent the total value of the individual or the size of investable assets.

"Personalised service" must be the most overworked cliche in the private banking market. An important issue therefore is how a private bank differentiates itself from the competition when they, too, promise the ultimate in personalised service.
Given the sums of money involved and the globalisation of the world economy, it is critical for any private bank to have an international presence to be able to diversify their client's interests across the world in order to reduce the unnecessary risk of exposure to only one market.

While some of the South African private banks mentioned in this study are able to provide a full range of services, both locally and offshore none, with the notable exception of Henry Ansbacher (South Africa), is able to deliver these services under the same brand name outside South Africa. With the formation of FirstRand in 1998, the group was in the position to provide a full range of private banking services locally, as well as to have access to an internationally renowned offshore financial institution, Henry Ansbacher Holdings Limited. Henry Ansbacher (South Africa), the private banking group within the larger FirstRand group, lends its name from Henry Ansbacher Holdings Limited.

Henry Ansbacher Limited provides a full range of offshore private banking services, including multi-currency transactional banking accounts, investment administration and trust services from offices in London, Birmingham, the Channel Islands, Hong Kong, Switzerland, The Bahamas, British Virgin Islands, Cayman Islands and Monaco.

Henry Ansbacher (South Africa) serves the South African private banking market from three distinct profit centres, namely Henry Ansbacher Private Banking Services, Henry Ansbacher Investment Management Services and Henry Ansbacher Trust Services, thus
providing a full range of local private banking services. Each profit centre is responsible for maintaining their client relationships, while account directors are responsible for the relationships with clients who utilise the services of more than one profit centre.

There is constant change in the make-up of the players in the South African private banking market. It is expected that Nedbank Private Bank and Syfrets Private Bank, both in the Nedcor stable, will move closer to one another in the near future. Similarly, BOE Private Bank feed off Boland Bank in the rural areas and NBS Bank in the metropolitan areas.

Whatever the differences between South African private banks, there is unanimity that quality of service, personal contact and tailor-made services are key cornerstones. Outsourcing has become common, with very few private banks offering only their own products.

5.2.3 New trends in global private banking

Whilst private banking has been identified by a number of authors as being one of the most profitable banking segments, the increasingly competitiveness of private banking globally, has forced private banks to both better understand the environment in which they operate, and to reconsider their service offering to clients.
There are indications that private banks are losing market share in the high net worth individual market to brokerages, investment counsellors and investment boutiques. To counter this trend, private banks need to implement an integrated, targeted strategy that combines trust services, transactional banking and investment management.

Understanding the clients’ total financial profile forms an integral part of this strategy.

In order to be successful, a private bank needs to pay specific attention to the image of the institution, be able to offer a full range of services on a global scale, deliver outstanding service and very importantly, produce constant, top notch investment performance. A private bank will only be successful in these areas if it selects an appropriate business focus, leverage technology and achieve client focus through well-trained, competent relationship managers.

Choosing an appropriate business focus can be very difficult. The international private banking market clearly favours players with global scale and reach and as very few can compete successfully across the board, private banks need to align their organisations to particular segment, product and distribution strategies.

While the utilisation of high technology service delivery applications and the traditional “hands-on” approach of private banks seem to be a contradiction in terms, it provides private banks with a cost-effective competitive edge. Many private banking clients are also sufficiently computer literate to expect their private bank to make use of technology in the service delivery mix.
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Whatever the service proposition or service delivery model decided upon by a private bank, it is of paramount importance that the private bank accurately defines its target market and ensures that the appropriate service delivery model is employed in order to ensure that the clients’ expectations are profitably met.

5.3 CONCLUSIONS

From the study, it is concluded that:

5.3.1 Private banks are more resilient to periods of market downturn than most other areas of banking. There are two reasons for this: firstly, private banks’ profit margins are significantly higher and secondly, the credit risk profile of private banking clients is significantly lower than that of retail- or corporate banks.
5.3.2 The potential private banking target market is growing and is becoming both more sophisticated and heterogeneous as far as product and service preferences, as well as risk tolerances are concerned.

5.3.3 The private banking target market is not homogeneous and therefore there is no one definition of private banking. Private banks may decide to target individuals with a minimum net asset value of R7 million on the high end of the market or may decide not to consider the individual’s net asset value at all, but to offer an individual private banking services based on his or her sphere of influence. Some private banks even offer differentiated levels of services to different “classes” of private banking clients, based on these clients’ wealth.

5.3.4 The increase in the number of high net worth individuals, coupled with the potential high profit margins attainable by private banks, have lead to a dramatic increase in private banks both locally and offshore. This has resulted in the private banking market becoming increasingly competitive.

5.3.5 To cope with the increased competition, private banks are exploring innovative and non-traditional ways to improve their service proposition to existing and potential clients. Technology for example, can be used throughout private banks to stay ahead in the race for market share and also to strengthen and expand client relationships.

5.3.6 In line with global trends, the private banking industry has become a major new source of revenue for the financial services industry in South Africa.

5.3.7 Many South African banks that offer nothing more than an exclusive suite of “own label” products to high net worth clients use the term “private bank”.

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5.3.8 A true private bank should be able to offer a full range of services (transactional, asset management and fiduciary) to clients, both locally and offshore.

5.3.9 While some of the South African private banks are able to provide a full range of services, both locally and offshore none, with the notable exception of Henry Ansbacher (South Africa), is able to deliver these services under the same brand name outside South Africa.

5.3.10 The successful private bank of the future will need to score highly in each of four interrelated areas: image, product range, service and investment performance.

5.3.11 True private banking is about relationships and relationship management. Lasting relationships between private banks and their clients are only possible if private banks know and understand their clients. This will enable private banks to offer the appropriate service, at the appropriate price via the appropriate service delivery model.

5.4 RECOMMENDATIONS

It is recommended that the following issues receive particular attention if a private bank (specifically in South Africa) is to be successful:

5.4.1 There must be absolute clarity about the target market of a private bank. Is it going to be the established wealthy or the future wealthy? Will minimum entry criteria be strictly adhered to or will exceptions be allowed to cater for the so-
called influencers. There is no particular right or wrong answer and financial institutions catering for the aspiring wealthy can be very successful.

5.4.2 It is very important that private banks apply the appropriate service delivery model to its chosen target market. Failure to do this will result in either failure by the private bank to deliver outstanding service on a consistent level, or failure by the private bank to achieve its profit targets.

5.4.3 True private banks, in other words those private banks that cater for the top end of the established wealthy, need to deliver private banking services across the full spectrum of transactional banking, investment management and fiduciary services, both locally and offshore.

5.4.4 In addition to delivering full private banking services, private banks also need to offer tailor-made, bespoke financial solutions to their clients.

5.4.5 In order to successfully deliver the full spectrum of bespoke private banking services, private banks need to employ very expensive product experts. Whilst these product experts are technically very competent, they may not be very good relationship managers. Product experts in one area (for example transactional banking) may also not be aware of service failure or opportunities in another area, for example investment management. To overcome these shortcomings, specialist high-level relationship managers need to be appointed. These relationship managers need to be sufficiently experienced and qualified to interact successfully with both clients and product experts.

5.4.6 The above described model, is a very expensive service delivery model and should only be introduced to clients who are sufficiently profitable to the private
bank and very importantly, have the need for such a service delivery model. Only the top end of the established wealthy possibly falls into this market.

5.4.7 To offer this service delivery model to clients who do not have the need for it, but who are willing to pay for it for whatever reason, is not sound financial advice. By not fully utilising the benefits of this model, these clients do not receive value for money and they soon become disgruntled.
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