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Getting social

What can social media really do for private banks?

- Interview: Falcon Private Bank
- Country survey: Spain
- Isle of Man's wealth market

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Switzerland and scandal

In the last month, the bank that has unfortunately been on most people's minds is HSBC. I say unfortunately as the UK-headquartered lender came under scrutiny and investigation as news broke of its private banking subsidiary in Switzerland having helped wealthy individuals avoid and evade tax.

Documents were obtained through an international collaboration of news outlets, including the Guardian, the French daily Le Monde, BBC Panorama and the US-based International Consortium of Investigative Journalists. They offer strong evidence that HSBC actively encouraged its clients to dodge tax.

It potentially amounts to the largest banking leak in history, covering the period of 2005-2007, highlighting approximately 30,000 accounts holding almost £78bn ($120bn) of assets.

HSBC's chief executive Stuart Gulliver made a public apology, admitting the past failings at HSBC's Swiss private banking arm.

The news has taken on a larger political nature, as several regulators in the UK are being questioned around why they did not attend to these discrepancies vigilantly back in 2010.

Gulliver alongside HSBC Chairman Douglas Flint also continue to be questioned by the UK Parliament's Public Accounts Committee.

The HSBC scandal – so to say – has thrown up several holes that exist in offshore tax havens. It also brings us back to the ongoing conversation about the biggest wealth market in the world, Switzerland, slowly losing its competitive edge.

Switzerland has been known as a traditional tax haven for the wealthy for hundreds of years.

However the words 'secrecy' and 'dodgy money' have been associated with banks in the country far too much.

Focus on more transparency and tighter regulatory controls were touted as dents to the Swiss banks' attractiveness.

There have been conversations around how the country is losing clients to more nifty private banking markets such as Singapore and Hong Kong.

When PBI spoke to banks in Switzerland, however, they were not worried about losing the competitive advantages.

According to them, Switzerland's long tradition and expertise in the private banking arena as well as its long-standing goodwill still sets it apart as the most sought after wealth haven for HNW and UHNW clients across the world.

However, a lot of goodwill is associated with trust and, for a few years now, data breaches and questionable tax evasions have not helped that in any way.

The recent news around HSBC's Swiss private banking subsidiary's actions definitely hampers the bank in credibility. But the larger effect this has on Switzerland as a private banking hub cannot be discounted.

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The global fight against tax evasion has intensified, with governments worldwide introducing new reporting requirements. CRS is easily the most far-reaching regulation to date, but raises questions about the technology used by financial firms for regulatory reporting, writes AxiomSL's **Bahar Sezer**

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RESULTS

ANZ sees 3.5% rise in Q1 profit, wealth division performs well

Australia and New Zealand Banking Group (ANZ) has reported a cash profit of A$1.79bn for the first quarter of fiscal year 2015, a rise of 3.5% compared to A$1.73bn during the same period last year.

For the quarter ended 31 December 2014, the bank recorded statutory net profit of A$1.65bn, consistent with the prior year's quarter.

The bank's global wealth division continued to perform well delivering strong in-force premiums growth, stable claims and lapse experience together with growth in funds under management. According to the company, ANZ Smart Choice Super, the GROW by ANZ digital platform and the ANZ Grow Centre have driven greater adoption of wealth products by customers.

ANZ CEO Mike Smith said: "ANZ has made a solid start to 2015 with our customer franchises in Australia, New Zealand and Asia continuing to perform strongly.

"As we anticipated, 2015 is proving to be a slightly tougher, more volatile environment. We have seen some tailwinds associated with the lower Australian dollar in the first quarter, however these have been partially offset as a result of global economic conditions including lower commodity prices,"he added.

REGULATION

Philanthropy growing globally: BNP Paribas WM and Forbes

Global philanthropic activity has increased by five points on average in 2015, with Europe recording the strongest growth in current and projected giving, a new survey has revealed.

The third annual *Philanthropy Index,* put together by BNP Paribas Wealth Management (WM) and Forbes Insights, revealed that Europe experienced the fastest growth in philanthropic activity from 46.3 points in 2013 to 55.5 at the end of 2014, almost reaching the same level as the US.

The data for the index is derived from a 2014 survey of around 400 individuals in four regions (Europe, the US, Asia, Middle East) and with at least $5m in investable assets.

Kasia Moreno, editorial director at Forbes Insight and co-responsible of the survey, said Europe "leads in innovation," as there is a "high sense of duty and family legacy" in the region.

Contrary to last year's survey, health, instead of the environment, showed up as the top cause of philanthropic investments among all the four regions, with Asia registering the highest percentage (70%).

The new Index revealed that philanthropists are increasingly embracing technology. The top uses of technology in philanthropy are currently promotion via social media (42%), crowd evaluation (42%) and crowdfunding/online fundraising platforms (41%).

Furthermore, 67% of respondents believe that advisors are necessary to most effectively navigate the giving sector. After family (51%), philanthropy advisors/agencies (39%) and external experts in the area of focus (37%) are the most often consulted resources for help with giving.

The index showed that "Impact/mission investing" is seen as the most promising trend by most philanthropists (52% each) worldwide.

M&A

Notenstein Private Bank to acquire La Roche

Notenstein Private Bank, a subsidiary of Raiffeisen Switzerland, is planning to acquire Basel-based private bank La Roche, Swiss online news portal finews.ch has reported.

Notenstein Private Bank, which manages around CHF21bn in assets under management, offers wealth management services for private and institutional clients.

La Roche manages around CHF10bn and serves both traditional private client and institutional client business. Sources believe that the Swiss banking sector is likely to reduce in size by a third in the coming years, amid increasing regulatory costs.

REGULATION

Jersey signs MoU with South Africa

The Jersey Financial Services Commission (JFSC) and South African financial services regulator the Financial Services Board of the Republic of South Africa (FSB), have signed a memorandum of understanding (MoU).

The MoU provides a framework for the JFSC and the FSB to exchange confidential regulatory information and co-operate with each other regarding the supervision and regulation of firms under their authority.

The MoU supersedes and updates a previous MoU signed in May 2000. JFSC director general John Harris said: "With the provision of cross-border financial services between Jersey and South Africa expected to increase in the coming years, it is important that the JFSC and the FSB are in a position to co-operate.

"This memorandum will assist in that regard, as it provides a formal framework for the exchange of regulatory information and mutual assistance for the purpose of ensuring compliance by financial service businesses with both jurisdictions' regulatory requirements."

TECHNOLOGY

Banque de Patrimoines Privés SA to use Avaloq Banking Suite

Banque de Patrimoines Privés SA, the Luxembourg-based private bank, part of the Crèdit Andorrà Group, has migrated to the Avaloq Banking Suite.

Tecla Solari, general manager for Western and Southern Europe at Avaloq, said: "The successful migration of Banque de Patrimoines Privés is significant for two reasons: Firstly, it is again proof that we can support international financial institutions that need a solution capable of supporting their cross-border activities. Secondly, it further strengthens our expansion in Luxembourg and in the Western European market."

Other Crèdit Andorrà Group entities that use the Avaloq Banking Suite are the subsidiaries in Andorrà and Panama as well as Banco Alcala in Spain.

Carlos Fernández-Rubíes, managing director at Banque de Patrimoines Privés SA added: "The contribution of Avaloq to the Crèdit Andorrà Group has been substantial. We feel very enthusiastic about the fact that the Avaloq Banking Suite is now deployed at Banque de Patrimoines Privés, and that we will be able to profit from all the advantages that come with this state-of-the-art platform."

STRATEGY

Italy signs tax information-sharing accord with Liechtenstein

Italy and Liechtenstein have signed a tax information exchange agreement as part of their efforts to combat tax evasion. The accord was signed by Italy's economy minister Pier Carlo Padoan and the prime minister and finance minister of Liechtenstein, Adrian Hasler.

Under the agreement, Italian tax authorities will receive tax information about their taxpayers who hold assets in undeclared overseas bank accounts.

Taxpayers will be subject to milder sanctions and criminal penalties if they pay all outstanding taxes within September 2015. The agreement allows for the automatic exchange of information for tax purposes upon request between the two countries based on international standards by 2017. ■

MARKETS

UBS WM says uncertain UK election will bring "significant volatility" in Q2

The upcoming UK general election is set to be the most unpredictable and fragmented since the 1970s, according to UBS Wealth Management's Bill O'Neill.

"We think there will be significant volatility in the second quarter of 2015: it is almost inevitable," said the head of the UK investment office at the bank.

Speaking to reporters in London, O'Neill also drew parallels with last year's Scottish referendum campaign.

He said: "Just as they did with Scotland, the markets are saying 'fine, fine, fine', but then as the date approaches they will start to panic a little bit."

Weeks before the referendum in September 2014, several wealth firms said clients had been moving money out of Scottish banks, and pension funds out of the stock market and into cash, diversifying over short-term scares.

According to a research note issued by UBS Wealth Management, a general lack of clarity about the election's outcome may indeed exert a downward pull on some UK assets.

Particularly troubling would be a "double minority" outcome, when two parties still did not have enough seats to form a coalition, the Swiss bank said.

A combination of the Conservatives or Labour with the Liberal Democrats might still be short of the 326 needed for an overall majority, the research also found.

The markets will focus on the implications of the election result for the UK government's commitment to austerity 2.0, and the possibility of a referendum on EU membership.

However, there is no immediate danger of a debt rating downgrade, according to the bank.

O'Neill also acknowledged that despite market fears, the UK economic context is "relatively very bright."

He said: "We believe that, as we go into the election, the misery index will be very low. We have a very robust consumer recovery, with the first rise in real average earnings in six years, easy credit conditions, low inflation and the stimulative effect of the collapse in the oil price."

UBS Wealth Management said the possibility of an EU exit is potentially a market concern, but investors will only start to assess the risks seriously "once the shape of the new government is known".

However, the threat of a referendum "could nonetheless harm the economy, gilts, sterling and specific sectors of the equity market", he said.

A change of government could, concluded the bank, lead to changes in industrial policy. This could specifically affect the utilities, banks, tobacco sectors as well as the housing market. ■

RESULTS

Julius Baer's AuM up 14% in 2014, but 200 jobs to go

Swiss private banking giant Julius Baer has reported a 14% increase in assets under management (AuM) for 2014, reaching a record CHF291bn ($312bn).

The new figure includes CHF60bn of AuM reported from the completed integration of the Merrill Lynch's international wealth unit (IWM), of which CHF58bn was booked on the Julius Baer platforms.

Julius Baer said the growth in total AuM was attributable to net new money of CHF-13bn (5%), a positive currency impact of CHF11bn, positive market performance of CHF 6bn, as well as CHF6bn from the first-time consolidation of Brazilian subsidiary GPS.

As a consequence of the Swiss franc's appreciation, Julius Baer has also launched an 'efficiency programme', which aims to cutting costs by approximately CHF 100m ($107m) on a run-rate basis.

Julius Baer will perform a "controlled hiring and resource reallocation" by cutting approximately 200 positions through "natural attrition" and "staff reductions" in mid- and back-office functions, it added.

The Swiss group also said planned savings of general expenses will be achieved through the short- and medium-term improvement of processes across the group, as well as a reduction in its marketing spending.

Boris FJ Collardi, chief executive of Julius Baer Group, said: "In 2014 the Group successfully realised the considerable synergies offered by the IWM transaction and in so doing significantly strengthened the basis for further long-term growth in the profitability of its business.

"This robust foundation is reinforced by a continued very solid capital position. As a consequence, Julius Baer will be able to confront the effects of the recent Swiss franc appreciation from a position of great strength."

Julius Baer recently said that it did not suffer any losses soon following the Swiss central bank's decision to abandon a three-year-old cap on the franc.

In the full-year results, the bank reported that, following the IWM integration-related rightsizing, the number of relationship managers fell by 42 to 1,115, of which 316 were formerly from IWM, down from 365 at the end of 2013.

Operating income at the bank rose by 16% to CHF2.55bn, resulting in a gross margin of 94 basis points.

Adjusted profit before taxes improved by 21% to CHF706m with adjusted net profit growing by 22% to CHF586m. In 2014, adjusted earnings per share rose by 20% to CHF2.68.

As a result, the bank's adjusted cost-income ratio improved to 69.9%, just inside the 65-70% range, meeting the bank's target for 2015.

As reported in its results presentation, Julius Baer has also decided to renew its IT platforms globally. The bank has selected Temenos to initiate planning of its core banking platform replacement.

The project's aim is to deliver improved client experience, operating efficiency and flexibility through the harmonisation of processing platforms, Julius Baer said.

The project will be launched in Asia, which represents close to 25% of the bank's business and is therefore an "ideal template" for future implementation in other regions after its anticipated completion in 2017. ■

Social affairs and untapped avenues

Social media platforms such as Twitter, Facebook and LinkedIn are yet to appeal to private banks and wealth managers in the way they have to retail lenders and clients. But there are several ways in which private banks, as well as wealthy clients, can use social networks and maximise their potential. **Valentina Romeo** explores

Following the launch of the updated FCA's guidance in the summer of 2014, the industry has a much better understanding of how to remain compliant when using social media platforms.

There are a growing number of banks on the retail side that have effectively been reaching out to customers via social media – including channels such as Pinterest and Instagram alongside Twitter, Facebook, LinkedIn and Google+.

However, the use of social media by wealth managers and private banks to service mass affluent, high and ultra-high net worth clients (HNWIs and UHNWIs) has been minimal.

Unsurprisingly, in 2014, research firm MyPrivateBanking found that global wealth managers remained weak in social media, when compared to the retail offering.

While retail banks achieved 67% of the maximum possible points for social media usage, the corporate and investor relations divisions come out weaker at 62%.

However, the wealth management and private banking divisions had the poorest results by far, for social media engagement, with an average score of 42% of the maximum possible points.

Specifically, the wealth management and private banking divisions of major banks had a score of only 27% for their Twitter streams when it came to user activity (retweeting or having conversations on Twitter).

The MyPrivateBanking report further found that HNWI clients were, in many cases, put off by social media that is "not interesting, not up to date, and not interactive".

However, Graham Aikin, owner, HNW Social Media Solutions Ltd, says most financial institutions are now finding a clear need to engage further and in varied ways with prospects and clients via social media, particularly to address the "future-proofing" of their business.

Aikin says it is far better to particularly engage with the next generation of clients now, rather than when it is too late.

Elite networking

Even though Facebook is not a popular choice among private banks or their target clients, there are elite social platforms modelled along the lines of Facebook that the super-rich tend to use.

For instance, Netropolitan can be seen as a Facebook for rich people, and it makes no bones about its exclusivity with a $9,000 membership fee, composed of a $6,000 initiation fee, plus a $3,000 annual fee.

Pitching itself as an "exclusive digital country club, Netropolitan aims to create an environment for rich people to engage with each other and talk about the "finer things in life" without backlash.

Members must be at least 21 years old, and privacy is a priority. It also ensures an advertising-free environment.

There are also country-specific social media platforms targeted for the wealthy, such as P1 in China and the US-based Affluence.org.

Going beyond the wealthy clientele, there are exclusive online networks that cater to advisers as well as clients.

UK's Family Bhive, founded by Caroline Garnham, is an exclusive online community for wealthy clients and advisers which has a social networking side that connects HNWIs with advisers, allowing users to share and follow wealthy lifestyle and private wealth intelligence based on personal preferences.

Disruptive capabilities

According to Aikin, a LinkedIn company page remains the starting point for most firms, followed by a Twitter account. But many firms are beginning to train and empower their relationship managers (RMs) to use LinkedIn for prospecting and client engagement, and Aikin says this trend is set to continue in 2015.

Consultancy firm Mercer's 10 priorities for wealth management advisors in 2015 ranks "adopting a client communication technology strategy" among the top objec-

Top Three Rankings for Wealth Managers' Social Media Presence

Rank 2014 (2013)	Wealth Manager	Total Points (Max. 26)
1 (1)	Barclays	23
2 (2)	RBS Coutts	20
3 (16)	Credit Suisse	17
3 (3)	Wells Fargo	17
(20 wealth managers ranked overall)		

Source: MyPrivateBanking, 2014

tives.

It states: "Disruptive technology is transforming the wealth management industry and we expect the pace of change to accelerate with increased use of cloud computing, applications, social media and mobile (CASM)."

According to Aikin, advisors are using social media to inform and educate clients about wider issues such as the importance of tax planning, housing market trends, and key financial planning themes.

Particularly, in the post-RDR world, advisors see social media as a way to provide additional value for the fees they charge.

Audio-visual advantage

One essential area for private banks and wealth managers is the growing importance of content marketing. Whilst most firms see the need for a social media presence, few are providing regular, unique content.

According to Amit Pau, MD at investment and advisory firm Ariadne Capital, social video – such as Instavid, Vine, Snapchat, Hyperlapse – is up and coming, and holds major benefits for brands.

He says: "First, audio-visual storytelling is emotionally compelling, and secondly, vloggers and micro-vloggers are a great way of getting your message in front of your audience.

"The banking sector can utilise this by placing their product advertisement in relevant places and by ensuring that their content is interesting and eye-catching."

Aikin adds that more firms appear to be outsourcing their content creation to third-party authors, who can provide a steady flow of interesting content.

However, he believes some of these providers merely provide "white label" content for any firm to use, so it is recommended that firms use internal resources for content creation.

Aikin also stresses on the potential of videos to educate firms' audiences about wider themes, and to provide financial education.

Amit Pau, Ariadne Capital

Targeted efforts

Pau also says that firms can strategise, firstly, by evaluating the program goals, objectives and marketing plans to see where social media can augment efforts.

"They then identify the audience on specific social media platforms, and learn where their 'watering holes' are within and outside of social media – pinpointing where to best target and gather information to suit their objectives.

"A firm will then look at how their internal capabilities can be best applied to these project attributes in order to initiate action and incorporate social media into their efforts."

An undoubtedly attractive solution, Aikin thinks, is the growing emergence of social content relationship management (CRM) - by incorporating a firm's and advisers' social media interactions into their traditional CRM system – in order to gain a greater understanding of client needs.

Pau agrees that lenders must utilise big data effectively in order to keep track of core demographics and to inform an ever-fluid customer base.

"Social media holds a giant bank of data on its users; accessing and using this can be at the core of an innovative new banking business model," he says. ■

Expert view: Amit Pau, Ariadne Capital

Amit Pau, MD at investment and advisory firm Ariadne Capital, provides key ways in which social media can be utilised by the modern private bank:

1. **Protecting digital assets:** An overview of digital assets, including online personal, social, financial and business assets, and their monetary, sentimental and 'good steward' value.
   Social media can be used to track and chart wealth – for example the number of Twitter followers may demonstrate a social value or wealth.
   It can also be used, through an analysis of privacy and ownership laws, to indicate and manage IP and compliance with this legislation.
   Social media can be utilised to investigate ownership of and access to social media sites, photos, health records, loyalty programs, business intelligence and other confidential information.
2. **Managing online reputation:** How and why online information – whether self-posted or posted by friends, family, employees, the news media or other third parties – can affect everything from getting into the right school or job, to business and legal dealings, to personal relationships.
3. **Identity theft:** How to recognise and avoid identity theft and fraud risks, such as computer and device hacking and phishing, dumpster diving, telemarketing schemes, charity scams and inheritance scams.
   This data can be used to build action steps for what to do if personal information is compromised or identity theft is suspected.
   Social media gives a core oversight for managing a digital footprint.

TAX

HSBC admits Swiss unit's failings on tax evasion

British lender HSBC Holdings has confessed its Swiss private bank's failings on allowing wealthy clients to dodge taxes following allegations by media reports.

The bank said, "We acknowledge and are accountable for past compliance and control failures." News outlets including French newspaper Le Monde and Britain's The Guardian published allegations that the Swiss subsidiary of HSBC helped wealthy clients evade taxes.

The news outlets cited documents obtained by the International Consortium of Investigative Journalists (ICIJ) via Le Monde. The Guardian report alleged HSBC's Swiss bank of routinely allowing clients to withdraw cash, often in foreign currencies which were of little use in Switzerland, marketing schemes to allow wealthy clients avoid European taxes, and helping conceal undeclared accounts from domestic tax authorities.

HSBC said its Swiss division had not been fully integrated into HSBC following its purchase in 1999, leading to "significantly lower" compliance standards.

TAX

HSBC makes public apology for tax evasion scandal

HSBC has issued a public apology to its customers over allegations that it helped wealthy clients dodge taxes.

The bank published a full-page advert containing an apology through several newspapers. The advert, which reproduces an open letter signed by CEO Stuart Gulliver and addressed to the bank's customers and staff, said that the media coverage in the last week had been a painful experience.

The bank said it has no appetite to deal with clients who evade taxes or fail to meet financial crime compliance standards.

Gulliver added that he wanted to promise customers that its Swiss private bank had been completely overhauled.

The letter said: "We therefore offer our sincerest apologies. The media focus has been on historical events that show the standards to which we operate today were not universally in place in our Swiss operations eight years ago.

"We must put the recent media coverage into context. A former employee of the Swiss private bank stole data more than eight years ago. Major UK media outlets have focused on approximately 140 names included in the stolen data. Many people mentioned have been named because they are well-known individuals. The majority of the 140 people are no longer clients. At its peak, the Swiss private bank had about 30,000 accounts."

REGULATION

FCA to examine working practices inside HSBC

The Financial Conduct Authority (FCA) has said that it is scrutinizing the current practices and culture at HSBC bank over its Swiss tax-dodging scandal.

The regulator added that it was aware of the scandal through the media and is cooperating with other regulators to investigate the matter.

"The FCA is working closely with the firm and other agencies which have an interest in this matter to ensure that any questions this may raise in relation to current practices and culture of HSBC are addressed," an FCA spokesman said. FCA had not launched a formal probe but was focusing on the bank's current behaviour rather than alleged past abuses.

The Bank of England and the Serious Fraud Office (SFO) said they were planning to look at the scandal, along with HM Revenue & Customs (HMRC). Martin Wheatley, CEO of FCA, told the Treasury Select Committee that HSBC had reformed its operations. HSBC declined to comment on its discussions with FCA.

REGULATION

Swiss authorities raid HSBC's Geneva premises in money-laundering probe

Swiss authorities have searched HSBC's Geneva offices as part of a probe into allegations of aggravated money laundering.

In a statement, Geneva's prosecutor said: "A search is currently under way in the premises of the bank, led by Attorney General Olivier Jornot and the prosecutor Yves Bertossa." The inquiry could later be extended to people suspected of committing or participating in money laundering.

The raid follows media revelations that showed how HSBC's Swiss arm allowed clients to withdraw "bricks" of cash and helped clients conceal their accounts from domestic tax authorities. The disclosures have initiated a political row in the UK, doubting if tax authorities had done enough to pursue possible wrongdoers.

The bank has admitted of falling short of requirements needed to address compliance and controls at its Swiss private bank in the period up to 2007.

HSBC's Swiss bank CEO Franco Morra said: "New senior management have comprehensively overhauled the business, including closing the accounts of clients who didn't meet our high standards, and ensuring we have strong compliance controls in place."

TAX

UK mulls new tax-evasion laws

The British government will mull over the introduction of a law which would punish organisations for aiding people evade tax, a senior figure in the UK's finance ministry said in the wake of scandal surrounding HSBC. Danny Alexander, chief secretary to the Treasury and a member of junior coalition partner the Liberal Democrats, said:

"We should create a new offence of corporate failure to avoid preventing an economic crime and organisations who facilitate or encourage evasion should face the same penalty as the evaders themselves."

"Organisations, accountants or banks helping in dodging taxes should be liable for this new offence and face financial penalties," he added. Alexander expects the new law to be launched before the 7 May election. If not, his party will make it part of its election manifesto.

RESULTS

HSBC pre-tax profit drops 17%

HSBC's pre-tax profit for the year ended 31 December 2014 fell 17% to $18.7bn from $22.6bn a year ago. The decline was driven by lower business disposal and reclassification gains and the negative effect of items including fines, settlements, UK customer redress and provisions.

Revenue for the year rose slightly to $62bn from $61.9bn in the previous year. The bank's net interest income was $34.7bn for the year, down from $35.5bn a year ago.

The retail banking and wealth management business of HSBC has posted a pre-tax profit of $5.65bn for the year ended 31 December 2014, down 15% compared to $6.65bn a year ago.

Revenue in retail banking and wealth management was also down driven by the continuing repositioning of the business.

The bank's global private banking business posted a pre-tax profit of $626m for the year compared to $193m in 2013.

The global private banking business has attracted $14bn of net new money this year via clients of global banking & markets and commercial banking.

Flight of the Falcon

Having held the role since 1 January 2015, Erich Pfister, the new global head of Falcon Private Bank, has a clear strategy for the lender. Following his move from Credit Suisse, he tells **Valentina Romeo** how he aims to differentiate the private banking boutique through its strengths, and keep 'feeding the Falcon' towards the East

These are both challenging and exciting times to be the global head of a Switzerland-based private bank.

Erich Pfister, a 25-year private banking veteran, started his new role as global head of Falcon Private Bank in January 2015, and he is determined to pursue the firm's goal of increasing exposure to emerging markets.

Headquartered in Zurich, Falcon has 50 years of Swiss private banking expertise, with direct access to emerging markets through its government-owned shareholder in the UAE.

"We aim to increase our market share in our target geographies and leverage our established platform and our shareholder, IPIC, one of the world's leading sovereign wealth funds from the UAE," Pfister tells *PBI*.

Falcon has offices in Geneva and London, representative offices in Abu Dhabi and Dubai, and a second booking centre in Singapore.

Pfister says: "As a pure private banking boutique, we are focused on the premium wealth management business segment and to pursue a niche growth strategy in our core markets – Switzerland, Eastern Europe – mainly Russia, the UAE and Southeast Asia."

Falcon employs approximately 300 people overall and manages client assets of over CHF16bn ($17.2bn). Switzerland and Eastern Europe are the bank's two main markets, representing a combined 60-65% of the total AuM.

"To put it simply," says Pfister, "a private bank is either a global player or a niche player."

He is convinced that now more than ever, a private bank needs to position itself clearly in the market and have a differentiated value proposition to attract clients, without negative legacy issues. Pfister believes that competitors will also be reviewing their business models for the same reason.

Alongside concentrating on its core markets, Falcon is looking "further east", especially at some "interesting countries" that are showing potential, such as Kazakhstan and Azerbaijan, he adds.

Contrary to many wealth management firms, there is not a strict minimum requirement rule for a client to enter Falcon Private Bank. However the main focus in terms of the growth bracket for Falcon is the so called upper-HNW segment, which includes clients with assets of CHF2-3m up to CHF20m.

Growth mode

Falcon has made a series of strategic business acquisitions in recent times. In June 2013, the bank acquired the Central and Eastern Europe private banking business of Hyposwiss Private Bank Zurich, a wholly owned subsidiary of St Galler Kantonalbank.

In March 2013, Falcon acquired Clariden Leu (Europe), now Falcon Private Wealth, operating as an international private asset management firm and servicing global clients focusing on the Middle East and Africa, Eastern Europe, Asia and other emerging markets.

Pfister says: "The acquisitions of Clariden Leu (Europe) and Hyposwiss were important steps in developing and underscoring our emerging-markets focus and expertise.

"Both acquisitions proved to be a perfect fit in terms of target market and customer segment." Going forward, the lender plans to continue monitoring "acquisition opportunities within the bank's core markets".

Falcon has also divested some of its business. Early in 2014, the Swiss bank exited the Hong Kong market, selling approximately CHF800m and a number of staff to EFG International in Asia.

However, Pfister says Falcon is in "growth mode" and his aim is to enable double-digit growth in its core markets.

The lender also outsourced its IT back office systems at the beginning of 2013, which has allowed Falcon to increase efficiency and concentrate its resources on its core business, private banking, says Pfister.

"We are currently looking at opportunities in terms of digital banking solutions," he adds.

With the financial industry becoming increasingly complex, it is important to train RMs appropriately, especially in a boutique offering such as Falcon.

"We need to further invest in the education and training of our staff. Personally, I need to sharpen our brand profile in markets where we have unique competencies and highlight the services we offer our clients," Pfister says.

Having concentrated on the UK market in the last two and a half years at Credit Suisse, Pfister's aim at Falcon is to achieve a "similar high standard of advising" from a regulatory point of view.

Having moved from a big private bank, Falcon's most striking element for Pfister is its strong entrepreneurial environment. Speed of decision-making is a primary business differentiator compared to bigger organisations.

He adds: "Many entrepreneurs like to talk to smaller organisations like us, because we are more flexible and simply faster, with the strong and solid ownership."

In January 2015, the Swiss National Bank (SNB) decided to abandon a three-year-old cap on the Swiss franc, generating significant losses for many banks around the world.

Pfister says: "Obviously everybody was surprised, including us. Our cost base, to a large extent, is in Swiss francs, the revenue base is in US dollars, euros and Swiss francs, so it has an impact on us. We have discussed the situation to decide on which measures should be taken." However, Pfister believes that "drastic measures" will not be required.

A few Swiss firms, including bigger players such as Vontobel, had said they could absorb currency swings, while posting full-year profits below expectations.

Pfister says "with minor adjustments" on the costs, the bank will cope "quite well", as growth will mainly be generated from its international locations.

"Cutting costs is something you always look at. However, after a month into this job, I think the biggest leverage we have is to increase our share of wallet rather than cutting costs. I want to see us in growth mode rather than a cost-cutting mode."

Despite tax-evasion scandals, Switzerland remains the world's largest wealth management centre with $2trn in AuM at the end of 2014, up by 14% on 2008, according to Deloitte, a view that Pfister supports.

"Though we'll continue to see a further consolidation process, Switzerland is still an important financial industry because of certain ingredients that will not go away," he explains.

"Looking back at centuries of experience, it is still an attractive environment, especially tax-wise, with a highly talented pool of professionals," he adds. ■

The island to discover

A diverse economy experiencing its 33rd year of growth, the Isle of Man (IoM) continues its move from traditional offshore market to an inpatriate and expatriate market for the mass affluent and HNW segments. Valentina Romeo speaks to key players about how the IoM is thriving as a niche market for local and international clients

Visiting and doing business on the Isle of Man (IoM), one of the well-known British crown dependencies, could represent a rather surprising experience for many people.

With a population of around 85,000 people, the island is driven by growing job creation and business opportunities with a low unemployment rate at 2.6%, compared to an average of 5.5% across the developed world.

David Batey, director RM, Coutts & Co, Isle of Man, says: "When I came to the island I had a view of what I though it will be, which is different to what it is.

"I thought it would not be as cutting-edge as London, perhaps more traditional, while the reality is quite different because there are a lot of professionals here and, in a way, it is more innovative than London," he says.

Arguably, Batey says, the entrepreneurial size on the IoM is "much stronger" than London as well as more interconnected than the UK capital, given the smaller dimension of the island.

The IoM has 34% of its economy steeped in financial services activities, and that is the primary source of wealth for its HNWIs.

"Before targeting the UK, I spent the first months on the IoM making the industry aware that the IoM is keen to relocate people here in the HNW space. I think previously that happened more by chance than by management," says Nick Preskey, the newly appointed business development manager for HNWIs at the Department of Economic Development (DED) on the IoM.

A former banker, Preskey tells *PBI*, that alongside his team, they are currently exploring Chinese and Russian tier-one entrepreneurial investors, as the interest in investing or relocating to the IoM is growing quickly.

"We welcome them on the island and help them do the 'jurisdictional shopping'," says Preskey. He admits, however, that many banks on the island are under pressure, with several "going back to their roots" and rationalising because of rising costs.

"Private banking is still a good business and firms will upgrade in quite a niche space. They're preparing to look at things in a different way," he says.

Guaranteed growth

South Africa-owned NedBank Private Wealth, which has over 22 staff members split between client services and private banking teams on the island, has played on the "novelty factor" to differentiate itself from the competition on the IoM.

"Because of reputation issues of other banks, client behaviour changed a lot and they were suddenly much less interested in returns and just interested in security.

"We've continued to grow through the financial crisis. Our clients' balance sheets are increasing," says Beckie Williams, senior private banker, NedBank Private Wealth.

Duncan Lawrie, the UK private banking boutique, has a 30-year-old established presence on the island, and is focusing its strengths on the investment management side as well as on its private banking services.

"Initially, we started as a fiduciary company. After the banking licence, the banking side of the business grew fast in the 90s. Now our mix is 40% fiduciary, 45% banking and the rest is investment management," says Nigel Gautry, MD, Duncan Lawrie Private Bank.

"Going forward we are looking more at the investment management space, and in many ways it is the area we undersold – compared to the other services – to existing clients over the years."

Gautry can predict that revenues for the investment side of the business will increase up to 40% in the next 12-20 months.

Similarly to Duncan Lawrie, local wealth management firm IOMA has been expanding into the fund and investment management area, explains Philip Scales, MD and CEO at IOMA.

Starting in the insurance area, IOMA then expanded into the fund and investment management space, a model shift that Scales calls "pretty unusual" on the IoM. He says: "I don't think anyone on the island has that business combination.

"The ethos of the group is great flexibility and working jointly with people. We are not stuck with the big company mentality and difficulties. The IoM itself is a fairly niche jurisdiction and within that I think we can provide a fairly flexible operation."

IOMA's investment director Russel Collister also tells *PBI*: "Everything we have done on the private client side of the business has been to create bespoke portfolios for them." The group is now approaching $500m under discretionary management with approximately 500 individual client portfolios.

With 400 clients and $900m in AuM, Coutts plans to expand its proposition with a full banking suite in April 2015, informs Batey.

He adds: "The new proposition will naturally attract different type of clients, more deposit-led clients will give us some fresh opportunity.

"I see the banking side offering real opportunities to the locals in the local market and we are keen to grow there. We have been relatively successful in it in the last two years, but we're never going to be massive because of the nature of the clients we have."

The E-commerce boom

As for investment trends and new opportunities on the IoM, John Garland, head of corporate financial services at the DED says angel investing and crowdfunding have a lot

of growth potential in the region.

"Crowdfunding is a global phenomenon and it is forecasted to become a $93bn industry by 2025.

"Though the UK, US, Brazil, France, Germany and the UAE are ahead in the sector, the IoM fits into that interestingly," the ex-private banker says.

NedBank Private Wealth's Williams adds: "We had new revenue streams from promoting openness to the e-commerce industry and we are one of the more willing to look into banking e-commerce businesses and related businesses. That has been a real source of growth for us locally."

She adds, "There are great opportunities for banks in that sector. If you got a bank looking at each of those companies, it is not just corporation per se, it is the directors, owners, and individuals who have got the potential to become private clients. So we are seeing growth on both sides."

Garland also adds: "The reason we've been able to weather the storm for seven years is asset diversification. We diversify our portfolio as an island. We've not just based our investments on big industries.

"We need to continue to diversify and look at these different areas, and the IoM is superb at that."

Seeking investments

Williams says as interest rates have been low in recent years just holding money in cash has not been possible for many people.

Instead, she says there is a "real search for yield" with investors increasingly accepting the longer term planning and taking on "a little degree of risk".

"We are in a good position for that because one of our strengths is in our investment management business where we have got a long history of discretionary investment management for our clients," she adds.

Williams explains that clients are getting a lot more interested in making investments. "The search for yield is also driving people into other asset classes like property, which has been 'a big one' over the last few years," she says.

Linda Muirhead, MD, IOMA Life and Insurance says: "What we see from HNWIs and UHNWIs is really a desire of certainty and security."

Collister further adds: We like companies that we know are going to be in existence in about 10 years' time. We don't like companies where it is difficult to attach any certainty."

Currently, "a good example" is an oil or commodity company, simply because the success of that company is tied to a product where they have no absolute control of it.

"Not that we will ignore the sector of course, but we underweight it intentionally and we overweight other companies, such as healthcare," he adds.

Shaking off the safe-haven status

When it comes to the subject of compliance and transparency, none of the private banking islanders expressed any concern or doubt.

"The IoM leads the way in terms of transparency," Williams says firmly.

Compared to the other crown dependencies, such as Jersey and Guernsey, the IoM government is "more innovative" having, in fact, implemented FATCA before anyone else did.

The IoM has voluntarily signed automatic exchange of information agreements with the US and the UK under which lists of account balances and interest payments will be sent annually to tax authorities in an investor's home country.

Muirhead says FATCA hasn't come as a surprise for businesses. "We are on the Isle of Man because we like living here, because we like the regulatory approach.

"The more elements that are reassuring our clients that we are compliant with every step of the law, the better," she adds.

Gautry says: "None of us can escape from the ever-increasing costs. When it comes to regulation on the IoM, we take all these changes very seriously and we action them very quickly.

"We can't afford not to, and that's because the international community would love to focus on the IoM as a tax haven. However, when you are offshore you act first and apply new rules and standards, definitely well before the UK and the US and other countries do, which I think is a huge benefit of being here."

Williams says all the bank's clients have "legitimate reasons" for banking with them, whether offshore or in London.

In response to a trend of many offshore jurisdictions experiencing client assets' moving away, mainly to Asia, Williams says: "We haven't seen a transfer of assets abroad. Not any more assets undeclared compared to 40-50 years ago."

Coutts' Batey says the days of moving money around different jurisdictions are long gone. "Clients look for transparency now, they look for a very safe environment to place their money with people they can trust," he explains.

Williams expects more regulation coming, but she considers that as an opportunity. "After FATCA many banks just decided that they were closing doors to many US citizens while we have decided to open our doors to them.

"We don't target people who live in the US at all, but there are huge communities of US expats around the world who really struggle to get bank accounts anywhere."

The IoM is "working really hard on trying to get away from the reputation that it has been a tax haven", Gautry also says. It is a perception that people hold rather than the reality".

He adds: "My time at Duncan Lawrie has taught me that it is very different in reality. We see clients coming to us who have tax liabilities in their own jurisdictions and there is little we can do about that. It is not the objective of our services."

The profile of a client attracted to the IoM has changed dramatically, and their concerns and thoughts about the jurisdiction have also changed, adds Katherine Ellis, director at Boston, an independent fiduciary services firm also offering single and multi-family office services.

"Very few clients we talk to are considering the IoM purely based on tax. The IoM is tax-neutral which is useful but that is not the main driver," she says

Scales can't remember the last time a client or potential client has talked to him about tax advantages.

Collister backs this sentiment, saying: "The IoM is a sort of hidden gem; it is not tax-driven. It is driven by the client service, and by professionals wanting to do well."

Preparing for the future

Williams believes that a challenge for any small bank to keep growing is to keep up with technology and develop new ways to keep in touch with clients.

"There is a big commitment in training our staff, which are all Level Six-qualified," she says.

Muirhead adds: "This industry has changed. What you see today in 2015 is a world apart from what you've seen in 1985.

"Even 10 years from now it is going to be more difficult to get a licence to do what we do than it was 10 years ago, because the cost of compliance has grown a lot.

"The technology we have now is helping, but increasingly businesses will suffer."

Gautry says: "What I would do is drive more automation, even in the private banking industry. It will drive up the take on level meaning the benchmark above which you prepare to accept clients."

Gautry concludes: "Our concerns are not about the quality of the business or the loss of the business. It is simply that it is going to cost more to deliver the same level of service and that is happening consistently, throughout the financial services industry." ■

STRATEGY

UBS plans to bring EU businesses under one umbrella

Swiss banking giant UBS is reportedly planning to merge its EU businesses into one unit, to create a "Europa-Bank" that will focus on wealth management.

Its operations will probably be run from Frankfurt, although Luxembourg is also in the race as a possible location, reported Reuters, citing a report in German newspaper *Handelsblatt*.

A preliminary decision on where the unit will be based is expected, the report added.

According to *Handelsblatt*, UBS's discussions with German financial watchdog BaFin are already at an advanced stage.

UBS hopes to cut costs significantly with the move, the report added.

TECHNOLOGY

Credit Suisse Private Bank to roll out digital wealth management in Asia

Credit Suisse Private Bank is reportedly planning to launch new digital wealth management offering in Asia next month.

The bank also plans to roll out a new tablet banking offering in Switzerland in April.

Credit Suisse Private Bank CEO Hans-Ulrich Meister told *Euromoney*: "We are launching new digital capabilities this quarter in Apac, with a global roll-out to follow.

"This platform will streamline our existing infrastructure to deliver a sophisticated, cutting-edge multi-channel experience to clients.

"Through our interactive banking experience, clients will gain closer contact with their relationship managers, who have new tools and resources to meet their evolving needs," he added.

"They will also be able to easily identify and access information that is important to them from across our integrated bank.

"Our clients will not only be able to execute transactions but also see portfolio analytics. In essence, clients have more freedom to execute wealth management decisions the way they want, when they want," he explained.

STRATEGY

Société Générale private banking registers 2% rise in net income

The private banking business of French bank Société Générale has reported net banking income of €815m for the year ended 2014, up 2.1% compared the previous year.

The business's assets under management (AuM) were €108bn at 31 December 2014, which includes the AuM of the new private banking model in France launched at the beginning of the year.

The revenues of the bank's asset and wealth management division, which includes private banking business, totalled €1.03bn in 2014, down 3.2% year-on-year.

The division's annual net banking income fell from €1.07bn in 2013 to €1.04bn.

Overall, the banking group posted net banking income of €23.56bn for the year 2014, an increase of 5% compared with €22.44bn in 2013.

STRATEGY

RBC to sell parts of Caribbean wealth-management business

Royal Bank of Canada (RBC) is in talks with bidders to sell parts of its Caribbean wealth-management operations as part of a pull-back in the Caribbean and Latin America.

The bidders for some of the Caribbean assets include Toronto-based Cidel Financial Group, *The Wall Street Journal* reported. The bank is being advised by Ernst & Young.

Sources said that, at present, the bank is in talks to sell its Caribbean-based trust business, although any deal would not include a sale of the bank's Caribbean brokerage business, which mostly serves North American clients.

In November, the lender announced closure of its wealth-management offices in the Caribbean to focus on wealth management in North America, the UK and Asia.

The bank has also reportedly moved to shut down several wealth-management offices across Latin America, triggered by scrutiny of potential money laundering activities in accounts in at least three countries.

The bank has already begun to close offices in Chile, Brazil and Uruguay, as well as offices in Miami and Houston that served wealth management clients in Latin America and Mexico.

M&A

Standard Chartered to sell Swiss client assets to Banque Heritage

Standard Chartered has sold a "bundle of assets" to Banque Heritage for an undisclosed price, as the UK bank continues its assets liquidation from its Swiss unit.

The move follows confirmation earlier this month from the Asia-focused Standard Chartered that it will close the Swiss private bank after failing to attract a buyer for it.

"There is obviously a smaller number of clients who didn't want to move out of Switzerland and so [the sale to Banque Heritage] was an additional option we were looking at," a spokeswoman from Standard Chartered told *PBI*.

She said the two banks "have been talking for a little while" on the deal.

The assets' acquisition is part of Heritage's expansion plan to purchase "select private banking assets" from other financial institutions to bolster its position in key markets, Heritage said in a brief statement.

Specifically, the Swiss private bank said it is set to expand his presence in emerging markets, Europe and the Middle East.

Standard Chartered could not disclose any details on the actual class of assets sold to the Geneva-based private bank, or on other firms interested in the "very little" assets still available to purchase.

"We have already started to move the majority of the Swiss business out of Geneva – mainly London and Dubai – and we thought we had enough booking capability in our other offshore centres and made much more sense to move the majority of our business there," she also added.

Whilst any remaining private banking business in Geneva will continue to be wound down, the bank said it will "remain committed to the Swiss market overall," although refocusing on building its corporate and institutional client business instead.

Earlier this year, Standard Chartered decided shut down its unprofitable institutional cash equities, equity research and equity capital markets business to cut costs and boost profits.

RESULTS

UBS under new tax evasion probe in US

Swiss banking major UBS is facing a fresh inquiry for allegedly helping US clients evade taxes through investments largely banned in the US.

The bank has been accused of helping wealthy Americans hide assets through bearer securities, according to *The Wall Street Journal*.

These securities were largely banned in the US from 1982 due to their potential use in tax evasion and money laundering.

The key advantage of bearer securities is that they have an essentially cash-like function, are easily transferable and allow holders to be anonymous as ownership is not registered.

As a result, these securities can be stolen and cashed easily.

UBS reportedly recently received a subpoena from the authorities related to the probe.

In 2009, the bank was handed a $780m fine to settle a separate Justice Department tax-evasion probe. ■

Welcome to the monthly instalment of news and views from PBI's sister company, WealthInsight – the leading provider of business intelligence for the wealth sector

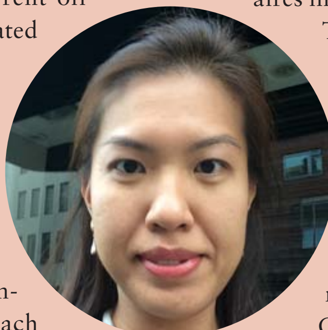
Lower-tier millionaires driving demand for wealth management services in the UAE

The UAE's financial stability as it reduces its dependence on oil gives more confidence to international and domestic private banks and wealth management firms, despite 55% drop in oil price by January 2015'.

The UAE has effectively ridden out the current oil price upheaval, with 71% of its total GDP generated through non-oil sectors.

The UAE's wealth growth is evident in an increasing number of lower-tier millionaires, who accounted for 89.7% of the total number of HNWIs in 2013, and held 40.4% of HNWI wealth, making them the largest wealth band by volume and wealth.

In 2013, there were 43,346 lower-tier millionaires in the UAE; the volume is projected to reach 50,757 by 2018.



UAE Lower-Tier Millionaires – Market Overview, 2009-2018

Year	Volume	Wealth ($bn)	Per Capita Net Worth ($m)
2009	312,045	1,022.60	3.3
2013	309,474	1,398.30	4.5
2018	407,221	2,022.20	5

Source: WealthInsight HNWI Database

The UAE's strong position as a financial hub in the GCC countries, the development of Dubai International Finance Centre (DIFC) along with favourable business environments and tax regulations, have facilitated the emergence of lower-tier millionaires in the country.

The growth in lower-tier millionaires in the UAE has been fuelled by the rise of domestic and international small and medium-sized enterprises, established through entrepreneurial attitudes.

The Middle East's new millionaires like to be their own bosses. This may be the best way to create wealth when you have a low start-up capital; your own opinion and expertise can be worth more than anticipated.

Consequently, Credit Suisse, UBS and Barclays, together with numerous domestic wealth management firms, have gained confidence and are offering private banking and wealth management services.

Services offered include wealth and investment solutions, asset management services and financial portfolio management to both domestic clients and expatriates. ■

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Switzerland to continue growing, but will it be enough to remain the leader?

So far, 2015 has not been the best of years for Switzerland and its banking sector, with fines accumulating to billions of dollars from the EU and the US, banks being put under the spotlight for hiding HNWI wealth overseas, and problems in complying with FATCA regulations.

Despite these issues, HNWI wealth is still set to rise by 25.3% between 2014 and 2019 to $2.0trn.

Switzerland saw a slight drop in HNWI numbers from 312,045 in 2010 to 309,474 in 2014, although the HNWI population is expected to grow by 25.3% to 407,221 by 2019.

The total wealth of these HNWIs in Switzerland increased by 36.7% from $1.0trn in 2010 to $1.4trn in 2014, progressing to $2.0trn by 2019.

Although wealth growth has significantly improved in Switzerland, higher levels of wealth are being invested overseas, which is expected to increase from 54.0% ($754.5bn) in 2014 to 57.6% ($1.2trn) by 2019.

Wealth in Switzerland may well continue to move abroad due to problems that have arisen in the Swiss private banking system.

Swiss HNWIs – Market Overview, 2010-2019

Year	Volume	Wealth ($bn)	Per Capita Net Worth ($m)
2010	312,045	1,022.60	3.3
2014	309,474	1,398.30	4.5
2019	407,221	2,022.20	5

Source: WealthInsight HNWI Database

On top of this, the growing amount of wealth from high income-developing countries is expected to be kept in their home country.

A prime example of this is the UAE, which is predicted to decrease its level of wealth overseas to 34.2% in 2018, less than the 36.3% seen in 2013. Lack of investment abroad shows how HNWIs are becoming more confident in their own private banking industry to look after their wealth.

A mixture of bad practice, increasing wealth kept at home and emerging private banking sectors in Singapore and Hong Kong could have a damaging effect on the Swiss private banking sector over the next five years, and without further prosecution of wrongdoers, Switzerland will struggle to carry on being the largest private banking sector in the world. ■

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Slowdown and fears will not stop Spanish private banking

With poor economic growth and high unemployment rates, Spain may not seem like an attractive or lucrative market. However, both HNWI numbers and wealth are expected to grow significantly in the next five years, giving private banks fertile ground. Valentina Romeo digs into WealthInsight's latest country report

Similar to other Southern European economies such as Italy or Greece, Spain is not living through its greatest economic phase.

The country has been one of the most heavily hit victims after the global financial crisis, with current unemployment rates at 26.3% and government debt at 98.8% of its GDP.

Though Spain's GDP grew by 1.3% in 2014, growth fell to -1.8% between 2010 and 2012, significantly affecting the country's ability to grow its financial and infrastructure projects.

"Spain and Italy's economic woes will take longer to repair themselves following the euro crises, and no imminent signs of growth are therefore seen among the wealthy," says Oliver Williams, analyst at *PBI*'s sister company WealthInsight.

In 2013, wealth in Spain fell 28%, equating to a reduction of private wealth of €1.4trn in absolute terms, according to the first Europe wealth report by Swiss bank Julius Baer.

Spanish HNWI distribution by industry (%) 2014	
Media	17.4%
Financial Services & Investments	11.2%
FMCG	8.8%
Tech & Telecommunications	7.9%
Construction & Engineering	7.3%

Source: Wealthinsight

The main obstacle for growth in Spain is its geographical position in Europe, the WealthInsight report explains, which means that it will only achieve its full potential once Europe shows positive growth.

Latest figures from the National Institute for Statistics (Istat) project that Spain will experience "positive growth" in each quarter of 2015, following the small, but positive growth of the previous year.

The Spanish market is indeed attractive, not only for local development, but also to foreign institutions and investors, as it holds $968.8bn in HNWI wealth.

In the last 12 months, large global investors such as Bill Gates, Warren Buffet and world's second-richest man, Carlos Slim, have largely invested in Spanish infrastructure, financial firms and real estate contributing with over €1.7bn.

Nevertheless, according to Banco de Espana, Spain lost more than €7.6bn of direct investments in the first 11 months of 2014.

Wealth to reach $1.3trn in 2019

There were 228,736 HNWIs in Spain in 2014, increasing by 8.4% between 2010 and 2014, WealthInsight's database can reveal.

Lower-tier millionaires (wealth of between $1m and $5m) were the largest HNWI wealth band in 2014, accounting for 31.4% of the total wealth of HNWIs in Spain, followed by mid-tier millionaires with 27.5%.

Affluent millionaires (wealth of between $30m to $100m) accounted for only 1.3% of Spanish HNWIs in 2014, but held 20% of HNWI wealth.

WealthInsight also expects the Spanish HNWI population to increase by 32.7% between 2010 and 2019. HNWI wealth will see a significant percentage increase, growing by 31.4% to reach $1.3trn by 2019.

Case of Catalonia

WealthInsight analysis, in particular, shows that the state of Catalonia holds the second-highest number of millionaires in the country, at a figure of 48,900, which is 21.7% of the overall millionaire population.

Catalonia also has Spain's highest regional population of 7.3m, which is 15.8% of the overall populace.

Commenting on the possibility of Catalonia getting its strongly debated independence, Carlisle says: "Spain is very concerned about the situation with Catalonia and its

Spanish HNWI populations in top cities (thousand), 2010–2019

	2010	2014	2019
Madrid	32.4	35.2	41.7
Barcelona	26.5	28.4	33.3
Valencia	4	4.2	5
Boadilla del Monte	1.9	2	2.4
Palma de Mallorca	1.9	2	2.3

Source: Wealthinsight

HNWIs, with the country losing some considerable income for taxes from this section of the population if the deal goes through in the future.

"The Spanish government will also miss out on the tourism the region attracts, with Barcelona being a key strategic area that Spain would like to keep within its borders."

Investment experts

Spanish HNWIs have experience in investing and are getting increasingly familiar with investment strategies, especially if they generated wealth from the financial services sector, with 11.2% of HNWIs making their capital this way.

However, in 2014 media was the primary industry through which Spanish HNWIs acquired their wealth, and was the primary source of wealth for 17.4% of local HNWIs, according to WealthInsight.

Other important industries for HNWIs in Spain included fast-moving consumer goods (FMCG) with 8.8%, technology and telecommunications with 7.9%, and construction and engineering with 7.3%.

Carlisle notes that the Spanish wealthy privileged investment funds are a separate class of investment for 2014.

"Liquidity breakdown of the Spanish HNWIs was predominantly in this fund category, reaching $319.5bn and 33.0% of all liquid investments," he says.

Investment funds were spread throughout Europe, with 45.9% of HNWI foreign wealth being invested across the continent and North America, with emerging investments being made in the Asia-Pacific and Middle East regions.

Overseas investments by Spanish HNWIs were mainly held in fixed-income (32.7%) and cash (29.4%), while real estate had the lowest level in 2014 (3.5%), WealthInsight also reports.

M&A surge

Due to the effect the banking and housing industry had on the Spanish economy, the private banking industry shifted to becoming a lot more efficient in terms of costs. The number of private banks in the market also got streamlined.

Following the 2008 financial crisis, many private banks in Spain suffered setbacks when compared to private banks in the Asia-Pacific and South America. For this reason, M&A activity has been predominant in the peninsula throughout 2014.

Carlisle says: "Like much of the European market, Spanish banks have struggled to cope with the additional resources that have had to be acquired to comply with Basel III regulations as well as the loss of some US HNWIs through the FATCA regulation."

Spanish HNWI asset class composition (%), 2010-2019

	2010	2014	2019
Alternatives	10.1%	10.3%	9.6%
Real estate	26.3%	22.5%	20.9%
Cash and deposits	17.5%	15.9%	15.7%
Fixed income	16.8%	16.3%	16.5%
Equities	12.5%	17.2%	20.7%
Business interests	16.7%	17.8%	16.7%

Source: Wealthinsight

As a primary trend, many large domestic private banks have acquired similar companies to increase the size of their portfolios.

A prime and recent example of this was the acquisition of Spain's Barclays assets, which were bought by La Caixa in 2014 for £633m.

La Caixa, the second largest private bank in Spain, says the deal included 270 branches and approximately 555,000 clients. The deal set the grounds to bring in a further 4,000 private banking clients to the bank, representing approximately 2.6% in additional market share.

As of February 2015, CaixaBank Private Banking handles a portfolio of €50bn, mostly from local clients with average assets of €1m.

The bank's current market share stands at 13%, with average annual growth of 11% in 2013. The bank also handles the fair amount of 326 UHNWIs.

Foreign interests

As many Spanish HNWIs have confidence in the five major domestic banks (Santander, La Caixa, BBVA, Bankinter and Sabadell) foreign private banks in the country are increasingly losing market share.

However, in January 2015, Mirabaud, a Swiss financial institution with more than 200 years' experience in wealth management, asset management and intermediation, launched its operations in Spain.

In October 2014, Credit Suisse appointed at least five private bankers in Spain and has plans to hire more to "cope" with the increase in pace of economic growth in the country.

Miguel Matossian, chief executive officer of the firm's Spanish unit, said in a press release: "The trend in the country is very positive, with the stock market up, new IPOs and private-equities funds investing. We are seeing new wealth creation."

The Swiss giant nearly doubled client assets in Spain during the country's recession, and its private banking and wealth management arm had $1.4trn assets under management as of June 2014.

Moving to a new model

An increasing number of Spanish HNWIs favour deeper engagement in interactions with wealth managers, firms and advisors, leading to an overall movement from discretionary to advisory models.

Most importantly the so-called 'baby boomers', that constitutes a large proportion of the Spanish HNWI wealth, presided over a period of rapid economic growth and are about to retire from active business life.

In this regard, traditional business models, based mainly on asset-management services, should shift to a new model that fits new clients' needs. The leading products and services should be based on wealth planning, corporate and real estate advisory, and financial investment solutions.

Several private banks have tried to adopt innovative ways across digital platforms to engage with its valuable clients.

At CaixaBank, in some instances, the lender has adopted communication techniques used in social media, which their clients are accustomed to, and adapted them to private banking.

For instance, CaixaBank launched The Wall in 2012, based on the online Linea Abierta channel, which is a transactional platform. Customers can use The Wall to hold conversations with their advisers either via video calls or written messages.

This approach suits busy customers who may not have time to visit branches or to call advisers. New, secure technology allows them to complete, for example, Mifid-related documents online. It can also provide customers with new investment recommendations and customised portfolio tracking reports.

The Linea Abierta portal also provides a self-planner only for private banking customers, allowing them to simulate different scenarios for their own financial investments.

Juan Gandarias, general manager at CaixaBank Private Banking, tells *PBI* about the increasing importance of the technology element of the clients' relationships.

"Undoubtedly, providing customers with greater control over their finances changes the nature of their relationship with their adviser, and in some instances, new technology enables clients to undertake some tasks without advisory assistance."

He adds, however, that "no matter how advanced technology platforms become, they cannot replace the trust placed in an expert adviser who delivers bespoke advice and expertise". ■

Liquidity profiles

PBI has teamed up with sister company WealthInsight to provide monthly liquidity events that have piqued the interest of its analysts. This month, FedEx's chairman, president and chief executive **Frederick W Smith**, and Asos CEO **Nicholas Robertson**

Frederick W Smith

Frederick W Smith, chairman, president and chief executive of FedEx Corporation, the US-based company operating in the transport and logistics sector, has sold 180,200 shares, representing a 0.0636% stake in the company.

The shares were sold at a price of $173.11 each, for gross proceeds of $31.19m.

Profile:

Frederick W Smith has served as chief executive of FedEx Corporation and president of FedEx Corporation at FedEx Ground Package System, Inc. and FedEx Freight Corporation since January 1998.

Smith is also the founder of Memphis Angels.

Full Name: Frederick Wallace Smith

DOB: 1944

Gender: Male

Citizenship: American

Languages: English

Liquidity Event: The shares in FedEx Corporation were sold on 9 January 2015, at a price of $173.11 per share, for gross proceeds of $31.19m.

Nicholas Robertson

Nicholas Robertson, CEO of Asos Plc, a UK-based operator of online fashion and beauty retail stores, has sold 744,600 shares, representing a 0.8925% stake in the company.

The shares were sold on January 28, 2015, at a price of £27.16 ($41.08) per share, for a consideration of £20.2m ($30.6m).

Profile:

Nicholas Robertson has been CEO of Asos Plc since 2000, and serves on its executive board, and as executive director.

Robertson co-founded Asos.com in 2000, and serves on the advisory board of Ascension Ventures Ltd.

Full Name: Nicholas Robertson

Gender: Male

Citizenship: UK

Languages: English

Liquidity Event: The shares were sold in Asos Plc on 28 January 2015, at a price of $27.16 per share, for gross proceeds of $30.59m.

People moves

This month, David Bokman has been appointed head of UHNW resources, a newly created role for Morgan Stanley Wealth Mangement in the US. Former ING Retail Banking International CEO Eli Leenaars is now vice-chairman at UBS WM. Here are all the people moves that have recently made news

PEOPLE MOVES

	Name	Moved from	Moved to	Old position	New position
Channel Islands	Bernard Quant	Barclays Private Bank & Trust	Nedgroup Trust	Director	MD
France	Monique Diaz	Axa Investment Managers	AXA Investment Managers	Head of compliance	Global head of compliance
Indonesia	Paulus Sutisna	HSBC Indonesia	DBS Group	Head of client management, global banking	President and director, DBS Indonesia
Isle of Man	Richard Preston	Cofunds	Ardan International	Board director	CEO
Monaco	Francesco Grosoli	Barclays	Barclays Wealth and Investment Management	MD and Monaco country manager	Wealth management head, Europe
Switzerland	Eli Leenaars	ING Retail Banking International	UBS Wealth Management	CEO	Vice-chairman
Switzerland	Warren McRae	Barclays Wealth and Investment Management	Barclays Wealth and Investment Management	COO (Switzerland and Monaco) ongoing	Business COO, Europe
UK	John Saunders	Barclays Wealth	Coutts	Head, HNW and RND	MD, Western Europe, America and RND
UK	Alan Edwards	Barclays Wealth	Julius Baer (North West UK)	Regional centre head, Manchester and Liverpool	MD, senior adviser
US	Santiago Trigo	JP Morgan Private Bank	Deutsche Asset & Wealth Management	Market manager	MD, Latin America
US	David Bokman	GenSpring Family Offices	Morgan Stanley Wealth Management	Chief advisory officer	Head, UHNW resources
US	Jim McHale	E*Trade Financial Corporation	Wells Fargo Advisors	Global head, brokerage compliance	Chief compliance officer
US	David Kelman	Next Capital Management	Convergent Wealth Advisors	Senior vice-president	MD

The Common Reporting Standard: a new global challenge in tax regulation

The global fight against tax evasion has intensified, with governments worldwide introducing new reporting requirements. CRS is easily the most far-reaching regulation to date, but raises questions about the technology used by financial firms for regulatory reporting, writes AxiomSL's **Bahar Sezer**

The Common Reporting Standard (CRS) is a project of the Organisation for Economic Cooperation and Development (OECD). The plan is to pull in as many countries as possible to agree to exchange a common set of data with one another about offshore account holders. The regulation really gained momentum at the end of October, when 51 countries agreed to participate. Many others have also indicated that they intend to sign up.

CRS is often compared to the Foreign Account Tax Compliance (FATCA). Both regulations involve countries automatically sharing data with one another, rather than waiting for a specific request for a disclosure. However, there are also important differences between CRS and FATCA, particularly in terms of the volume of data that must be reported.

As part of FATCA, financial firms around the world must send reports on their US account holders to the Internal Revenue Service (IRS). This has proved challenging for many firms. However, the number of account holders in scope for CRS is much greater.

This is because financial institutions will need to report on individuals and entities that have tax residency in any of the countries that have signed the CRS agreement. The indications so far are that this could mean reporting on individuals and entities that are tax resident in one of more than 100 different countries.

In order to report on all these account holders for CRS, financial institutions will need to adopt and maintain a large number of reporting schemas, along with their associated validation rules. This is due to the fact that, although a common reporting schema is being developed for CRS, authorities in individual countries are likely to amend the schema to meet their local needs.

A further challenge presented by CRS is its aggressive implementation schedule, as 32 of the countries that signed up to CRS in October have committed to begin reporting as early as 2017. This means that they must start collecting all the necessary data in 2016.

The requirements that are being introduced by CRS, and the speed with which they will come into force, can appear overwhelming. However, by making smart decisions about their use of technology, market participants can stay on top of this new regulation.

Despite the differences between CRS and FATCA, the processes involved in complying with both regulations are largely the same. As a result, market participants that choose a flexible, scalable platform for FATCA will also be able to use it for CRS.

As well as scalability, financial firms need to consider the usability of their technology. At some firms, it may be possible for individuals to manually sign off on their FATCA reports. However, as reporting volumes increase massively under CRS, this will only be possible if users have the benefit of sophisticated dashboards and management information functionality.

The number of schemas and validation rules needed for CRS is a major concern for many financial firms. There is no doubt that it would be extremely challenging for most firms to keep all of these up to date, amending them as regulators issue changes. However, firms can avoid this overhead by partnering with a vendor that monitors changes to the schemas and validation rules, and provides updates to its clients.

CRS marks a significant extension of the regulatory fight against tax evasion. By carefully considering their reporting technology, market participants can ensure they keep pace with the changes and always remain compliant. ■

Bahar Sezer is the business analyst, policy and strategy, EMEA, at AxiomSL

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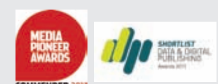

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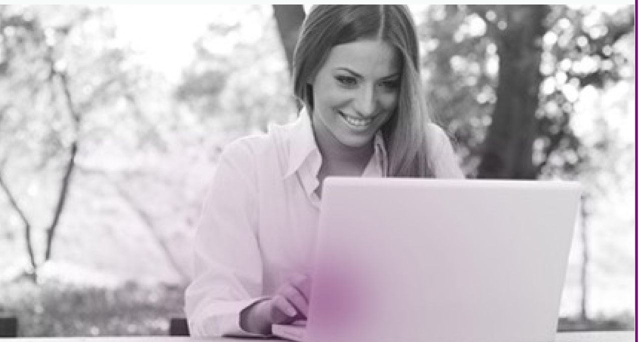

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