A stellar cast

Glimpses from the star-studded Private Banker International Global Wealth Summit and Awards 2016

- Interview: BNP Paribas Wealth Management
- Analysis: Make way for the RegTech revolution
- Research: PBI-DTCC whitepaper highlights
- Comments: Industry experts reflect on 2016
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Hybrid models coming of age

Good news online/mobile banking and investing enthusiasts – there’s a new toy to try out. Even better news if you are a Barclays customer as the bank has launched a new integrated online direct investing platform combining its online banking and investment services.

The platform has one fee and one transaction charge, and would be free from common charges including exit fees, reinvesting dividends and probe valuations. It has no minimum investment amount.

In the UK, this is a fresh example of a bank bringing together a suite of services to allow its customers to see their investments, savings and current accounts through a single log-in, as well as address the savings and investing “knowledge gap”.

However, there is also the “advice gap” that clients are worried about. High cost of advice has been blamed for this and there has been a push in recent months to offer cheaper and simpler services to the mass-affluent and even affluent customers.

Some banks have reacted accordingly. For instance, Swiss private banking giant, UBS, has announced the launch of SmartWealth in the UK in 2017 where people with investable assets of GBP15,000 can become customers. This can include clients opening a new ISA or transferring their existing ISAs to UBS. This is a drastic departure from their $1m in investable assets entry point so far, and can be a game changer for the industry.

With SmartWealth, UBS is committing to the hybrid model that combines technology with human insight, and opening their services up to a whole new client segment. It is also a refreshing take on Personal Financial Management (PFM) tools that have taken a while to come of age in wealth management.

Additionally, as we go to print, Charles Schwab in the US has announced plans to launch a new hybrid service, Schwab Intelligent Advisory, combining advice from financial advisers with online advice to target mass affluent investors. The service requires minimum investment of $25,000, is expected to launch in the first half of 2017, and will offer clients a customised financial plan and ongoing live advice from certified financial planners, as well as an automated portfolio at a low cost.

These platforms are steps in the right direction for the wealth management community. Several private banks, so far, have strongly denounced threats from robo-advisory firms, claiming that online-only algorithms do not have the ability to satisfy big-ticket customers who are relationship-driven. However, players such as Nutmeg in the UK and WealthFront and Betterment – to only name a few – in the US have given banks a lot to think about, creating easy alternatives for wealthy clients.

With competition between banks getting tougher and profit margins being squeezed, private banks need to evolve according to market and client demands to gain more wallet share. There is, certainly, an underserved segment that is not keen to over pay but needs investment management services. Barclays W&IM and UBS have shown that they are paying attention. Now more private banks need to take note.

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HSBC to open private banking office in Australia

HSBC has announced plans to open an office in Australia and expand its private banking presence in Asia-Pacific. HSBC will offer private banking services to HNWIs and family offices with investable assets of over A$10m ($7.5m).

According to Cappelletti’s World Wealth Report, Australia has the third-largest population of HNWIs in Asia-Pacific, with around 29,500 of Australia’s households having a net worth of over A$10m.

The private banking team in Australia will collaborate with HSBC’s retail banking, wealth management, global banking, markets, and commercial banking businesses.

Australian resident private banking clients will have access to discretionary investment management services, equities, fixed income, structured products and derivatives as well as deposit accounts, foreign exchange and online transactional banking.

The private banking arm will be led by Hayden Matthews, who will assume the position of head of private banking, HSBC Bank (Australia).

Based in Sydney, Matthews will be responsible for growing the private banking business from Australia, and will work closely with HSBC’s private banking teams in Hong Kong and Singapore.

Banco Santander to buy back asset management unit

Spanish banking group Banco Santander has agreed to buy back a 50% stake in its asset management arm from US private equity firms Warburg Pincus and General Atlantic for an undisclosed sum.

The deal will offer Santander 100% ownership in Santander Asset Management, which currently oversees €170bn ($180.5bn) in assets.

The US buyout firms acquired the stake in 2013 in a deal that valued the asset management unit at €2.05bn.

In November 2015, Santander signed an agreement to merge its asset management arm with Pioneer, the asset management unit of Italian banking group UniCredit. However, the merger plans were eventually scrapped for regulatory reasons.

Santander, Warburg Pincus and General Atlantic agreed to explore alternatives for the sale of their stake in the Allfunds Bank mutual fund platform.

In a regulatory filing, Santander said the potential options could include a sale or an initial public offering of Allfunds Bank.

Allfunds is 50% owned by Santander Asset Management. The rest is owned by Italian banking group Intesa Sanpaolo, which separately said that it is considering a sale of its stake in Allfunds.

Dutch state to sell 7% stake in ABN Amro

The Dutch government has agreed to sell a 7% stake in ABN Amro through an accelerated bookbuilding process.

NL Financial Investments, which owns the majority stake in ABN Amro on behalf of the government, has agreed to offload 65m shares in the bank.

The move would dilute the government’s stake in the Dutch lender from 77% to 70%.

The government plans to sell the remaining stake in the bank over time.

The bank announced plans to reduce its headcount by 1,500, in a bid to reduce costs and invest in digital services.

The redundancies will lead to another €400m in savings by 2020, and comes on top of the existing job cut plans announced by the bank.

The measures will trim the bank’s workforce by nearly 13% from 26,500 employees in 2015 to 23,000 in 2020.

The bank said that it will book a provision of €150m to €175m for the new layoffs in the fourth quarter of 2016.
Société Générale unveils Kleinwort Hambros brand


Eric Barnett, CEO at Kleinwort Hambros, said Kleinwort Benson had been identified as a closely matched business for SGPB Hambros to merge with, as both are based in the UK and the Channel Islands.

Kleinwort Benson has had a number of different owners; however, Jean-Francois Mazaud, head of Société Générale private banking, said the bank “does not believe in short-term movement”, noting Société Générale’s commitment to the Hambros brand since 1998.

Affect on clients
Mazaud suggested that incumbent Kleinwort Benson clients are likely to feel secure in the knowledge of being supported by the larger Société Générale brand. He said “If you look at historical Kleinwort Benson clients moving to the Kleinwort Hambros brand, clients will have access to extended lending capabilities, international wealth planning, and connections within the wider Société Générale group – so if they want to be multi-banked in different jurisdictions it is a possibility.”

In terms of client segmentation, Kleinwort Hambros will focus on three areas: “privileged” – net worth of above £750,000, “core private banking” – clients up to £25m, and “key clients” – £25m and above.

Future plans
Barnett said growth plans will focus on regional presence as well as targeting the ultra high net worth segment:
“Regional presence will continue to play an important role in the future of the business, with a focus on clients outside of London.
“Growing the family office will also be a key priority, and Kleinwort Hambros will be looking to expand this part of the business throughout Europe,” Barnett continued.

“The aim for the new brand is to create a private bank that is as digital as it is physical, and it will build on its existing e-banking services, develop digital and robo-advice, while acknowledging the importance of the role of private bankers.”

Barnett also hinted that there may be plans to target the lower end of the mass affluent segment through digital channels.

In terms of M&As, Barnett said Société Générale will be focusing on the Kleinwort Hambros brand rather than on new acquisitions.

Job cuts?
Mazaud said that there will be an overlap between the staff of Kleinwort Benson and SGPB Hambros. However, this is unlikely to affect bankers. There will be moderate cuts on the operations side of the business.

Mazaud added that staff cuts will be kept to a minimum as the intention is to grow the business. Mazaud added that consistency with bankers amongst Kleinwort Benson clients will keep the risk of attrition minimal.
BNP Paribas Wealth Management means business

The needs of wealthy entrepreneurs are undoubtedly complex, and BNP Paribas is attempting to serve this demographic by offering a holistic approach that incorporates digital innovation. John Schaffer speaks with the Co-CEOs of the bank’s wealth management division, Vincente Lecomte and Sofia Merlo, about their plans.

France-headquartered BNP Paribas’ wealth management offering largely focuses on catering to entrepreneurs, with a variety of services being accessible to wealthy business owners – from research such as the recent 2017 BNP Paribas Global Entrepreneur Report to physical networking events and bespoke apps.

Yet the bank is in no way limited to serving this demographic. Its private banking services incorporate the affluent and mass affluent clients from all walks of life.

The co-CEOs of BNP Paribas Wealth Management, Vincent Lecomte and Sofia Merlo, held various C-level roles within the bank before jointly taking on their current responsibilities in 2011.

BNP Paribas’ wealth management division has a global AuM of €341bn (362bn), an 8% increase on the previous year.

French wealth accounts make up a significant amount of the bank’s wealth management AuM – approximately €90bn – making the bank the top wealth manager by AuM in its home country.

Merlo tells PBI that much of this success can be attributed to leveraging the bank’s large retail banking network in France. However, she says that more recently many clients have also been referred from the corporate side of the business:

“Sixteen years ago, when the merger with Paribas took place, we had approximately 80% of wealth management clients coming from our retail banking side. Today, we receive clients from three channels.

“The first are retail clients, coming from within our network. Then we have synergies with the corporate banking side, which incorporates all entrepreneurs. Thereafter, we have referrals from our own clients who are bringing in new clients.

“For the above €5m segment, half of our clients come from referrals; the other half come from synergies within the wider group.”

In terms of client segmentation, the entry level for BNP Paribas’ wealth management services is €250,000, which is notably lower than many global private banking players who often have a minimum requirement nearing the $1m mark.

For mid-tier wealth management clients, the bank requires €5m of investable assets, and €25m for its more bespoke UHNW proposition.

Apps for the entrepreneur

Both Merlo and Lecomte are especially keen on providing digital capabilities to wealthy clients, with a significant focus on the entrepreneurial client base. This is to create a network for its global clientele.

Lecomte says the bank launched a cloud-based initiative two years ago in response to demand from clients to share business ideas. The first app release was focused on next-generation clients:

“We gathered clients, including entrepreneurs, together with our teams to define what they want, as part of our Client Experience initiative.

“That was the starting point to analyse and further enrich the way we serve entrepreneurs – from onboarding to developing client loyalty and getting feedback.

“These new digital services and functionalities are part of the story because our entrepreneur clients expect new services from us.

“Two years ago we launched the NextGen app as millennial entrepreneurs were telling us that they wished to be connected together, to do businesses together, and to leverage ideas from others.”

BNP Paribas Wealth Management will launch an app in early 2017 to target UHNW entrepreneurial clients.

The app is set to be called Leaders Connect, and will allow networking opportunities. Lecomte says the app idea evolved out of the annual Leaders Club networking event,
which allows UHNW clients to share investment ideas and collaborate.

The wider BNP Paribas group also has an app, called Open-Up, to connect clients with startups.

**A one-stop bank**
Alongside innovative apps, the bank provides a number of initiatives for entrepreneurial clients, including the Woman Entrepreneur programme at Stanford University in California and incubation centres to support startups that are being led by the bank’s millennial client base.

Merlo says BNP Paribas Wealth Management uses the expertise of the wider group to provide a “one-stop bank” solution for its clients. She adds that the bank also uses its global footprint to facilitate the worldly aspirations of its entrepreneurial clients:

“For instance, we have entrepreneurs in France who are creating companies in Silicon Valley.

“We serve them in both countries for their corporate and wealth management needs. Our role is to help them build their businesses in the locations they want to be in.”

**Growth markets**
Merlo and Lecomte stress that a core focus for growing the private bank is to continue leveraging the retail banking network.

Merlo tells PBI: “Our priority is to have our footprint in Europe, Asia and the US, where we think we could grow from our retail banking business.

“We are adapting the model that has been applied in France. We did that in Italy when we merged with BNL, where we are seeing double-digit growth. We continue to invest in Italy.

“In Belgium, where we already have a large footprint, we are continuing to grow and recruit people. We could further strengthen our footprint in the north of Belgium, for instance.

“We entered Turkey six years ago, because we thought there was big potential. We doubled our size in Turkey when we merged BNP Paribas and Fortis – and we continue to show double-digit growth annually. We now have 15 private banking centres in Turkey, and we are doing what we call the upstream on the retail side, while also developing the corporate side.”

As Turkey has been supportive of fintech entrepreneurs, BNP Paribas developed a digital business angel platform three years ago via which it could merge startups operating in Turkey with the bank’s clients who were willing to invest. “We are the only private bank to provide this kind of service in Turkey,” says Merlo.

Morocco is another country where BNP Paribas started its private banking business due to having a subsidiary. “We have five private banking centres in Morocco covering all the different regions. The other country we are growing in is Poland. There, BNP Paribas acquired Bank BGZ.”

**High private equity allocation**
According to Lecomte, allocations towards private equity (PE) and angel funding stand at nearly 20% of clients’ portfolios, especially in the case of entrepreneurial clients.

“We have developed 15 years of expertise in PE. We don’t directly manage PE funds ourselves, we rely on third parties that are fully dedicated to this business.

“We launch approximately three funds a year. Because the cycle is quite long, we make sure we do all the reporting and monitor the whole private equity fund cycle.

“We recommend our clients to be invested in this asset class for diversification purposes. We can also propose some co-investments, and we have some initiatives to launch as part of the upcoming Leaders Connect app.

“It’s about encouraging our clients to share ideas and see if there are opportunities to co-invest among themselves,” Lecomte continues.

“Co-investments are upon our guidance and control which is one of the value-added services we propose to our clients through this app – but it’s up to them to make their own decisions. We apply the same process in terms of due diligence and expertise.

“We will have strict rules through the Leaders Connect app in terms of the responsibility that clients take in those investments.”
Whitepaper highlights

A recent whitepaper, *End-to-End Efficiency: Highlighting crucial bottlenecks for private banks in Singapore and how they can be eased out*, written by PBI and sponsored by DTCC, highlights how best to mitigate challenges from evolving regulatory demands, rising cost-income ratios and increasing complexities.

The private banking landscape has gone through an unprecedented transformation globally. Singapore – a crucial wealth management hub and a magnet for the global wealthy – is also adjusting to the new realities of the industry, battling myriad challenges and trying to find ways to lasting success.

The purpose of this research was to gain a comprehensive understanding of how private banks in this crucial wealth hub are mitigating imminent challenges and roadblocks, achieving end-to-end efficiencies while ensuring client centricity, and establishing future best-practices.

The objective was to obtain quantitative and qualitative industry insights. PBI carried out an exclusive survey with 20 senior executives from IT and operations units of private banks operating in Singapore, followed by six exclusive in-depth C-level interviews.

The key findings, detailed below, are essential for private banks to survive and thrive:

**Challenge of the three-Cs**
For the majority of private banks in Singapore, the most crucial concern continues to be regulatory compliance. This is followed by regulatory reporting. Squeezed profit margins and high cost-income ratios and digital disruption are also among the top five concerns.

Unsurprisingly, compliance is the top-most concern areas. This is followed by customer satisfaction and risk management.

Additionally, 58% of respondents revealed that their IT budgets have increased in the last two years by 0-10%, and 80% of respondents cited regulatory demands as the primary reason behind the rise.

Around 21% of respondents said their IT budgets had increased in the previous 24 months by 11-20%.

The smallest number of respondents (3%) said their IT budgets had actually decreased during this time period.

Other risk-management demands were also cited as factors behind the IT budget rise. Some banks attributed the rise to capability upgrade, business growth requirements, digital disruption and digitisation.

**The many layers of fragmentation**
Fragmentation is an enemy of operational or business success and PBI’s research found that private banks in Singapore are victims to it. However, the nature of fragmentation is not limited to technology, but also exists on the data, process, and operational fronts.

IT vendors and systems fragmentation heightening risks:
Well over half the respondents (57%) said that using different software vendors and systems leads to a complex overall technology infrastructure. Only 5% of respondents said they are completely happy with their current IT infrastructure, while 38% of respondents said they are happy with different vendors but open to streamlining the systems.

Around 82% of respondents cited IT systems fragmentation as the top data management issue for their banks, followed by traditional business silos (56%) and data duplication (43%).

Singapore’s IT vendor space is crowded, with many players offering pieces of technology, adding to the existing fragmentation. Additionally, many private banks still have legacy back-end systems, making the all-round infrastructure ever more complicated and rigid. Keeping the overall infrastructure agile and cost-effective requires increased standardisation.

It will also be rewarding for private banks to choose umbrella-partners – one-stop-vendors that empower the bank with a suite of solutions. Streamlining the systems as well as providers is an essential next step.

**Tackling the multijurisdictional cost and complexity fragmentation:**
Overwhelmingly, 81% of respondents divulged that operating in different jurisdictions within Asia-Pacific made their IT strategy more complicated, while 75% of respondents said it made their IT spend more costly.

The cost and complexities of being mul-
Being multi-jurisdictional also impacts the banks’ ability to leverage IT resources, models, architecture and potentially consolidate them for economies of scale.

Private banks in Singapore, undoubtedly, need a more coordinated approach, and this is where automation can help. State-of-the-art back-office architectures go a long way in mitigating challenges and costs of being multi-jurisdictional too.

Manual intervention in the middle and back offices amplifying risks and process fragmentation:
Another key pain-point is how manual intervention in the back-and middle-office is making private banks risks prone, with 99% of respondents agreeing with this statement. These manual interventions are ultimately hindering profits and customer experience. One reason behind high manual intervention levels is the fast pace of regulatory changes. However, relying on manual systems is not sustainable and more automation is required across the entire value chain at private banks.

There has also been a cultural inclination towards hiring more staff members to manage tasks. This is not sustainable either. There are some areas, however, where manual intervention becomes unavoidable such as client and account onboarding, KYC and rhythmic review of clients. Another manually intensive area is the way in which banks manage corporate actions.

There needs to be a fundamental understanding among the management at private banks around where true value can originate when processes are IT enabled. Private banks can seek real value from more automation.
and standardisation.

When asked if they are happy with their existing middle- and back-office technology infrastructure and processes, around 64% of respondents said they are ‘happy but more work needs to be done’.

Only 19% of respondents said they are ‘fairly happy’ while an even smaller segment said they are ‘very happy’ (5%). This is a straightforward indication that many private banks’ technology infrastructures need upgrades.

Data fragmentation: The importance of achieving smooth data-flows (especially for big banks):

Private banks in Singapore, currently, not only have client sensitive data to worry about but also counterparty data. The post-trade ecosystem is critical, but it is often an overlooked part of their data management prerogatives, despite requiring the highest levels of execution, risk mitigation, integrity and resiliency.

While some banks have gone the distance to bring in increased automation, there is a long way to go for most private banks to adopt and implement a centralised approach to collateral data management.

Overwhelmingly, 100% of respondents to the PBI survey revealed that private banks need to centralise and automate their reporting activities to respond to high regulatory demands, as well as ensure data quality.

The bigger the bank is, the more important it is for the institution to have an organised and efficient data management framework in place. As data volumes and variety increase, counterparty data fragmentation and discrepancies pose significant threats. Around 83% of respondents agreed with this statement.

It will only be beneficial for these private banks to partner with specialist third-party firms that can allow for more centralisation and assist in bringing in automation across the gamut of data management requirements.

The rise of regtech

Singapore has garnered global spotlight when it comes to positioning itself as a fintech hub. But private banks have only recently started taking note of regtech’s far-reaching potential.

Automation is at the core of regtech. It brings clarity to the way private banks interpret and manage compliance and regulatory reporting, enabling freedom from the cumbersome, largely spreadsheet-based approaches.

There is no doubt that regtech can help Singapore’s private banks increase efficiency, reduce operational risks, automate mundane compliance tasks and provide a clear view of the volume and variety of data coming in.

There needs to be a fundamental understanding among the management at private banks around where true value can originate when processes are IT-enabled.

The importance of STP

There is an obvious need for private banks to increase straight-through processing (STP) rates to reduce manual intervention and manpower costs.

The research findings indicate that current workflows in the middle-and back-office of private banks are sub-optimal, and in some cases, there have not been adequate investments.

In the years past, many banks have attempted to combine some of the middle- and back-office functions. The middle office of the bank typically includes functions that are both client-specific and non-client-sensitive, such as reporting of securities and trades, although this can differ from institution to institution.

With the increasing regulatory requirements, private banks are starting to grow their middle offices again. This gives more of a reason to turn to automation in a bid to become more efficient and manage surging headcount costs.

KYC and AML due diligence, client onboarding and regulatory reporting were cited as the top areas where more automation in the middle-and back-office can help, in the PBI Survey.

IT solutions are key to developing and managing this ‘new middle office’ successfully. The important next step, also, is finding ways in which banks can work – not only internally but with counterparts – to derive more STP as clients look to trade complex structured products.

Need for non-captive outsourcing

More than half of the respondents of the PBI survey said they have already outsourced select middle- and back-office functions to third-party firms, and more private banks need to do so.

Though many private banks do outsource select middle- and back-office functions, a majority of this activity has been limited to captive outsourcing – working with a subsidiary company.

However, PBI’s research reveals that both the regulator and banks are getting increasingly open to non-captive outsourcing and are on the lookout for trusted partners.

But outsourcing in and of itself is not the final solution. Private banks need to find the right third-party organisations to streamline complex processes to better focus on areas of core competence.

When it comes to factors that influence a private bank in choosing non-captive outsourcing partners, cost-effectiveness seems to be the most important. Operational efficiency and robustness of offerings are other key aspects. Past experience, stability, reputation and risk management are equally crucial.

The key to achieving success in non-captive outsourcing, and in partnerships with other third-party firms, is for private banks to be thoroughly prepared. To do so, private banks need to be able to build vendor-management capabilities within their organisations.

Understanding the value of STP and identifying where automation can be beneficial can also be looked upon as non-flashy ‘innovation engines’ for private banks.

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The term regtech (a combination of regulation and technology) has only become part of the financial services vernacular over the past year or so. It could be viewed as a subset of fintech that looks at implementing technology for regulatory compliance purposes.

Innovations in this space can be incredibly wide-reaching, including the use of straight through processing, APIs, analytics, artificial intelligence, robotics and blockchain.

With the slew of regulatory pressures on private banks, regtech is being viewed as a way of mitigating costs and reducing the man hours that are put into due diligence.

Paul Garel-Jones, partner at Deloitte, tells PBI that although regtech is a somewhat nascent industry, its application in banking is not necessarily new.

“Much of the work that we’ve seen our banking clients doing over the past few years is classed as regtech, even if the badge was not used until last year.

“Some of the initiatives have been around know your customer (KYC) and onboarding. Those are regtech even if they were not branded as such before.”

Patrick Barnert, CEO and president of Qumram, tells PBI that the compliance challenges banks face is fuelling the momentum of the regtech industry, with banks looking for solutions to regulatory problems through automation.

Qumram is a regtech vendor that allows private banks and wealth managers to record the interactions they have with clients over digital channels. Barnert describes the service as a “black box” for banking. Notable clients include UBS and Credit Suisse.

“On average there are 155 daily alerts on regulatory changes globally, it’s an ever increasing challenge for banks to deal with these updates, and respond to them.

“Over the past five-to-eight years we’ve seen that the cost of compliance has been driving a compound annual growth rate (CAGR) of 30%.

“It’s also challenging for banks to find people willing to work in compliance. Compliance staff are now personally liable for almost everything the bank is doing. It’s hard to find the people because it’s a dangerous position to be in.”

Barnert explains that the rising use of digital channels is adding to the need for regtech, with regulations such as Mifid II stipulating greater requirements:

“What we are seeing from regulators is that electronic communication is now named explicitly in these rules, as opposed to a few years ago when only telephone conversations or in-person meetings were named.”

Barnert comments on Qumram’s work with Credit Suisse: “The bank can record its online private banking application interactions in detail so that it knows exactly what it has presented to the customer, how the customer interacts, and whether the customer was informed of risks or sold the right product.”

UK a favourable regtech centre?

UK regulator the Financial Conduct Authority (FCA) has been somewhat pioneering in launching a regulatory sandbox in May 2016 as part of its Project Innovate initiative, which allows regtech firms to test ideas before they come to market.

This is advantageous as the normal authorisation process from the FCA is rigorous and means that there is a large cost incurred by vendors before they gain any clients.

The Monetary Authority of Singapore (MAS) has revealed plans to provide a similar sandbox. The regulator mapped out a move towards an open API architecture that can be used by regtech vendors and banks.

Ed Ruan, COO EMEA at AxiomSL, says: “Most regulators across Europe are increasingly engaging with regtech firms and this is making the process simpler. Easier implementation can be seen in Asia-Pacific and the Americas, but this is a slow process.”

Are banks investing in regtech?

Garel-Jones says that although there are “significant savings” to be made for banks that implement regtech, there has been some degree of hesitation:

“Banks have been investing in regtech, but I think there’s hesitation from the banking community around how to narrow down the organisations that they’re interested in investing in.

“There are many fintech and regtech vendors looking for clients, but the challenge is working out which ones have something unique that can deliver value. That’s where an organisation like Deloitte fits in, to help clients work through the regtech community and find companies that are relevant.”

Private banks have been marred by fines in recent years. However, Garel-Jones says that regtech won’t be the panacea of cleaning up the industry’s image.

“I wouldn’t go as far as to directly link regtech adoption to a reduction in fines. I do think it has a role to play in standardising and enabling more consistent processes in an organisation, which then has the potential to reduce risks.”

What’s next for regtech?

Ruan tells PBI he believes that the regtech space will continue to see a transitional move towards software-as-a-service (SaaS) over the next few years.

“Initially, the IT process will be provided as SaaS. Moving forward, business areas – mainly advisory and preparation processes – will also transition into regtech, while leaving the banks to sign off. In terms of innovation, I think we will see big moves towards blockchain, big data storage and predictive analytics to help with real-time monitoring.”

Aaron Phethean, MarketPlace director at Temenos adds: “PSD2, even for private wealth, will have far-reaching consequences. The investor competence and attitude to risk also seems to be an untapped and exciting area. The early movers will find innovations that address regulation and create new revenue opportunities.”

Garel-Jones concludes: “There will be a peak of vendors and then a tailing off as only the ones with unique offers float to the top.

“Overall it could be transformative for the banking industry as we move away from the complications of legacy architectures and move towards a more agile environment, with different regtech vendors providing pointed solutions and potentially having a big impact on the cost of compliance.”

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December 2016
Demand for factor-based strategies is increasing among private banks, global pension funds, insurers, sovereign wealth funds, and asset consultants in Europe, North America and Asia-Pacific, according to a study by Invesco.

Some 70% of respondents said that they already use factors in portfolio construction, while 71% stated that they plan to raise factor product allocations over the next five years. Risk diversification and increasing alpha were identified as the main drivers.

Findings also revealed a strong preference for internal control over factor models, with 61% of respondents holding the view that their organisations are best placed to assess the role of factors, and 71% agreeing that they are best placed to manage factors internally.

When asked about the main impediment to factor adoption, the majority cited a lack of internal capability. Respondents also requested support from the wider asset management industry, stating training support (37%) and consulting advice (24%) as the most effective industry propositions.

In particular, private banks said that they want asset managers to build up tailored factors for varied implementations and more client-friendly marketing materials.

Some 83% of respondents believe various factors help explain outperformance, with different investors having different needs.

Sovereign investors in Asia were found to be the fastest adopters of internal risk factor models, while German insurers were found to be migrating from fundamental investments to smart beta ETFs and equity factor models.

Post-RDR, charge caps on default funds and stakeholder engagement were found to have supported growth in smart beta products in the UK.

According to the study, investors have less interest in off-the-shelf factor products, and will focus more on strategic factor models and a holistic multi-factor approach.

Cyber and geopolitical concerns, such as the result of the US presidential election and UK’s decision to leave the EU, are among the key risks facing the global financial system, according to a survey by the Depository Trust & Clearing Corporation (DTCC).

Respondents also cited instability in the Middle East, the impact of the ongoing refugee crisis across Europe, and the influence of Russia and China on global relations.

Some 22% of respondents termed cyber risk as the single biggest threat to the industry, while 56% labelled the risk as a top five concern.

Respondents also expressed concern about the central bank monetary policy, including the divergence of policies between the US Federal Reserve and global central banks.

The study revealed continuing investment in the development of systemic risk capabilities, with nearly 66% of respondents citing that they have increased resources to identify, monitor, and mitigate systemic risk.

Some 61% of respondents said their firm’s ability to identify, assess and manage existing and emerging systemic risks remains in progress.

New Zealanders like the concept of robo-advice but also want human advisers to assist in their financial decisions, a new survey commissioned by Kiwi Wealth shows.

The study titled Rise of the Money Robots: Kiwis’ attitudes to robo-advice revealed that although only 8% have heard of robo-advice for financial planning, one-in-five are interested in using the service to manage retirement planning.

Respondents believed that robo-advice should complement real advisers, with older generations more hesitant to entrust robo-advisers with retirement savings management.

Older New Zealanders see robo-advice as a means of realising their goals, while younger demographics want robo-advice for advice purposes.

The study also revealed that less than 20% of New Zealanders have a financial adviser.

French banking giant BNP Paribas has completed the acquisition of Indian retail brokerage firm Sharekhan.

The transaction, first announced in July 2015, was rejected by the Foreign Investment Promotion Board in June this year, but approved in October.

Sharekhan, which was founded in 2000 by Mumbai-based entrepreneur Shripal Morakhia, has now become a subsidiary of BNP Paribas and joins the digital banking and investment services division.

Sharekhan’s CEO, Tarun Shah, announced his retirement and company director, Jaideep Arora, has been appointed as new CEO.

Private Banker International
Star-power: An overview of the PBI Global Wealth Summit 2016

The PBI Global Wealth Summit 2016, held in Singapore in October, brought together private banking industry leaders to discuss evolving business models, the use of technology, the impact of fast-evolving regulation, inter-generational wealth transfer and other key issues. Xiou Ann Lim reports

The private banking industry is undergoing tremendous change, facing challenges such as fast-evolving regulatory requirements, tight profit margins, and loss of client trust and loyalty. How can private banks thrive in this demanding landscape? BNP Paribas’ Arnaud Tellier concurred that the private banking industry is facing many challenges – not just in the last 12 months – and believed that many more lie ahead.

Sharing that the biggest challenges for BNP Paribas are controlling costs, intergenerational wealth transfer and digital transformation, he added that the global private bank does not necessarily have the flexibility and agility that fintech firms do.

“We have legacy systems that were not made for the digital layer, but we have to find ways to adapt quickly,” he said.

Avaloq’s Peter Scott emphasised: “The scale, size and complexity of these companies actually inhibit their capabilities to deliver the services that they need to be differentiating,” he said. Scott added that the question he is asked most often as a technologist is: ‘What’s the lowest cost?’, observing that everyone wants to pay little in exchange for maximum impact.

According to Scott, the ideal would be a progressive renovation approach, where you can progressively renovate your system.

Agreeing that size does not always prove to be advantageous, Union Bancaire Privée’s Michael Blake said: “Big is not necessarily beautiful.” He added that assets under management (AuM) numbers could be slightly misleading as the main determinant of success, because “there are banks with relatively large AuM balances that are not particularly profitable. There are also other banks with smaller AuM balances, which are highly profitable,” he said.

“Total AuM cannot be the only criteria,” said Tellier. “But we all make more or less the same return on assets. So, size does matter,” he opined, adding that fixed costs need to be paid – back-office operations, an army of compliance managers to play a more active role in managing their portfolios, with full accountability in data analytics to design an effective customer proposition and delivery – on the other.

With such varied business models offering different propositions – how can a business stand out from the competition?

According to Taishin Bank’s Samuel Lin, the only way to do well in private banking is to make sure that clients are making money and not just preserving it.

“Clients always have the same demand for products that offer high yield and little risk. You almost have to bravely tell them that there is no such thing,” he added.

“We ask our RMs if they are prescribing products that are doing well or if they’re just selecting products that have high fees,” he revealed – cautioning against such practice.

Opening remarks – Ernest Leung, head of wealth management Singapore, BNP Paribas Wealth Management

The industry has undergone transformational changes in the last decade. Our traditional modus operandi is battling against a myriad of different forces: regulatory oversight, margin pressure, consolidation and demographic shifts, just to highlight a few. Market volatility and economic uncertainty continue to increasingly add pressure to an industry already brimming with challenges.

In addition, events such as the recent Brexit vote, the US elections and the pace of interest rate hike by the Fed are casting uncertainties on financial markets globally.

Private banks, notwithstanding secular growth, have been affected by a very challenging investment landscape and low or negative interest rate environment.

All in all, 2016 is a year for industry players to develop a rational view about business strategies and aspirations. A number of industry surveys affirmed that Asia has enjoyed the fastest pace of growth for the last two decades. However, return on investment is lacklustre due to a low-yield environment on the macro front this year.

Therefore, tackling rising costs despite margin compression remains one of the key issues on our watch list.

Clients have become more cautious and expectations in terms of yield on investments are toned down. Instead, they are seeking more guidance and direction, not only on investments, but also on family philanthropy, retirement, succession and estate planning, and are less reliant on transactional-focused products and services. Clients are increasingly expecting wealth managers to play a more active role in managing their portfolios, with full accountability in advisory services and execution capabilities.

Not only is client-centricity a buzzword, it is reality. The value of customer-centricity goes beyond learning customer attitude and behaviours to provide relevant solutions. It redefines business models, more robust segmentation and data analytics to design an effective customer experience, harnessing the power of digital in an integrated strategy and incubating a culture of innovation within the organisation that will drive growth and competitive advantage. How to evolve and enhance businesses to thrive in today’s changing environment and delivering value to clients are critical.
The new generation of HNWIs are accumulating wealth at a fast pace. At the same time, legacy wealth needs to be managed with utmost competence. These two segments may sometimes differ in terms of risk appetite, autonomy in managing their own wealth and knowledge on investments.

Private banks need to personalise their approach and strike a fine balance in catering to the needs of these different segments. How do they differ and what should private banks take into consideration when devising strategies to better serve them?

According to Nomura’s Harry Ng, the second generation of HNWIs, who inherited or created their wealth, are not as conservative or reserved as the older generation. Apart from assessing risk quite differently, he adds that they tend to be more open to the various opportunities they see in the market and seek information that they do not have access to themselves.

Citi Private Bank’s Adam Cowperthwaite agreed. Adding to Ng’s earlier point, he observed that many of the younger entrepreneurial clients tend to be more demanding and more process-driven about how they invest their wealth.

“They also tend to be well informed, which means that the willingness to look at a wider range of investments is higher,” he said. “But at the same time, the scepticism about what those investments are able to provide might also be higher,” he warned.

This is why Cowperthwaite believes that advisors will have to work harder to get ideas across to quell the investor’s scepticism.

Meanwhile, Royal Bank of Canada’s Winston Kassim spoke about digital touchpoints. He said that not only does the younger generation of HNWIs are also more socially aware.

“Knowing more about your clients before you meet them helps you identify what to flex on the investment side,” he advised.

Another consideration when managing clients’ portfolios is removing investments that are not working for them anymore. Cowperthwaite observed that the industry excels at putting things into clients’ portfolios. “But what we are not very good at is getting the client to take an investment out of their portfolio at the tail-end of an investment opportunity – lightening up on positions that are not performing and removing things from the portfolio that the client doesn’t have any conviction in anymore,” he pointed out.

“We need to get better at this as an industry,” he concluded.
Asia-Pacific has now surpassed North America in the number of HNWIs and the collective HNWI wealth. Through appropriate segmentation and strategies targeted at specific groups, private banks can gain more wallet share from wealthy clients, create loyalty and add essential value to their proposition.

But first, how do the ultra-wealthy differ from HNWIs and what do they look for when selecting wealth managers? A private bank, family office, insurer and wealth intelligence provider shared their views.

BNP Paribas Wealth Management’s Ernest Leung said that clients look for exotic ideas and things that are not out in the market. From private banks they expect creativity, access to information and markets, as well as executional capability.

He shared that his mega-wealthy clients often have their own in-house investment expertise either in the form of a gatekeeper or family office setup – so they go to private banks with a specific mandate and cherry-pick them according to their individual expertise.

From an insurance perspective, Sun Life Hong Kong’s David Varley added that it boils down to flexibility.

He shared that UHNW families want more flexibility, especially when it comes to holding assets within insurance, which is a burgeoning market.

“They’re holding a great deal of their wealth within some of these insurance products, whether it’s for succession planning or growing their wealth.

“They have a greater breadth of assets that banks can’t hold and there is a greater need for a broad range of investments,” he said.

But even after considering these points, WealthInsight’s Oliver Williams cautioned against over-segmentation.

“They’re not just defined by their wealth but a whole range of other factors beyond their wealth.

“There’s a problem with over-segmentation – people can be too reliant on segmentation, especially in the HNW segment.”

He added that the higher up the wealth chain you go, the more they count as an individual. “So, we have to look beyond that and just concentrate on the person,” he advised.

However, Leung pointed out that the purpose of segmentation is that private banks are trying to offer the most relevant products and services at the right time to the client and segmentation is a method by which they try to classify that need.

As an example, he shared that behavioural segmentation – which looks beyond their liquid net worth – is one type of information that is useful to private banks, which relationship managers are privy to.

Much of the information – whether related to transactions, products or risk profile – is available, according to him. But how can private banks marry this static data together with behavioural data?

“Everything that happened prior to a transaction and issues that were discussed – are they being used from an institutional perspective? Communicating all that to the institution is both a requirement as well as a challenge,” he said.

Another way to better serve the needs of UHNWIs is to approach them with a bespoke and customised service, said Sandaire’s Nadav Lehavy.

“We are quite modest in terms of scale as compared to private banks,” he admitted, which is why the company prioritises the quality and depth of relationships with its clients.

“Our strategy, and what’s important, is to discern from the start whether we are a suitable solution for what they are looking for,” he revealed.

On the other hand, BNP Paribas is a full-fledged bank – which allows it to service its clients from a corporate banking need.

The key success factor – according to Leung – is knowledge and proximity to clients.

“We’ll be there to capture their private banking needs due to proximity, as we familiarise ourselves with their business and familial needs,” he added.

Leung pointed out that most HNWIs in Asia are probably overprospected and over-banked. “Having a wide range of products and being able to package and showcase them to advisors of the wealthy at the right point in time gets a foot in the door,” he advised.
FutureVision sessions, Masterclass, and WealthInsight presentation

This year’s PBI Global Wealth Summit hosted FutureVision sessions with C-level executives from two banks, introduced a Masterclass session and also incorporated a data-driven presentation from PBI’s sister platform, WealthInsight. Read on for details.

The 2016 conference saw the return of the FutureVision sessions. Introduced in the 2015 summit, the FutureVision session is an on-stage interview with a C-level private banker who talks about current trends, important industry shifts and views on the future of the industry.

This year’s conference went a step further and introduced a Masterclass, whereby an industry expert spoke about a key issue in-depth and answered questions from the audience. This closed-door session encouraged high levels of engagement and open discussions.

The conference also hosted a data-driven presentation from WealthInsight.

FutureVision One: Jimmy Lee, head Asia-Pacific and member of the executive board, Bank Julius Baer

Japan and China are considered major avenues of opportunity for private banks in Asia.

As pointed out by Bank Julius Baer’s Jimmy Lee China and Japan’s individual wealth constitute about 80% of total wealth in Asia.

“If any bank can get this right, they will be the biggest private bank in Asia,” he said.

Bank Julius Baer’s own approach to China is three-pronged. Tapping into the market through Singapore and Hong Kong for the last 10 years, the Swiss private bank is among the bigger ones that have been successful in managing offshore money in China.

Lee also pointed out that the bank has many strategic collaborations in the region, Bank of China being one such partner.

“We bought their private banking operations in Switzerland and we signed a collaboration agreement with them,” he shared, adding that Bank Julius Baer looks at the products that it needs and supplies them to its network onshore through a representative office in Shanghai.

Explaining why partnerships would be the best approach to tap into largely homogeneous markets such as China and Japan, Lee warned: “If you incorporate something there, you’ll be one of the smallest and unheard-of players in the country.”

FutureVision Two: Evrard Bordier, CEO - Singapore, Bordier & Cie

Private banks are currently having to run the gauntlet of non-bank challengers, technological adoption and escalating costs to thrive.

Bordier & Cie’s Evrard Bordier discussed some strategies underpinning success in the private banking industry: “Standing the test of time is key for us – not so much profitability or AuM,” Bordier disclosed.

To remain relevant, he revealed that Bordier & Cie had added business lines instead of “completely changing who we are”.

He also emphasised the importance of diversifying the business’s revenue stream, as private banks derive their revenue from custody, management and transaction fees.

“How can you do more? An example is to add a family office service offering and generate service fees from there,” he said.

Conversely, Bordier said that if there is not much growth in revenue then costs will have to be reduced by moving some parts of the business to lower-cost jurisdictions or cut down on headcount.

Bordier also said that private banking success depends on staying ahead of the curve: “If banks do not transform, they run the risk of becoming irrelevant in the next era.”

One area of weakness he pointed out is...
Masterclass: Getting it right in an increasingly transparent world: Ow Kim Kit, partner - banking and finance, corporate at RHT Law Taylor Wessing

As the private banking industry shifts towards a more transparent paradigm following increasing distrust and decreasing customer loyalty, RHT Law Taylor Wessing’s Ow Kim Kit addressed issues relating to automatic exchange of information, the Common Reporting Standards and the Financial Action Task Force in Singapore.

Noting that the industry has become so sophisticated that institutions are struggling with compliance and regulatory measures and that there is heightened sensitivity to people using platforms as money mules and conduits, Kit said that there is a need for a culture of collective responsibility among private banks – regardless of whether the issues lie with the front, middle or back-office units.

Alluding to the 1MDB scandal involving several private banks operating in Singapore, Kit also shared elements of what went wrong in those cases of failure in controls, and what incidents are considered egregious or serious breaches to regulators.

She believed that prescribed guidelines are intended to assist financial institutions and not add burden to them.

Kit further said that there are two ways in which private banks can go about ensuring compliance: by increasing interaction with the front-office via a more consultative approach, and by developing a common repository of information on clients, such as a white or black lists, to help speed up background checks.

Summarising her presentation, she concluded: “There’s still a lot of money to be made in a tax-compliant world.”

Presentation: Data in the digital age – how and why private banks should be looking at more data: Oliver Williams, founding member and head, WealthInsight

Global private banks are continuing to pivot towards Asia in the hope of gaining a share of the growing wallets in the region.

Apart from the growth of wealth, the region is also undergoing an intergenerational wealth transfer. A key determinant of how private banks can successfully tap into the business of servicing HNWIs and UHNWIs is to know them well.

WealthInsight’s Oliver Williams explained that 53% of UHNWIs will be entrepreneurs in 2020: “They’re going to be extremely busy and won’t have time, meaning they probably are not going to take an active interest in managing their wealth.”

Hence, he believed that it will help enormously if their private banker or wealth manager knows about the specific industry or business they’re in – not just on an advisory level, but also on a social level.

Williams also revealed that 31% of UHNWIs will be between the ages of 51 and 60, adding that this goes against the media stereotype that UHNWIs are young technology billionaires rising up in Silicon Valley.

Thus, there is a need for wealth managers to get information about their clients right.

According to data from WealthInsight, UHNWIs mistrust sales people who push products. “It is more sensible to use data to create services for them,” Williams said.

He added that a concierge services have its uses, “maybe not so much as a business model but as a way of understanding clients”, despite all that has been said against them.

Private Banker International (PBI) revealed the winners for the annual PBI Global Wealth Awards 2016 in Singapore. This year’s winners were commemorated at a gala dinner ceremony at the Fullerton Hotel, which took place in conjunction with the PBI Global Wealth Summit. Here is a glimpse at some of the winners:

- **Outstanding private bank – Asia-Pacific**: DBS Private Bank
- **Outstanding private bank – Europe**: BNP Paribas Wealth Management
- **Outstanding private bank – Africa**: Standard Bank
- **Outstanding private bank – Middle East**: Emirates NBD Private Banking
- **Outstanding private bank – Latin America**: Itaú Private Bank
- **Outstanding private bank – North America**: RBC Wealth Management
- **Outstanding private bank – Asia-Pacific**: UBS AG
- **Outstanding private bank – Europe**: BNP Paribas Wealth Management
- **Outstanding private bank – Middle East**: Emirates NBD Private Banking
- **Outstanding private bank – Latin America**: Itaú Private Bank
- **Outstanding private bank – North America**: RBC Wealth Management
- **Best family office offering**: Credit Suisse AG
FEATURE

PBI GLOBAL WEALTH AWARDS 2016

- Best next-generation offering – Credit Suisse AG

- Outstanding private bank for UHNW clients: BNP Paribas Wealth Management

- Outstanding philanthropy offering: Coutts

- Outstanding wealth management technology initiative – front end: Credit Suisse AG

- Outstanding wealth management technology initiative – back office: UBS Wealth Management

- Outstanding private banker – Asia-Pacific: Mignonne Cheng, BNP Paribas Wealth Management

- Outstanding young private bankers

- Rising Star – Asia-Pacific: Samuel Lin, Taishin Bank

- Outstanding global private bank – overall: UBS AG

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The year that was: Industry reflections

There are many standout events that took place in 2016 and the ramifications will be felt for a while to come. PBI hears from industry experts as they look back at the year that was, highlight the big shifts impacting the markets and investors, and provide a glimpse of what to expect going forward.

ALEX BRANDRETH, DEPUTY CHIEF INVESTMENT OFFICER AND SENIOR FUND MANAGER, BROWN SHIPLEY

The year 2016 has been a truly extraordinary for financial markets, generating a succession of shocks which have reverberated across the world. Some of these events carry dire warnings for the future, most significantly the surprise decisions delivered in the UK referendum on EU membership and the US presidential election. Both events appear to reflect a rise in anti-establishment sentiment, a feeling which could gain further purchase in the run of important elections across the eurozone next year.

EU referendum

Despite dark forebodings about economic weakness in the event of a leave vote in the EU referendum, the UK economy has surprisingly felt little ill-effect so far – courtesy of the sterling’s plunge on the foreign exchanges which supported exporters. One shudders to think how the UK economy would have fared had sterling been a part of the euro.

Fortunately, sterling’s weakness has been good news for UK investors looking at overseas assets and firms in the UK who derive their earnings abroad; the FTSE 100 is full of them, which explains why the stock market has performed so strongly since June.

Some market participants expected a leave vote to drive the market down to 5,000, yet the current level is closer to 7,000. The fall in sterling has also opened the door to UK assets being more sought-after by overseas investors, something we continue to monitor for developments.

The Bank of England moved to support the UK economy in the summer by dropping interest rates to a new low of 0.25% and reinstating quantitative easing. Across the pond, the Fed’s plan to raise interest rates four times this year quickly went awry, with worries about China again moving to the fore.

MOUHAMMED CHOUKEIR, CHIEF INVESTMENT OFFICER, KLEINWORT HAMBROS

The year 2016 got off to a terrible start. Echoing the domino effect witnessed in much of 2015, the sell-off was triggered by a steep fall in Chinese equities, which in turn led to rampant global speculation on China’s economic growth prospects. This set in motion a sell-off in commodities, particularly oil, as China is a principal commodities consumer.

Plummeting commodities not only sunk the share prices of companies directly affected, but pulled down seemingly unrelated companies, bringing down wider equity indices.

At its low, Brent crude traded near $26 per barrel in late January, its lowest price in over a decade. Seemingly in lockstep, global equities were down over 10% on a year-to-date basis in January, and dangerously close to entering bear market territory.

Unexpectedly, oil prices received a fillip as rumours of a production freeze led by Saudi
Arabia and Russia started making the rounds in February. This triggered a rally that lasted the rest of the year.

Equities, taking their cue from oil, also rallied strongly. Interestingly, the correlation between changes in the price of oil and changes in equity markets is at its highest level in many years, with each market alternatively bolstering or bulldozing risk-sentiment in the other.

The renewal in global risk appetites was, however, abruptly halted – and volatility spiked – as the UK voted to leave the EU on June 23. But the political climate in the UK calmed, partly as a quick and relatively painless transition of power eliminated one key Brexit risk. Indeed, another risk – immediate economic fallout – was largely unrealised.

Even an initially pessimistic Bank of England confirmed a better-than-expected post-Brexit economic picture and “less of a slowing in UK GDP growth” than anticipated. The markets, following this brief hiccup, once again hoarded the risk-on train.

Then came perhaps a shock even larger than Brexit, and that of course was the result of the US election. Investors continued to bid markets higher as the prospect of a Hillary Clinton victory appeared assured. Following an almost imperceptible wobble following Trump’s victory, investors – fickle beasts that they are – embraced the President-elect.

Indeed, a lightning-fast consensus developed that US infrastructure spending will cause a surge of global growth. While this is supportive of equities, government bonds everywhere reversed year-to-date gains as this growth will apparently lead to an overshoot in inflation.

However, a perhaps more important factor is behind why all the geopolitical noise has not led to a breakdown in risk assets: loose monetary policies and quantitative easing programmes across the world.

The Bank of England, the European Central Bank and the Bank of Japan continued to directly intervene in financial markets, buying government and corporate bonds, bidding prices up and yields down. Even the US Federal Reserve, while not actively buying assets over this year, kept interest rates at 0.50%, unchanged all year.

Markets are replete with bouts of volatility. Prudent investors eschewed the noise, and remained focused on the long-run fundamentals. Indeed, this year began amidst deep fears of a Chinese hard landing and a collapsing commodity complex; the FTSE 100 and the S&P 500 were both in double-digit negative territory for the year in February.

Once again, markets were sharply lower following the EU referendum, as Europe entered a new paradigm.

Similar events can be listed going back over the last seven years, be it a taper tantrum, Grexit or a fiscal cliff. In hindsight, each of those periods resulted in deeply oversold sentiment, with markets attractively valued and generally in positive momentum.

**JULIEN LAFARGUE, EUROPEAN EQUITIES STRATEGIST EMEA AT JP MORGAN PRIVATE BANK**

The year 2016 has shaped up to be a year where a lot has happened, but where equity markets have not done much.

After the worst start to a year in more than two decades, on the surface, pan-European equities have been stuck in the same trading range for most of the year if we exclude the initial shock of the Brexit vote. This is in stark contrast to the US where indices have reached new all-time highs multiple times over the course of the year.

Beneath the surface, the apparent calm in Europe masks significant divergences. Two numbers illustrate this: Italian equities are behind why all the geopolitical noise has not led to a breakdown in risk assets: loose monetary policies and quantitative easing programmes across the world. The Bank of England, the European Central Bank and the Bank of Japan continued to directly intervene in financial markets, buying government and corporate bonds, bidding prices up and yields down. Even the US Federal Reserve, while not actively buying assets over this year, kept interest rates at 0.50%, unchanged all year.

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Beneath the surface, the apparent calm in Europe masks significant divergences. Two numbers illustrate this: Italian equities are down some 20% in 2016 on concerns over banks’ solvability, while in the UK the FTSE 100 index is up more than 10% as exporters benefited from the depreciation of the pound.

At sector level, the difference in returns generated by the best- (miners) and the worst-performing (telecom) groups is a staggering 80%.

Taking a closer look at sector returns, 2016 was a year of two halves. The growth scare in the first half of the year suddenly turned into optimism during the summer. As a result, bond yields rebounded from their lows, commodity prices spiked and the sector leadership has changed dramatically.

Between January and June, the so-called bond-proxies such as utilities and staples led the way as investors looked for safety and predictability of earnings streams, even if it meant paying a high multiple. From June all this reversed, and value and cyclical sectors such as banks staged a significant rebound.

While it is difficult to pinpoint a single trigger for the rotation, investor positioning certainly contributed. Years of accommodative monetary policies have supported risk assets around the world, but the ultimate impact on economic growth has been relatively muted.

The Bank of Japan was the first major central bank to implicitly acknowledge that ever lower interest rates were not the solution to the developed world’s problems of low growth and inflation. This slashed expectations for a continuation of the low for long environment that had pushed market participants into a frantic and global search for growth and yield.

On the political front, the Brexit vote and the Trump victory highlighted the street’s discontentment and need for change. This shifted the focus from monetary easing to fiscal expansion and infrastructure spending, turning deflation fears into inflation hope. This is likely to have repercussions well into 2017.

The outlook for economic growth appears brighter in Europe according to the most recent leading indicators. But for the time being, investors’ sentiment remains clouded by the prospect of rising political instability.

While Brexit remains an ongoing issue, the region faces key elections in the Netherlands, France and Germany in 2017 and as such, it is likely that equity markets will experience new episodes of intense volatility.

The ability to quickly reposition portfolios was the key element for success in 2016, and this will likely be the case in 2017 too.
Let’s talk technology: monthly update

Envestnet | Yodlee to support Morgan Stanley’s wealth management businesses

Envestnet | Yodlee and its parent company Envestnet have signed a partnership agreement to provide data aggregation, digital applications and data reconciliation solutions to Morgan Stanley’s wealth management businesses.

Under the terms of the deal, Morgan Stanley – which manages over $2tn in client assets – will integrate combined Envestnet and Yodlee data aggregation, digital applications and data reconciliation solutions into its core wealth management services.

The integration will enable Morgan Stanley to aggregate, cleanse, and reconcile data using the latest machine learning technologies and applications.

Envestnet agreed to acquire Yodlee, a cloud-based data analytics company, for nearly $390m in August 2015.

NatWest tests BioCatch’s behavioural biometrics technology

British lender NatWest has successfully tested Israeli startup BioCatch’s behavioural biometrics technology to validate visitors to websites and to secure online transactions.

In a statement, BioCatch revealed that NatWest, which is part of Royal Bank of Scotland, deployed BioCatch technology within its private banking arm, Coutts, at the beginning of 2016, successfully preventing attempts at online fraud.

The bank will roll out a pilot of the technology to personal banking customers in 2017.

BioCatch said that its system captures more than 500 points of behaviour such as hand-eye coordination, pressure, hand tremors, navigation, scrolling and other finger movements to create a unique user profile. It is also able to recognise behavioural anomalies from the point of login, the Israeli company claims.

Citi launches global API developer website

US banking major Citi has unveiled a new global application programming interface (API) website to allow developers to build innovative client solutions faster.

The bank said the launch of the site “marks the evolution of Citi’s technology to open architecture” to support collaboration with fintech firms from around the world.

Developers using the site will gain access to APIs in six categories: account management, peer-to-peer payments, funds transfer to institutions, Citi rewards, investment purchases, and account authorisation.

Additional categories are expected to be added over time, the lender said. Developers will be offered tools to connect in a sandbox environment, where they can put their ideas to practice. Citi has been working with MasterCard, Virgin Money and Wonder in the US to provide various services through its API platform.

Wells Fargo Advisors, SigFig join forces on robo advice offering

Wells Fargo Advisors (WFA), the brokerage arm of US banking group Wells Fargo, has announced plans to partner with San-Francisco-based online wealth manager SigFig to develop a digital advisory offering.

The partnership will help WFA build a platform that will help investors build, implement and rebalance tailored portfolios online based on responses to investing questionnaire, Wells Fargo said.

Wells Fargo head of wealth and investment management, David Carroll, commented: “As we continue to invest in technology that serves the evolving needs of our clients and our advisors, this offering will mark an important step forward in delivering financial advice to the next generation of investors.”

“It will also build a long-term pipeline for our full-service business.”

The new robo advice service is aimed at emerging investors seeking digital experience, and will be first trialled in 2017.

PwC unveils digital currency service

Consulting and auditing firm PricewaterhouseCoopers (PwC) has unveiled a new cloud-based fintech platform to enable use of digital assets for everyday banking, commerce and other personal currency and asset-related services.

PwC teamed up with enterprise blockchain solutions providers Bloop and Libra, as well as digital identity startup Netki to develop the platform.

The new Vulcan Digital Asset Services offering will facilitate digital asset wallets, international payment processing and investment alongside trading services.

Further down the line, the platform will also provide POS and merchant services and support native digital currencies and reward-based systems.

PwC said that the new platform will offer fintech startups and existing technology firms access to its client base and allow them to co-develop new products.

PwC director and Vulcan lead Robert Allen described the platform as the “first of its kind globally” and said it will “bring digital assets and currency to the mainstream”.

“One can is a cloud-based platform that enables banks and corporates to offer a suite of new digital currency related products and services to individual, retail and institutional customers within a trusted, transparent and compliant ecosystem,” Allen stated.

UBS agrees three-year strategic vendor deal with Luxoft

Swiss banking giant UBS has signed a three-year strategic vendor contract with Swiss-based software development company Luxoft.

The agreement has a minimum target spend of $300m, or $100m a year on average, and Luxoft will have strategic vendor status for UBS IT during the entire term.

The strategic framework includes business and technology consulting for regulatory compliance and new digital transformation in the areas of trading, finance, accounting and regulation.

Fiserv adds user enhancements to its unified wealth platform

Fiserv, a provider of financial services technology solutions, has enhanced its Unified Wealth Platform by adding a new user experience and interface.

The enhancements will enable financial advisors to quickly access the tools they need to support and manage multiple managed account programs, the company said.

The platform’s new user experience transforms the support of mutual fund advisory programs, separately managed and rep-managed accounts by delivering simplified access and dashboard-driven workflow.

Fiserv’s Unified Wealth Platform provides technology automation across the entire wealth management process, including financial planning, retirement-income analysis, portfolio management, trading, accounting, portfolio performance and reporting.

The new user enhancements follow enhanced advisor and investor reporting capabilities that were introduced after completing an integration with InvestEdge in October 2015.

They also include new rep-as-portfolio manager tools, originally announced by Fiserv in March 2016.
The latest in regulation

A monthly round-up of the main regulatory announcements that impacted the private banking and wealth management industry worldwide

FCA finds weak price competition in UK asset management industry

The Financial Conduct Authority’s (FCA) interim report on the UK asset management industry has found there is limited price competition for actively managed funds, which result in investors often paying high charges.

The study, which was launched in November 2015, found that these costs are not justified by higher returns. The UK’s asset management industry is the second-largest in the world, managing almost £7trn in assets.

The study found that there is stronger competition on price for passively managed funds, although the FCA did find some examples of poor value for money in this segment.

Fund objectives are not always clear, and performance is not always reported against an appropriate benchmark.

The report added that investment consultants undertake valuable due diligence for pension funds but are not effective at identifying outperforming fund managers.

The study also found conflicts of interest in the investment consulting business model which require further scrutiny.

To make competition work better in this market, the FCA proposed a significant package of remedies that include a strengthened duty on asset managers to act in the best interests of investors, including reforms to hold asset managers to account for how they deliver value for money.

It also introduced an all-in fee so that investors can easily see what is being taken from funds.

It announced a number of measures aimed at helping retail investors identify which fund is right for them, such as requiring asset managers to be clear about the objectives of the fund, clarifying and strengthening the use of benchmarks, and providing tools for investors to identify persistent underperformance.

The FCA added that is consulting on whether to make a market investigation reference to the Competition and Markets Authority (CMA) on the investment consultancy market and has recommended that HM Treasury considers bringing the provision of institutional investment advice within the FCA’s regulatory perimeter.

Australian watchdog orders banks to review cross-selling practices

The Australian Securities and Investments Commission (ASIC) has ordered major banks to independently audit their cross-selling practices.

Affected Australian banks include ANZ, Commonwealth Bank, National Australia Bank, Westpac, Suncorp, Citi, Bank of Queensland, and HSBC.

The move follows the cross-selling scandal engulfing American banking giant Wells Fargo.

Wells Fargo was fined $100m by the US Consumer Financial Protection Bureau (CFPB) for secretly opening unauthorised deposit and credit card accounts.

The scandal prompted CEO John Stumpf to resign in October 2016, and saw the bank dismiss 5,300 employees involved in illegal sales practices.

The Australian corporate watchdog said that the audit must look back three years and cover all basic financial products.

Hong Kong SFC rolls out consultation on asset management regulation

Hong Kong’s Securities and Futures Commission (SFC) has introduced a consultation on proposals to improve the regulation of the asset management industry in the Asian financial hub.

The consultation, which aims to better protect investors’ interests and ensures market integrity, followed a review of major international regulatory developments.

In a statement the regulator said that the proposed changes will be made to its Fund Manager Code of Conduct and the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (Code of Conduct).

British Virgin Islands hits Mossack Fonseca with $440,000 fine

The British Virgin Islands (BVI) has fined law firm Mossack Fonseca $440,000 – the largest fine in the territory’s history – following a probe into the Panama Papers leaks.

The BVI Financial Services Commission (FSC) identified eight breaches of anti-money laundering and terrorist financing codes at the law firm as well as a breach of regulatory code. The investigation, based on a trove of 11.5m leaked files from inside Mossack Fonseca, exposed the inner workings of a secretive financial system used by world leaders, wealthy individuals, drug lords, and fraudsters.

More than half of the offshore companies in the leaked files were incorporated in the BVI.

However, anti-corruption activists Transparency International said the penalty against Mossack Fonseca was “too little, too late” compared to the scale of the revelations in the Panama Papers and the harm caused by offshore financial secrecy. This marks the fourth time that Mossack Fonseca has been penalised by the BVI authority since 2012.

India demonetises high denomination currency notes to weed out black money

The Indian government has decided to cancel the legal tender character of the INR500 and INR1,000 notes in an attempt to tackle what it terms “black money”.

In a surprise address to the nation, Prime Minister Narendra Modi urged people not to panic and said all INR500 and INR1,000 notes could be deposited in banks and at post offices from 10 November to 30 December.

Those unable to exchange old notes before the 30 December 2016 deadline can do so at specified offices of the Reserve Bank of India (RBI) until 31 March 2017.

He also announced that new INR2,000 and INR500 bills will be introduced.

In July, 2010, the World Bank estimated the size of India’s shadow economy to be 20.7% of GDP in 1999, rising to 23.2% in 2007.

Citi, JPMorgan top regulators’ list of globally important banks

American banking giants Citi and JPMorgan have topped the Financial Stability Board’s (FSB) list of globally systemically important banks (G-SIBs).

Released each year, the ranking shows the financial institutions which hold the most systemic importance within the context of the global economy.

This year Citi replaced HSBC in the second-highest bracket, which means it will now have to hold 2.5% of its assets as buffer capital on top of global minimum requirements to absorb losses during times of crisis.

HSBC joined BNP Paribas and Deutsche Bank in the third-highest bracket, which requires banks to hold 2% buffer capital.

Barclays, Credit Suisse, Goldman Sachs, Industrial and Commercial Bank of China, Mitsubishi UFJ, and Wells Fargo were placed in the 1% surcharge category.

No banks were considered important enough to push into the top category, facing a 3.5% capital surcharge.

In November 2011 the FSB published an integrated set of policy measures to address the systemic and moral hazard risks associated with systemically important financial institutions. The November 2011 report noted that the group of G-SIBs will be updated annually based on new data and published by the FSB each November. ■
LIQUIDITY EVENTS

PBI has teamed up with sister company WealthInsight to provide monthly liquidity events that have piqued the interest of its analysts. This month we have events from North America and Europe.

### NORTH AMERICA

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<tr>
<th>Announced Date</th>
<th>Completed Date</th>
<th>Headline Event</th>
<th>Event Category</th>
<th>Event Status</th>
<th>Acquirer/Investor</th>
<th>Deal Value ($m)</th>
<th>Issuer/Partner/Target</th>
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<td>13 September 2016</td>
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<td>JB Hi-Fi acquires Muir Electrical Company (The Good Guys)</td>
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<td>Susquehanna Growth Equity invests $44m in MacroePoint</td>
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<td>Quikrete Holdings acquires 100% stake in Contech Engineered</td>
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<td>GCP Applied Technologies acquires Halex</td>
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### EUROPE

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<td>Mycronic acquires 100% stake in Automation Engineering</td>
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<td>Foresight Regional Investment Fund invests $3.7m in Utilities Design &amp; Planning</td>
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<td>Utilities Design &amp; Planning</td>
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<td>Mark Harries</td>
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<td>Craig Cordle</td>
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<td>Michael Le Garignon</td>
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<td>Ian Aylward</td>
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<td>Mike Regan</td>
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<td>JM Finn</td>
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<td>Øyvind Schanke</td>
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<td>Michael Speller</td>
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Winners of PBI Switzerland Awards 2016

PBI announced the winners of the 2016 Private Banking Switzerland Awards at a ceremony held in conjunction with the Private Banking: Switzerland Conference in Zurich on 8 December.

Group, while Avaloq took home the outstanding wealth management technology provider in Switzerland (vendor award – middle and back office) award.

Qumram was the winner of the outstanding front-end digital solutions provider (vendor) award, and the outstanding UHNW offering in Switzerland award went to Citibank Switzerland.

The editor’s choice award for innovative wealth management technology platform in Switzerland (bank) went to Millennium Banque Privée.

Meghna Mukerjee, editor of PBI, commented: “The Swiss market could be considered the bedrock of the private banking industry, and it was only a matter of time before we launched a set of awards dedicated to this country.

“Institutions around the world continue to look towards Switzerland as the most crucial global wealth management hub, and the successes stories in this region must be recognised and felicitated.

“The award winners this year exhibited a clear direction in their strategies and truly honed in on their strengths as institutions.

“These players are shaping the future of the private banking industry in Switzerland, and have demonstrated their worth through their excellence, expertise and unique initiatives.”

The inaugural Switzerland-focused awards revealed winners in seven different categories.

The winners were selected by an independent judging panel and PBI editorial team members.

Bank Julius Baer & Co was named outstanding private bank/boutique bank Switzerland – domestic player 2016, while BNP Paribas (Suisse) won the award for outstanding private bank Switzerland – international player.

The outstanding family office proposition in Switzerland award went to Bedrock Group, while Avaloq took home the outstanding wealth management technology provider in Switzerland (vendor award – middle and back office) award.

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“These players are shaping the future of the private banking industry in Switzerland, and have demonstrated their worth through their excellence, expertise and unique initiatives.”
Intelligent Environments is an international provider of innovative mobile and online solutions for financial services providers. Our mission is to enable our clients to always stay close to their own customers.

We do this through Interact®, our single software platform, which enables secure customer acquisition, engagement, transactions and servicing across any mobile and online channel and device. Today these are predominantly focused on smartphones, PCs and tablets. However Interact® will support other devices, if and when they become mainstream.

We provide a more viable option to internally developed technology, enabling our clients with a fast route to market whilst providing the expertise to manage the complexity of multiple channels, devices and operating systems. Interact® is a continuously evolving technology that ensures our clients keep pace with the fast moving digital landscape.

We are immensely proud of our achievements, in relation to our innovation, our thought leadership, our industrywide recognition, our demonstrable product differentiation, the diversity of our client base, and the calibre of our partners.

For many years we have been the digital heart of a diverse range of financial services providers including Atom Bank, Generali Wealth Management, HRG, Ikano Retail Finance, Lloyds Banking Group and Think Money Group.
IN A CHANGING WORLD,
WHATEVER THE DISTANCE,
RELATIONSHIPS MATTER.

SEAMLESS ACCESSIBILITY
We can achieve great things even when geographically apart. By serving you globally and locally, in person, on-line, and on the move, your wealth has a voice, let it be heard.

BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world

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