The $200 Trillion Gold Rush That Has Reshaped Private Banking

From Hong Kong to Miami, private bankers are finding new ways to serve the growing ranks of the world's wealthy.

By Bloomberg News

(Bloomberg Markets)

Ten years ago, stock markets plunged, major banks faltered, and the global economy teetered on a precipice. Few would have predicted that the ensuing decade would produce an explosion in wealth.

But that’s just what happened. An unprecedented infusion of central bank funds into the world’s largest economies bolstered asset prices, making many people richer and exacerbating inequality. Global personal wealth reached a record $201.9 trillion last year, according to Boston Consulting Group Inc.

For some banks, this burgeoning affluence brightened an otherwise dreary postcrisis landscape. Giants including UBS, Morgan Stanley, and Bank of America seized the opportunity. With trading desks hamstrung by a flurry of new rules, banks set out to woo the growing ranks of the super rich.

But the business of managing the fortunes of the elite was changing as well. The U.S. and Europe cracked down on tax evasion, driving clients to pull tens of billions of dollars out of Switzerland and forcing private banks there to seek new pockets of wealth. Money laundering scandals brought fines and yet more rules. Compliance costs soared, and clients started paying closer attention to fees and the services they received for them. Technology made nimbler, cheaper investing tools possible.

Perhaps the biggest force reshaping global wealth management has been the ascent of China. Its economic expansion produced an eruption in private wealth across Asia, where almost 2,000 people become millionaires each day. In 2015 the Asia-Pacific region overtook the U.S. in assets held by millionaires, leaving banks scrambling for talent and office space. Local banks challenged the dominance of established Western wealth managers. As China opens its market to foreign companies, an ocean of money is waiting to be tapped.

In the Americas, Canadians are feeling the positive impact of the tech boom and new asset classes such as cannabis and cryptocurrencies. Funds from rich Latin Americans are flooding Miami in search of political stability and a haven currency. Across the industry, but particularly in the U.S., the super rich's family offices invest and network like institutions. At the lower end of the wealth spectrum, meanwhile, registered investment advisers and robo-advisers use low-cost funds to take business away from private banks.

Looming over this gold rush is the end of the central bank stimulus that drove so much wealth creation. Interest rates are rising in the U.S.; China is seeking to curb a record borrowing binge. Throw in the escalating trade war between the U.S. and China, Britain's exit from the European Union, and rising nationalism across the globe, and the next decade may prove far more challenging for wealth managers than the last one. *—Devon Pendleton and Christian Baumgaertel*

In Switzerland, Bankers Read Balance Sheets

TOTAL POPULATION
8.5 MILLION

HIGH-NET-WORTH INDIVIDUALS*
474,000 (5.6%)

Andreas Arni remembers the heyday of Swiss private banking. As a wealth manager at Credit Suisse Group AG in the 2000s, he spent his days chasing after the fortunes of rich Latin Americans. Money was pouring in from around the world, lured by the promise of Swiss banking secrecy.

These days he's leading about 100 relationship managers chasing a different type of client: Swiss entrepreneurs. These clients aren't looking to hide money from the taxman, but rather to extract it from their businesses, get help with succession planning, and achieve competitive investment returns. And because their money isn't stuck in an undeclared account, they will shop around for better and cheaper services elsewhere if they're not happy.

"To serve these clients, you need bankers who understand balance sheets and companies," Arni says in a conference room at Credit Suisse's headquarters on Zurich's Paradeplatz. "Ninety percent of the wealth of entrepreneurs sits within their companies. You need to find it and unlock it."

Swiss private banking has been transformed since the U.S. and European governments cracked down on secrecy, imposing billions of francs in fines and requiring banks to disclose information on international clients. Four years ago a Credit Suisse unit pleaded guilty to helping Americans cheat on their taxes, becoming the first global bank in a decade to admit to a crime in a U.S. courtroom. The rising cost of complying with new regulations squeezed profit margins, especially at smaller banks, pushing dozens to close or combine.

The survivors adapted by exiting less profitable markets and offering clients access to specialized investments, including infrastructure and real estate, to improve returns. Swiss private banks—apart from Credit Suisse and UBS Group AG—doubled their profits, to 2.8 billion francs ($2.8 billion) in 2017 from two years earlier, according to a KPMG LLP study.

Although booming equity markets helped, so did changes in strategy. "The competitiveness in the market due to lower margins and the regulatory environment led to a further professionalization of the industry," says Patrick Odier, senior managing partner at Bank Lombard Odier & Co., Geneva's oldest private bank.

Switzerland still attracts the biggest share of the global elite's fortunes: more than $1.8 trillion in offshore money last year, or 21 percent of the $8.6 trillion market, according to a Deloitte LLP report. But it's facing tougher competition from Hong Kong, Singapore, the U.K., and the U.S. as the overall market for offshore wealth management has been shrinking.

Swiss banks are seeking new clients at home. Those include thousands of closely held, often family-owned businesses. In Switzerland, some $160 billion in assets is tied up in such companies, according to Boston Consulting.

UBS and Credit Suisse, which scaled back their trading units after the financial crisis, are increasingly using their capital to finance transactions for private-banking clients. The goal is to persuade rich clients to trade more and bring business such as initial public offerings to the investment bank.

"It's not enough to simply wait for the liquidity event. You constantly have to come up with ideas to add value for them," says Jean-François Bunlon, head of Swiss domestic clients at HSBC Private Banking SA in Geneva. *—Jan-Henrik Förster*

** High-net-worth individual defined as adult with more than $1 million in financial wealth, excluding real estate. Source: BCG Global Wealth Market Sizing Database*

In Miami, Latin America’s Offshore Hub Thrives

LATIN AMERICA’S TOTAL POPULATION
639 MILLION

HIGH-NET-WORTH INDIVIDUALS
190,300 (LESS THAN 0.03%)

Every December, the migration begins. Moneyed people from all over the globe flock to South Florida to attend Art Basel Miami Beach, one of the world’s premier art fairs. Many stay the week; others wait out the winter. Others decide it’s time to relocate for good.

Private bankers are paying attention.

The wealthy have always been attracted to Florida’s sun, sand, and nonexistent state income tax. But the state seemed to lack the cultural cachet that many entrepreneurs demanded.

Since Art Basel’s Miami offshoot arrived in 2002, much has changed. Miami’s Wynwood neighborhood has emerged as a bustling art and fashion district, and the city has opened new museums and a performing arts complex. Billionaire President Donald Trump invites world leaders to his winter retreat in Palm Beach, about a 90-minute drive up the coast from Miami.

Today, Florida is home to the U.S.’s wealthiest ZIP code (33109), nine of the world’s 500 richest people, and a growing share of the world’s wealth management business. It’s among the most popular places for multimillionaires to have second homes, along with New York and the Hamptons. It’s not yet Switzerland, but bankers say this informal capital of Latin America is among the fastest-growing recipients of offshore capital in the world.

“Florida has gone from a retirement community to a vibrant, international, exciting place to be,” says Steve Wagner, who co-founded Omnia Family Wealth after leaving Merrill Lynch’s private bank three years ago. “It’s become a destination for families of significant wealth to own property.”

Recently, some of the growth has come from a series of Latin American tax-amnesty laws that surfaced capital previously residing in the shadows. Government data show some $200 billion emerged from programs in Argentina, Brazil, Chile, Colombia, and Mexico. Before the amnesty, many compliance-conscious bankers never would have touched those funds.

In addition, a steady drumbeat of economic and political crises in the region—including in Brazil, Latin America's largest economy—have persuaded some entrepreneurs to park their savings offshore.

Unlike Switzerland, Miami shares a time zone and a climate with Latin America and has dozens of direct daily flights to the region's capital cities. An estimated 65 percent of the residents of Miami-Dade County speak Spanish at home. Walk into many private-banking offices here, and you're as likely to be treated to a Brazilian cafezinho or a Cuban sweet coffee as an espresso.

At São Paulo-based Itaú Unibanco Holding SA, Latin America's largest lender by market value, clients now keep about 30 percent of their capital abroad in the dollar and other hard currencies, up from close to nothing a decade ago, says Carlos Constantini, head of international private banking.

His clients' offshore assets have swelled to $23 billion, from only $3.4 billion 10 years ago. About $13 billion is in Miami, the fastest-growing office, he says. Miami, he says, "provides a very competitive and a very convenient market for Latin American clients." —*Jonathan Levin*