Pendulous and waiting for growth: Private Banking

The statistics are tantalising for the 25 or so providers of private banking services in Australia. Australians are now the world's wealthiest people on a median basis, and second after the Swiss on average globally. Market estimates there are close to 200,000 Australians with investable assets of A$1 million or more, in addition to their own homes and superannuation.

But despite the continuing rise in personal wealth, the private banking industry is still to achieve significant traction in this country. On one hand, that has been frustrating for the banks, but on the other it means there is still the potential for significant growth because the industry is coming off a low base.

The last decade or so has been a confusing one in the private banking industry. The Big Four Australian banks have tinkered with several different models for their private banks, some of which patently have not worked.

Should the private bank sit in business banking, where it can provide tailored services to wealthy business owners? Or should it sit in wealth management as a special "red carpet" service for an identified customer segment?

While the Australian banks were working through their models, they were also on an acquisition spree in the wealth management space. Integrating these businesses with the acquiring bank has been a lengthy work in progress in some cases.

Then there has been the rise of self-managed superannuation, which has been a distraction for the banks and a temptation for the wealthy, who have pondered the best vehicle for their assets.

And finally, of course, there has been the Global Financial Crisis which destroyed so much wealth, changed investment asset allocations perhaps forever and made wealthy individuals suspicious and cynical of the advice they were getting from wealth managers.

In late 2012, however, the dust is settling and the outlook for the private banking industry in Australia looks brighter than for some time.

East & Partners numbers suggest that only one in three Australian high net worth individuals is currently a private banking client, a figure which suggests significant upside.

One of the keys to getting it right is pitching the right offer to the most appropriate market segment. There is the "mass market" for private banking, for those with between A$1 million and A$10 million, and then there is the ultra-high net worth segment, where banks such as Credit Suisse offer the European style private banking service and the Family Offices compete.

The issue for them is that there is such a small potential pool of clients to fight over, which means that the bank really has to get it right to be worth the time and resources invested.

At the core of this is a tension between the bank and the individual. Nirvana for the bank is to "own" all aspects of the customer relationship, from credit cards to mortgages to advice.

Wealthy individuals tend to be multi-banked, and take their advice from a number of trusted providers who have helped them along the way.

Even so, this is a time of opportunity for private banking in Australia. If providers can get it right and offer these high net worth individuals what they are after in terms of re-building trust, real added-value, originality and performance, then the possibilities are enormous.

The value proposition, however, is critical.

Self-Managed vs Managed: the Trust Issue

872 HNWI Customers	% External	% Self
Total	38.2	61.8
Male	53.3	46.7
Female	19.6	80.4
Up to 40 years	22.1	77.9
40 – 50 years	36.6	63.4
50 Plus years	70.2	29.7

Source: East & Partners
Wealth Management Research – August 2012