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Crossing into Private Wealth

Opportunity dawns for Australian Banks to move to the role of genuine Wealth Advisors

The worldwide market for Private Wealth has been expanding strongly, with growth in the Asia Pacific region outstripping growth elsewhere around the world. Reports suggest that a strong growth rate has pushed the number of High Net Worth Individuals (HNWI = investable wealth over A$1 million) to over 250,000 in Australia alone.

The good news for Australian banks is that they currently have close links to the growing population of HNWIs. Many of these individuals are CEOs and CFOs who are the main stakeholders in business banking relationships. Despite this strong, inherent competitive advantage, research conducted by East & Partners in mid-2008 suggested that Australian banks have a relatively marginal foothold in the private wealth market. East's research showed that under 5 percent of business' primary decision makers go to their business bank for private wealth management.

The events of 2008 have, however, created a new opportunity for business banks to cross over to the role of trusted private wealth advisors. The unprecedented financial turmoil of 2008 meant that it was a disastrous year for private wealth, which appears to have distanced many HNWIs from their previously trusted advisors.

The extent of this separation is highlighted in East's research conducted in January 2009 which asked CFOs of medium to large businesses about their private wealth management; past, present and future. The CFOs interviewed have an average net wealth well in excess of the standard A$1 million HNWI threshold.

The wealth of these HNWIs has come crashing down, with half of all CFOs interviewed reporting they lost more than 20 percent of their net wealth in the past year. In simple value terms, this meant an average loss of over half a million dollars.

Faced with losses of this magnitude, risk appetites have changed dramatically and most investors have flocked to safer investments. Many HNWIs across the world suddenly saw the investment appeal in cash and deposits. In Australia, investors have benefited from the government guarantee on bank deposits, which have become the safe asset of choice. In fact, retail bank deposits jumped 24 percent over the 2008 calendar year, compared with 10 percent growth the year prior.

East's research shows that this low risk investment option has become a strategy of choice for Australian HNWIs. When the CFOs East interviewed were asked how they would invest an extra $100,000 it was revealed that, on average, more than two thirds of the funds would be channelled into cash and deposits. Australian banks have come through the past year with distinguished stability and are seen as a trusted source for private wealth to be stored in tough times.

Besides greater risk aversion, the hit to their bottom line has caused another dramatic response by the HNWIs, namely the loss of confidence in their trusted advisors. A disillusioned investor may reason that they don't need a wealth advisor to lose them 20 percent in one year; they could have done that themselves.

While HNWIs East interviewed have previously used advisors to manage two thirds of their wealth, these investors now say they intend to use advisors for as little as one quarter of their future investments.

Confidence will, however, eventually turn and HNWIs will once again be looking for advice on the best investment strategy.

This will present a significant opportunity for change in the private wealth industry. Investors have clearly lost trust in their current advisors, leaving an opening for players perceived as being outside of the game to come to prominence in the private wealth market.

A critical element of earning trusted advisor status is establishing and building quality relationships.

For Australian banks, trust has already been established in business banking relationships, in which HNWIs are often the key stakeholder. The Big Bank status itself is also a trusted one, as seen by the influx of cash in a difficult year.

The challenge for the Australian banks is to convert their 'trusted partner' status into 'trusted advisor' so that banks are not just seen as a place to park cash in the bad times, but also as personal wealth creators, advisors and risk managers throughout the economic cycle.

Figure A: Wealth Advice vs Self Management