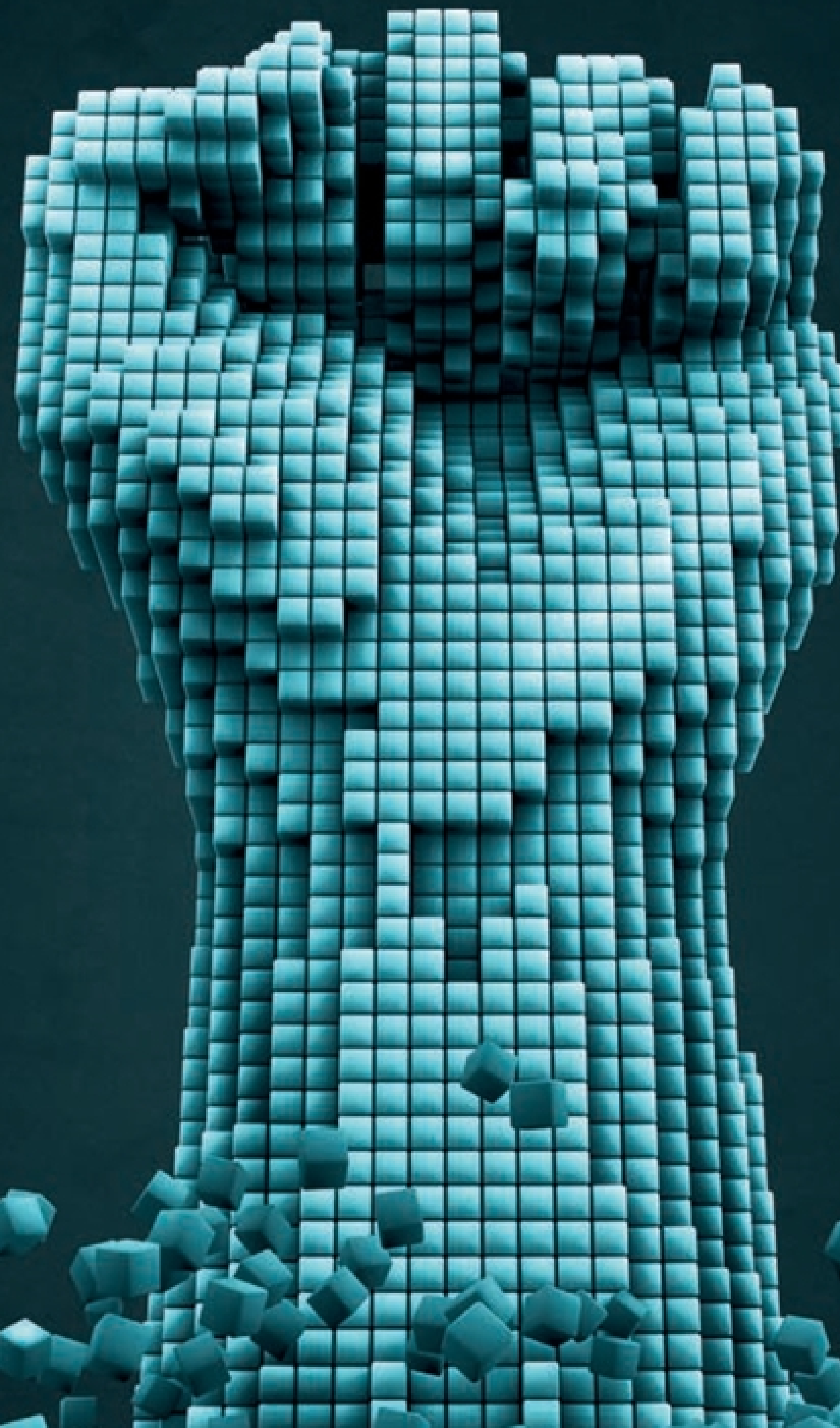
VERDICT
WWW.PRIVATEBANKERINTERNATIONAL.COM
ISSUE 377 / FEBRUARY 2020

PRIVATE BANKER INTERNATIONAL

POWER TO THE PEOPLE?



HOW A HYBRID ROBO MODEL COULD BENEFIT BOTH CLIENT AND ADVISER

OPINION

Will the UK take an entirely new approach to sanctions outside the EU?

FEATURE

Coronavirus: how are markets reacting and how will financial firms cope?

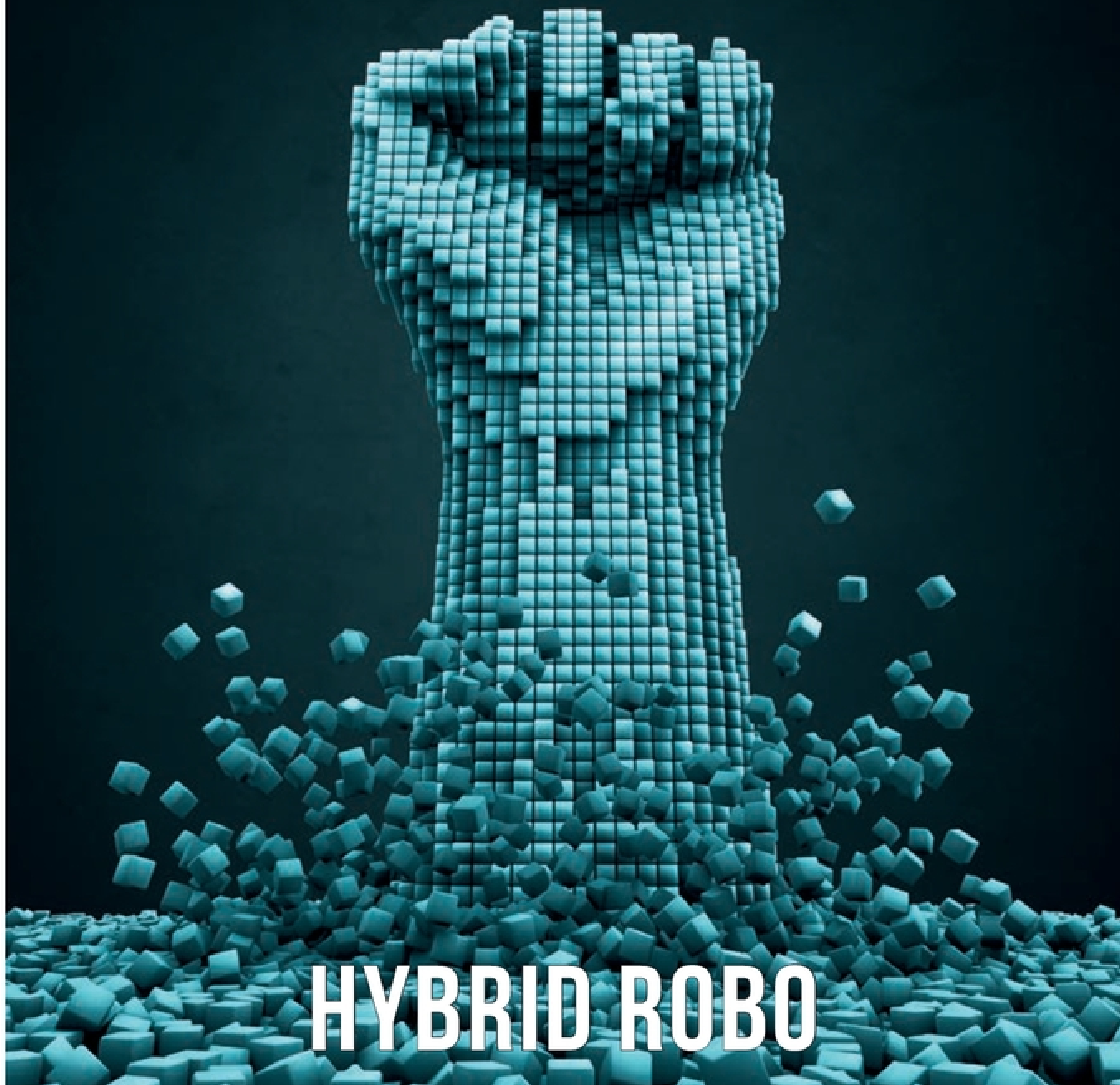
COUNTRY PROFILE

Regulatory change, negative interest and digitisation in Germany

THIS MONTH

COVER STORY

06



NEWS

05 / EDITOR'S LETTER
18 / ROUND-UP
20 / PEOPLE MOVES
21 / TECH AND REGULATION

21

Editor:
Patrick Brusnahan
+44 (0)20 7936 6987
patrick.brusnahan@verdict.co.uk

Group Editorial Director:
Ana Gyorkos
+44 (0)20 7832 4396
ana.gyorkos@globaldata.com

Director of Events:
Ray Giddings
+44 (0)20 7936 6512
ray.giddings@compelo.com

Reporter:
Asena Değirmenci
+44 (0)20 7936 6969
asena.degirmenci@verdict.co.uk

Sub-editor:
Nick Midgley
+44 (0)161 359 5829
nick.midgley@uk.timetric.com

Head of Subscriptions:
Sharon Howley
+44 (0)20 7936 6587
sharon.howley@verdict.co.uk

Customer Services: +44 (0)207 936 6587, briefings@verdict.co.uk

Financial News Publishing, 2012. Registered in the UK No 6931627. ISSN 0953-7031
Unauthorised photocopying is illegal. The contents of this publication, either in whole or part, may not be reproduced, stored in a data retrieval system or transmitted by any form or means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the publishers.

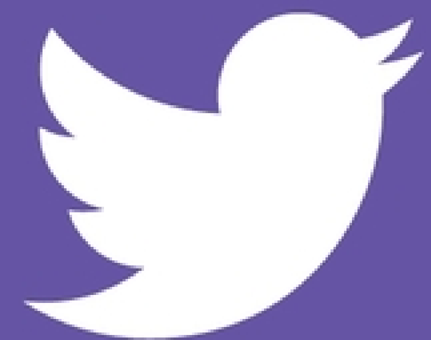
For more information on Verdict, visit our website at **www.verdict.co.uk.**
As a subscriber you are automatically entitled to online access to *Private Banker International*.
For more information, please telephone +44 (0)20 7406 6536 or email briefings@verdict.co.uk.

London Office: John Carpenter House, John Carpenter Street, London, EC4Y 0AN

Asia Office: 1 Finlayson Green, #09-01, Singapore 049246
Tel: +65 6383 4688 Fax: +65 6383 5433 Email: asiapacific@sg.timetric.com

PRIVATE BANKER INTERNATIONAL

VERDICT



TWITTER:
@BANKERNEWS

LINKEDIN:
PRIVATE BANKER INTERNATIONAL

FEBRUARY 2020

FEATURES

06 / HYBRID ROBO
Is the hybrid robo model handing power back to advisers and clients alike? Or is it destroying the personal relationships and human touch for which private banking is so widely regarded? ***Alison Ebbage*** finds out

14 / ONBOARDING
Every sector has one hurdle: acquiring and onboarding customers, and private banking has a bigger challenge than most. As technology gains presence, how are private banks adapting? ***Patrick Brusnahan*** writes

12 / BREXIT
Close to four years after the referendum, the day has come, but what will Brexit do to UK private banking and wealth management? Will the effects be widespread or non-existent? ***Patrick Brusnahan*** speaks to experts

16 / CORONAVIRUS
Coronavirus is having an astounding effect on everything, and financial services is no exception. So, how are markets reacting and how will financial firms cope? ***Patrick Brusnahan*** asks the experts

COUNTRY PROFILE

09 / GERMANY
Key trends influencing German banking include regulatory changes, negative interest rates and digitisation. ***Asena Değirmenci*** speaks to Julius Baer and Berenberg about the country's private banking market

OPINION

19 / COLLYER BRISTOW
Is it the case that the UK will take an entirely novel approach to sanctions once it withdraws from the EU? And what impact will this 'new' regime have on HNWIs operating here? ***Samara Dutton*** writes

BUSINESS PROFILE

22 / LOMBARD INTERNATIONAL
How can you provide a niche service to HNW and UHNW clients across the world? Can you be specific and global at the same time? ***Patrick Brusnahan*** speaks with Lombard International global CFO Florent Albert

SPENDING BIG TO GET AHEAD OF THE GAME

Patrick Brusnahan, Editor

Morgan Stanley will acquire financial services company E*TRADE in an all-stock transaction valued at $13bn. E*TRADE stockholders will receive 1.0432 Morgan Stanley shares for each E*TRADE share.

The deal boosts Morgan Stanley's foothold in the wealth management sector. E*TRADE holds over 5.2 million client accounts, and $360bn in retail client assets. These will be added to Morgan Stanley's 3 million client relationships and $2.7trn in assets. Shareholders from both companies are expected to benefit from cost savings of around $400m from maximising efficiency in infrastructure. Furthermore, there is scope for funding synergies of $150m by optimising E*TRADE's $56bn in deposits.

E*TRADE CEO Mike Pizzi will join the bank and continue to run the firm within the Morgan Stanley brand. He will report to Morgan Stanley chair and CEO James Gorman. In addition, he will join the Morgan Stanley operating and management committees. One of E*TRADE's independent directors will also join the Morgan Stanley board.

"E*TRADE represents an extraordinary growth opportunity for our wealth management business and a leap forward in our wealth management strategy. The combination adds an iconic brand in the direct-to-consumer channel to our leading adviser-driven model, while also creating a premier workplace wealth provider for corporations and their employees," said Gorman.

"E*TRADE's products, innovation in technology, and established brand will help position Morgan Stanley as a top player across all three channels: financial advisory, self-directed, and workplace. In addition, this continues the decade-long transition of our firm to a more balance sheet-light business mix, emphasising more durable sources of revenue."

"Since we created the digital brokerage category nearly 40 years ago, E*TRADE has consistently disrupted the status quo and delivered cutting-edge tools and services to investors, traders, and stock plan administrators," added Pizzi. "By joining Morgan Stanley, we will be able to take our combined offering to the next level and deliver an even more comprehensive suite of wealth management capabilities. Bringing E*TRADE's brand and offerings under the Morgan Stanley umbrella creates a truly exciting wealth management value proposition and enables our collective team to serve a far wider spectrum of clients."

The deal is subject to customary closing conditions, including regulatory approval; it is expected to complete in the fourth quarter of this year.

Huge deals such as these are becoming more common, and it shows that firms are willing to spend highly to survive. This acquisition, similar to Charles Schwab splashing $26bn on TD Ameritrade, shows that wealth management, often seen as an aging industry, is recognising that technology needs to be brought into the fray quickly.

It also shows a willingness to look outside their own organisation. Many firms believe that solutions and be made in house. Huge players such as Morgan Stanley can certainly do that, but not with enough speed to market.

While the deal is expected to close at the end of the year, the process is much faster than building technological prowess from scratch. Numerous firms will see this, if they have not already, and more money will be spent, and more companies bought, this year. ■

GET IN TOUCH WITH THE EDITOR AT: **PATRICK.BRUSNAHAN@VERDICT.CO.UK**

CORONAVIRUS CONTINUES TO IMPACT INVESTMENT

Coronavirus is having an astounding effect on everything, and financial services is no exception. Major banking groups including Goldman Sachs, UBS and Credit Suisse have asked workers in Hong Kong to work from home if they have recently travelled from China. So, how are markets reacting and how will financial firms cope? *Patrick Brusnahan* asks the experts

CYRIQUE BOURBON, BROWN SHIPLEY

Trying to gauge the precise impact of coronavirus on China and the world economy is still, at present, an impossible task. There remains enormous uncertainty around the potency of the virus, how effective control methods will prove, and ultimately how long or short-lived the outbreak will be.

The immediate impacts are, of course, clear. There is evidently a direct impact on the affected region; Wuhan is a major transportation hub in the region and an important production centre for the already battered automobile industry. The psychological impact on consumer confidence could, meanwhile, further undermine the already weakening overall consumption in China, as witnessed during the SARS outbreak. It is also very clear that travel, tourism and leisure industries worldwide could take a severe direct hit.

Knock-on effects of the crisis on other sectors are also already visible. For example, the sharp drop in the oil price is a direct consequence of the expected onslaught on air travel. However, while markets logically discounted the increased risk premium into the most directly exposed travel and leisure sectors, they also concluded pharma and health care stocks should profit from the crisis. And safe-haven assets such as German government bonds, treasuries, gold, the Swiss franc and Japanese yen have also profited. Investors holding on to a well-managed diversified portfolio have thus largely been shielded from the crisis.

Moreover, many see the Corona-story as just the spark that capital markets needed for a healthy and arguably overdue adjustment in risk premia after the very strong performance over the last few months. A correction could open up new and more interesting investment possibilities.

At present, we maintain our existing allocation views, recommending diversified portfolios where our favoured safe-haven assets remain gold, US treasuries as well as the Japanese yen. Investors should remember not to panic and hold on to their defensive positions as part of a diversified strategy, and closely monitor the situation for signs that the outbreak gets under control. ■

RUPERT THOMPSON, KINGSWOOD

Global equities had started to looked vulnerable to a correction following their gain of close to 14% since early October, and the coronavirus has provided the catalyst for just such a setback. The US market was down on Friday and the UK and European equity markets have fallen 2% or so this morning. The coronavirus has provoked comparisons with the SARS virus back in 2003 which ended up with close to 800 people losing their lives.

However, while there are clear parallels, there are also significant differences. Mortality rates from the new virus are lower than with SARS, but the coronavirus (unlike with SARS) is infectious before symptoms show up, substantially increasing the danger of it spreading rapidly. Even so, there is still a great deal of uncertainty over how serious the crisis will turn out to be and the World Health Organisation has so far held off from calling a global health emergency.

In assessing the potential economic and market impact – rather than the very evident human cost – the SARS outbreak is as good a starting point as any. That outbreak hit Chinese growth and the Chinese equity market significantly but the impact was short-lived with both rebounding within a matter of months. As for global equities, there was minimal impact at all. This time round, the Chinese economy is much larger and much more connected with the global economy. The Chinese authorities have also imposed much more draconian measures to try and halt the virus. The short-term impact on the Chinese economy is therefore likely to be considerable – not that there will be any hard data released to measure this for a good couple of months.

As far as the global economy is concerned, we don't at this stage believe this hit is large enough to merit altering our base case. We continue to expect global growth to recover a little over the coming year on the back of the relaxation of monetary policy and easing in trade tensions. As for global equities, the risk is clearly that the news gets worse before it gets better and the market correction could well have further to run as a result. Indeed, corrections of 5-10% are surprisingly common. In the past, however, even when global health scares have impacted markets, the effect has been short-lived. At the peak of Ebola fears in 2014, global equities fell back 9% over the course of a month but had recouped these losses within weeks.

If we do see a 5-10% correction, we are currently minded to use the opportunity to add to our equity holdings and move overweight from neutral. That said, we would only implement such a move following a careful reassessment of the situation. ■

CHRIS TOWNER, CHATHAM FINANCIAL

With every outbreak of a deadly virus, the global economy is dealing with the unknown. The scale of the pandemic and the economic damage it might cause remain unknown until the spread is contained. At the time of writing, the novel strain of coronavirus is far from contained. Today's death toll was the highest yet, with 97 reported and for those in the UK, things are now closer to home: the number of confirmed cases has doubled from four to eight.

Nevertheless, there is a limited sense of panic in Europe. Previous – and more deadly – viruses such as SARS were contained eventually. However, despite the coronavirus having a lower mortality rate than SARS, with less than 2.5% of infections leading to fatalities, it is certainly more infectious. Some 8,000 people contracted SARS globally, and so far, more than 40,000 people have been infected by the coronavirus.

As the spread of this contagion accelerates, so too does the economic damage. While the initial outbreak was during the Chinese Lunar New Year celebrations, and so had a limited impact on economic output, the question now is how quickly China will be able to resume full production. Today S&P lowered its forecast for Chinese GDP growth from 5.7% to 5% in 2020; by contrast, a decade ago the world expected China to grow by 10% every year.

The coronavirus also impacts global currencies. The two safe haven currencies other than the US dollar are the Swiss franc and the Japanese yen. Given Japan's proximity to China, it can hardly be perceived as safe from a potential pandemic. Therefore, the Swiss franc, much to the annoyance of the Swiss authorities, has seen huge inflows.

On the other hand, the Australian dollar, probably the most sensitive currency to this crisis outside of China, has weakened. The Australian economy has become increasingly reliant in feeding rampant Chinese growth over the last 10 years. Australia is still reeling from wildfire damage and now it must deal with Chinese economic growth slowing down. With interest rates already set at historical lows of 0.75%, Australia is fast running out of road for further stimulus. Just like the presumed 10% GDP growth from China 10 years ago, the Australian dollar used to be considered a high yielding commodity play. Now it looks set to join the ever-growing group of low-interest-rate currencies. ■