

PRIVATE BANKING AND WEALTH MANAGEMENT SERVICES OFFERED BY BANKS

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ABSTRACT: *The paper examines the features of private banking business focusing on the substantial growth in private banking over the last decade as commercial banks have targeted upmarket high net worth individuals. The accumulation of wealth has prompted the development of private banking services for high net worth individuals, offering special relationships and investment services. Private banking is about much more than traditional banking services of deposits and loans. It's about providing a one-to-one service by a relationship manager or a private banker to clients with a certain level of wealth. The globalization of financial markets provided access of private banking clients to a broader array of products, thus rendering greater portfolio efficiency and optimization of return through diversification. These kinds of services include: protecting and growing assets in the present, providing specialized financing solutions, planning retirement and passing wealth on to future generations.*

KEY WORDS: *high net worth individuals, client segmentation, private banking, wealth management*

1. INTRODUCTION

Worldwide, private banking and wealth management are business models that continue to be attractive to financial institutions, despite a temporary setback during the global financial crisis of 2008-2009. These services are relatively 'low risk' when compared to other activities, such as investment banking or extending credit to businesses and consumers, although private banking is not totally independent of failure in other areas due to perceived credit and reputational risks.

Private banking is a term for banking, investment and other financial services provided by banks to private individuals investing sizable assets. The term "private" refers to the customer service being rendered on a more personal basis than in mass-market retail banking, usually via dedicated bank advisers.

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Providers:	Presence		Service		Range		Targets:
	Local	Global	Standardised	Personalised	Narrow	Wide	
Category I:							
Universal /Commercial banks		X	X			X	Globale clientele
Merchant/investment banks		X	X			X	
Trust banks		x	X		X		
Traditional private banks	X		X			x	
Category II:							
Financial boutiques	X		x		x		HNWI's UHNW's
Ateliers	X			X		X	
Independent asset managers	X			X	x		
Intermediaries	X			X	X		
Category III:							
Mutual fund companies	x		X		X		Affluent
Life insurance companies	X	X	X		X		
Brokerage companies	x		X		X		
Special discounters	x		X		X		

X and x defines a different strength of the item: X means strongly related to the item; x weak relation to the item

Source: Svend E., *International Private Banking*, Zurich, Verlag Paul Haupt, 1997

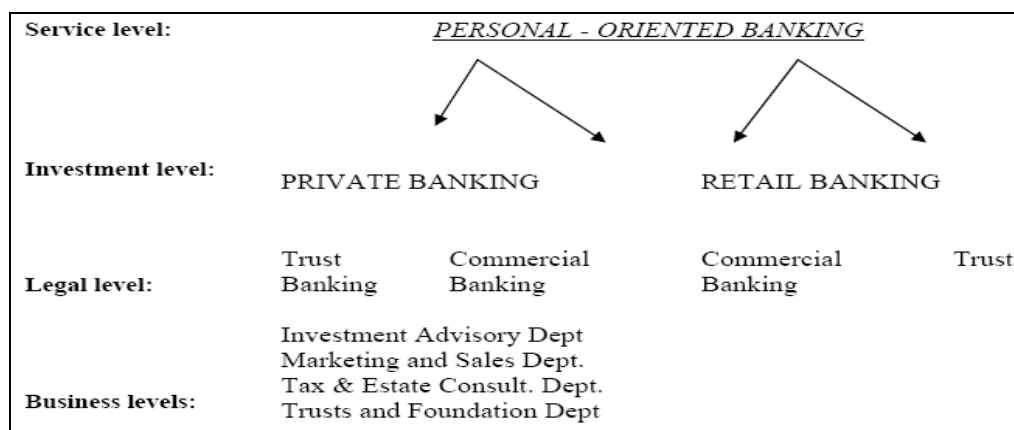
Figure 1. Types of private banking providers and their targets

Private banking is a much more personalized banking service given to individuals who invest substantial sums. Private banking is about much more than traditional banking services of deposits and loans. The most noticeable difference between retail and private banking services are that private clients receive customer service on a 1-1 basis via a relationship manager or a private banker. It's about finding solutions to help affluent individuals manage their wealth today and develop new sources of wealth for future generations. Private banking means personalized financial and banking services that are traditionally offered to a bank's rich individuals. For wealth management purposes, high net worth individuals have accrued far more wealth than the average person, and therefore have the means to access a larger variety of conventional and alternative investments. Thus, banks aim to match such individuals with the most appropriate options. In addition to providing exclusive investment-related advice, private banking goes beyond managing investments to address a client's entire financial situation. Services include: protecting and growing assets in the present, providing specialized financing solutions, planning retirement and passing wealth on to future generations.

Private banking in the present socio-economic context represents the activity of personal financial counselling and wealth management for high net-worth individuals. Private banking services take into account each client's unique financial needs. In order to build a coherent and tailored private banking portfolio, the selection and allocation of products takes into account the client's risk appetite, investment objectives and horizon and also the desired structure. Investment objectives relate to what the client wants to accomplish with the portfolio. Objectives are mainly concerned with risk and return consideration.

Usually the private banking arm of a bank is separate from the retail banking arm and the service is completely distinct. Only very affluent clients demand wealth management where private bankers manage an investment portfolio for a family or an individual. The fee for this service varies from bank to bank and is charged yearly as a percentage of the total amount invested. The return of a portfolio will also depend on the standard of the private banking service. While some will provide excellent returns, others will continue to charge high fees while investing client funds in the bank's own investment funds, regardless of whether or not this is beneficial to the client.

A popular alternative to wealth management is self-directed private banking, where the client manages his own portfolio, at times calling on advice from the bank. The advantages of this type of account are lower fees and greater personal control. Private banking concerns the high-quality provision of a range of financial and related services to wealthy clients, principally individuals and their families. Typically the services on offer combine retail banking products such as payment and account facilities plus a wide range of up-market investment related services. Market segmentation and the offering of high quality service provision forms the essence of private banking and key components include: tailoring services to individual client requirements, anticipation of client needs, a long-term relationship orientation, personal contact, discretion, investment performance.



Source: Molyneux, P.; Omarini, A. - *Private Banking in Europe - Getting Clients and Keeping Them*

Figure 2. Private and Retail Banking Overlaps

2. PRIVATE BANKING AROUND THE WORLD

Historically private banking has been viewed as very exclusive, only catering for high net worth individuals with liquidity over USD 2 million, although it is now possible to open some private bank accounts with as little as USD 250,000 for private investors. An institution's private banking division will provide various services such as wealth management, savings, inheritance and tax planning for their clients. A high-level form of private banking (for the especially affluent) is often referred to as wealth management. While an individual may be able to conduct some private banking

with USD 50,000 or less in investable assets, some exclusive private banks only accept clients with at least USD 500,000 worth of investable assets. The rationale is that such high levels of wealth allow these individuals to participate in alternative investments such as hedge funds and real estate. Furthermore, this level of wealth often prevents liquidity problems. As a primitive form of private banking, exclusive services have been offered to certain clients even from the beginning of institutionalized banking activities. Although materialization of the private banking activity into a distinct service has taken place early in the 19th century, the term "Private Banking" has been used to depict this service only beginning with the inter-war period (between the first and the second world war). Private banking, for the most part, was an art developed offshore in London, Zurich and Vienna. Over two centuries ago Mayer Amschel Rothschild (1743-1812), founder of the famous international banking dynasty, created private banking. The House of Rothschild filled a void, creating a profitable continental money system that influenced the course of European history by financing its rulers and wars. Now, that was private banking.

Private banking has come to mean investment management beyond offering a confidential relationship with a person to whom you entrust your money. Those personal relationships still exist in the traditional places such as The City in London. But they apply more to extremely rich people than to moderately wealthy people who want more personalized treatment than they can get from their local bank branch or on the Internet. In this case, private banking means investment management offered on a personalized basis by a bank to an individual (or his company, trust or family foundation) with disposable wealth of more than USD 100,000.

Until relatively recently, only the wealthiest investors could benefit from having any kind of offshore bank account. Now, after dramatic changes in international banking, almost every bank offers special rates of interest to wealthier private depositors under the heading of "private banking." Minimums have fallen to USD 25,000 (or lower) in some cases, although many banks still maintain more traditional entry levels of USD 100,000 or much higher (USD 250,000 in Swiss banks) before offering special treatment to their clients.

The globalization of financial markets provided access of private banking clients to a broader array of products, thus rendering greater portfolio efficiency and optimization of return through diversification. A private banking relationship manager attends each client's needs as the sole representative of the bank. Thus, the private banking relationship manager is the link between the client and all of the bank's departments and directorates.

According to Euromoney's annual Private bank and wealth management rankings, which consider assets under management, profitability, ratio of clients to relationship managers and services offered, global private banking assets under management are up over 128% year on year. Best private bank for ultra high net worth (\$30m+) 2008. Table 1 displays results of one category of the private banking awards.

It has been estimated that the top 10 private banks in Europe manage around 20% of HNWI wealth, and within a country no player has more than 5% of the domestic private banking market. Note however that in Switzerland, UBS and Credit Suisse are major managers of offshore wealth - Switzerland being the capital of

offshore private banking. Switzerland, in particular Geneva, is a major location for private banking. Swiss banks hold an estimated 35% of the world's private and institutional offshore funds, or 4.6 trillion Swiss francs.

Table 1. Best global private bank for ultra high net worth in 2007-2008

Company	Rank 2008	Rank 2007
Citigroup	1	1
Goldman Sachs	2	2
UBS	3	3
Credit Suisse	4	5
JPMorgan	5	4
Morgan Stanley	6	8
Merrill Lynch	7	9
HSBC	8	6
Pictet & Cie	9	7
Deutsche Bank	10	11

Source: *Euromoney magazine, January 2008, Annual rankings*

But in 2009 the private banking sector had decreased. For example, a study of The Italian Private Banking Association emphasised the impact of the crisis on the private banking market. After five years of growth at an average of 7.4 per cent per annum, private wealth around the world in 2008 lost 14.7 per cent of its value, returning to 2005 levels. According to the study, which focused only on the Italian market, in 2008, private wealth dropped in value by 6 per cent. The situation has been caused by the slowdown in the world economy, the rapid fall in share prices, and the drop in private banking deposits. The overall wealth of affluent individuals with assets worth more than ten million euro decreased by around 23 per cent. The intermediate category of individuals with assets worth between five and ten million euro, on the other hand, grew significantly in number, up by 29 per cent. In contrast, the number of individuals with assets worth between one and five million euro remained largely unchanged, whereas the number of individuals with assets worth between 500,000 and one million euro dropped by 15 per cent.

3. DEVELOPMENT OF PRIVATE BANKING IN ROMANIA

In Romania, the increase of individual income and accumulation of capital as a result of economic development determined more and more banks to offer private banking services to high net worth individuals. The first private banking services have been offered in Romania starting with the year 2001, but the extension of the service throughout the Romanian banking system hasn't happened until 2005, when the movement of capital has been completely liberalized. This measure eliminated all restrictions with regard to investment of non-resident individuals on the local market.

In Romania the private banking market targets entrepreneurs and managers rising to the top of local branches in blue chip companies. Liquid assets are becoming more important, and therefore private banking has a key role. Private banking services

are offered by banks to their top clients in exchange for a commission or a fixed tax (monthly or yearly), depending on each bank's strategy.

The accumulation of wealth has prompted the development of private banking services for high net worth individuals, offering special relationships and investment services. RBS Romania (former ABN AMRO) has been one of the pioneers of private banking in Romania, but many banks now have separate private banking departments or divisions (BCR, UniCredit Tiriatic Bank, Bancpost etc.). UniCredit Tiriatic Bank adjusted its private banking strategy by focusing on higher income clients – the minimum access threshold for the bank's services was tripled to EUR 300,000. Although Volksbank had announced that its private banking division would become operational in October 2008, the service has not been introduced yet.

While ING started private banking operations in Romania at the beginning of the decade, the two largest banks the Romanian Commercial Bank (now BCR Erste) and BRD Groupe Societe Generale created departments in 2004. By 2007 smaller banks in Romania, such as Credit Europe Bank, ABN Amro (now RBS – The Royal Bank of Scotland) and MKB Romexterra, with its new status as part of the Bayern Lb Group, have entered the market. The latest entries are OTP bank, which began providing a private banking service since December 2007 and Transilvania Bank (BT) that started providing private banking services, in September 2008.

Only nine months after it launched private banking services, BT has become a market leader, with assets managed exceeding EUR 400 million. The bank targeted mainly its existing client portfolio for private banking services, given that Romania is in the middle of an economic and financial crisis and the market is stagnating. When the bank started providing private banking services, in September 2008, over 500 bank clients already had a profile suitable for these services. The bank's specialized managers are now working for more than 3,600 clients all over the country, from which clients from Bucharest own EUR 150 million of the bank's total assets.

The number of potential clients for private banking services in Romania is estimated at around 100,000 individuals, representing approximately 0.5% of the total population. At present, the private banking market leader is BCR, owned by Austrian Erste group, with assets managed exceeding EUR 1.1 billion and some 4,500 clients. Other top players are Raiffeisen Bank, with EUR 6,000 million in assets and 2,000 clients and UniCredit Tiriatic Bank, with assets worth EUR 280 million and 1,500 clients. As in 2007, most private banking branches were based in the north of Bucharest. BCR Erste had employed six people in its Bucharest branch and 24 people over the country covering cities such as Brasov, Timisoara, Craiova, Constanta, Iasi and Cluj-Napoca, while Raiffeisen had four branches in Bucharest and in Constanta, Iasi, Timisoara, Brasov, Cluj-Napoca and Ploiesti. ABN Amro (now RBS) had a 'preferred banking' salon in the capital and intended to add another branch in Bucharest, as well as in other major cities. UniCredit Tiriatic Bank's private banking operations were only available in Bucharest, but the bank had plans to cover the country. The Romanian private banking market offers services from bank deposits with negotiated interest rates, state bonds, municipal bonds and banking insurance products - they also put customers in contact with other branches of their bank that offer specialized services.

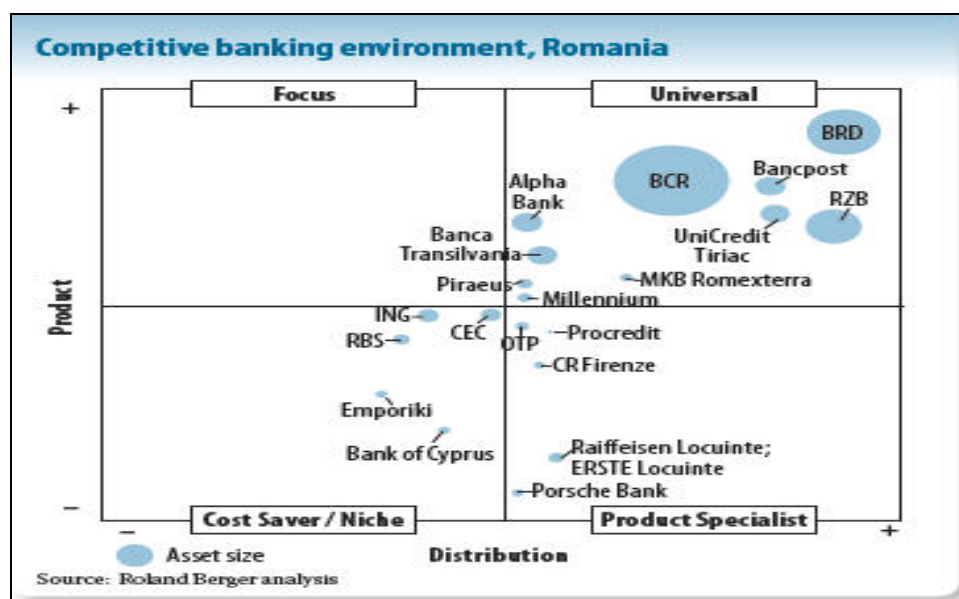


Figure 3. Competitive banking environment in Romania

In BRD Groupe Societe Generale, for example, the management of the client investment portfolio also involves the capital market, managed through BRD Securities. ING offers bonds, bills, shares and advice to individuals on where to invest. For relationship managers the basic principal is to advise diversification. UniCredit Tiriac presents portfolios based on risk profiles and expectations of customers because some investors are active on the stock market, some are conservative and for them a portfolio mainly consists of bonds and long-term deposits and government securities and very few stocks. The clients of Raiffeisen usually invest around 70% in safe products and 30% in shares and deposits and products that have a higher risk. B.C.R. Erste runs an asset management portfolio, but only around ten per cent of its private banking customers exploit this service.

As early as at end-2008, the clients' tendency to turn their liquidity to the banks and put it in term deposits or investments carrying a very low risk has become obvious. The trend was the result of the steep fluctuation of the exchange rate as well as of the very high volatility in the real estate market. The term deposits offered such advantages as the high degree of liquidity, amid the current economic circumstances, and also the safety and diversity of the alternatives depending on each client's appetite and risk profile. Therefore, the Romanian private banking market grew spectacularly in 2008.

The banks have become increasingly attracted to managing the individual clients' wealth in the last two years, with the statistic figures showing such market niche had a potential of EUR 1.8 billion in 2007. The assets managed by the private banking services surged 40% in 2008 to more than EUR 3.1 billion. This year, the clients seem to have a more conservative approach, as they prefer to preserve what they have. However, the figures in the first four months point to a continued slight increase in the private banking.

The *Romanian Commercial Bank* (B.C.R.) is leader on the Romanian Private Banking market, being focused on creating tailored solutions designed for customers' needs. The bank has a pro-active and customer oriented attitude and provides different services one customer to another, being adapted to every customer's needs. Private banking services offered by the bank include not only banking products, but also advisory on investments, the capacity of performing operations for the customers and support them when making transactions. With the help of the personal banker, the customer is directed not only to typical banking products, but also to other financial products, such as brokerage, financial advisory, leasing. The bank promotes excellence in servicing customers and act with responsibility, loyalty, flexibility, integrity, commitment and professionalism in order to satisfy our customers' needs.

Concerning the retail & private banking business line, in 2007 the bank's efforts went towards intensifying the retail banking activities, exploiting B.C.R.'s experience in this area and that of Erste Bank Group for increasing products and services sales to individuals and for promoting attractive financing offers aimed at micro enterprises and small entrepreneurs. An important objective in this area was adapting the territorial network to the new concept of client servicing, going forward with its development by means of small branches located in commercial and densely populated areas and by creating real estate centres. Taking into consideration the range of products, B.C.R. tried to improve the existing ones – especially those pertaining to lending, current account and electronic banking services and related products, as well as creating attractive product packages. The major objective of the project was to create a new unitary framework, aligned to the best practices and standards of the Erste Group. Within the new servicing model, a new definition of the private banking clients and a centre dedicated to these clients were developed, new quality standards were implemented and new specific products were developed, respectively investment products of funds type.

UniCredit Tiriac Bank offers not only tradition and innovation, but also the competency of more than 1,500 private banking personal advisors, working in 19 countries to offer on-shore and off-shore services. Innovation is represented by the Private Banking businesses that UniCredit Group has in the Central Eastern European countries as well as continuous development in services and products offered by BankPrivat (Austria), HVB Private Wealth Management (Germany), UniCredit Private Banking (Italy), Bank Pekao (Poland), Yapi Kredi Bank (Turkey), UC Suisse (Switzerland). UniCredit Tiriac Private Banking has now deep roots on the Romanian market. Since 2003, when it started under the HVB Group umbrella, it has been and is now offering superior investment services and financial consultancy to clients that choose to benefit from a complex management both of their banking portfolio and their investments. The private banking business in UniCredit Group is currently serving 200,000 clients, managing assets for more than 120 billion Euro. The bank's private banking system boasts many strong points: the experience of our consultants, deep knowledge of the markets and effective financial strategies, which have made it possible for UniCredit to impressively increase the number of clients and the assets handled.

MKB Romexterra Bank has introduced private banking services to the Romanian market starting with the year 2007. *MKB Romexterra Bank* offers its Private Banking services to resident or non-resident individual clients who want to invest sums of at least 100,000 EUR or the equivalent in another currency. By signing the private banking contract with *MKB Romexterra Bank* the client benefit from the services of a dedicated relationship manager, who will advise him in all financial and banking matters and also receive and execute the client's orders in regard to the investment process. After determining the risk profile, the private banking relationship manager will present the investment possibilities and the customer will be directly involved in taking the decision upon the investment strategy, products and instruments.

The *OTP* private banking service was launched in Hungary in 1995. In 2002, the *OTP* private banking re-positioned the service and elaborated a new private banking value proposition. The success of the work performed so far, is indicated by the fact that the assets managed have tripled since 2002, while the number of clients nearly doubled. As a result, *OTP* private banking has grown and became market leader, with an estimated market share around 35 %. Currently, 12,700 clients have their assets worth nearly EUR 1.6 billion managed by *OTP* private banking; such an impressive volume is perceived as outstanding not only in the domestic market, but also at international level. In 2009, *OTP* private banking has been awarded by *Euromoney* the prize for "Hungary's Overall Best Private Banking Service Provider".

Also, *OTP Group* already started to implement its successful Private Banking business model in subsidiaries, in order to build up a service network for the high net-worth clients in the Central and Eastern European region. Romanian clients can also start enjoying the privileges offered by the *OTP* Private Banking services, sustained by the international group's experience and know-how. *OTP Bank Romania* private banking offers an enhanced level of service to the most demanding high net worth customers for their financial services requirements. The Private banking package provides a convenient solution from a single complete package for the client's day-to-day banking needs, as well as attractive discounts on other standard banking services and products. *OTP Bank Romania* private banking is a personalized service delivered through a dedicated private banking relationship manager who works with the clients, helping them discover their long-term goals and translating them into clear financial objectives. Experienced and trustworthy private banking relationship managers with exposure to financial industries build long lasting relationships and provide a high degree of confidentiality and support.

4. CONCLUSION

In private banking, the majority of Romanian customers are still not taking the long-term view nor are they looking at complicated products. The offer of high end financial products as seen on developed markets is still in an infant stage in Romania, but the size of the demand for private banking services is increasing. Customers are still not saving for the future, long-term savings being very rare because people are not thinking about instruments for five to 15 years and clients are still looking for facilities for under one and a half years.

In Romania, the most common private banking customers seem to be those over 30, with a university degree, mostly male, who have made money from, for example, an IT and telecom business, through real estate or a CFO or CEO in a Romanian branch of a blue chip company, as well as sportspeople and entertainers. This is unlike the West, where customers are closer to retirement age. There is also more interest among doctors, lawyers and surgeons, those from the so-called liberal professions, as well as a growing number of women interested in private banking. The latest trend for customers is people exiting from business. They want to keep their money safe and are looking for the best deal. They want double digit yield rates with no risk at all. Such customers are placing their money in property, reinvesting in their own business and in time deposits. Some have sold out part of their company and are looking to place their money in a secure place. They are not looking for a risky investment from a bank, because their own business is their high risk venture. They want security from private banking because, overnight, a business can vanish. On the whole, customers are not yet thinking of trust funds for their kids. This is similar behaviour to the new rich of Russia - where private banking customers are not discussing, for example, school fees financing. Right now they are thinking about themselves.

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