# TheWealthNET's winners and losers for 2004

17/01/2005 by: Ian Orton

Here are *TheWealthNET*'s winners and losers for 2004 (in no order of importance).

**Winner: UBS**

The world's biggest wealth management firm became the biggest recipient of private banking awards during 2004 and will probably receive similar accolades during 2005. Indeed, it has already scooped *Euromoney* 's 2005 best global private banking award.

Although some of the awards that UBS flourishes tend to verge towards the tinpot, the firm probably does deserve its prizes. In a sector where strategic vision tends to be conspicuous by its absence, UBS has not only developed a coherent expansion strategy, especially within a European context; it has executed this with aplomb.

In the UK, for example, it has come from nowhere to become one of the biggest firms active in the onshore wealth management market in terms of client assets under management through a combination of organic growth and acquisition. This has given the potential to assume dominance in not just the very top end of the market but the so-called "core" segment, which probably enjoys much more attractive margins.

The bank now has a true worldwide presence (unlike Merrill Lynch and Credit Suisse, its closest competitors, for example). Not only does this give it considerable potential for additional growth, it should enable it to finesse further attacks against Swiss offshore private banking.

UBS also enjoyed a very successful 2004 from a results perspective. This reinforced its standing in the market.

The firm does face a number of challenges ahead. Despite a creaking trophy cabinet it has yet to win a PAM Award, for example (the ultimate award for excellence), although this could be rectified this year. And some commentators would argue that its product range could still be expanded to advantage. Moreover, despite gaining market share through investing heavily in its European wealth management initiative this has yet to be converted into profits.

**Loser: Citigroup Private Bank**

It is not often that a bank gets ejected from a national market. But Citigroup Private Bank managed to achieve this feat in Japan for a series of regulatory failings. Not for the first time these involved charges of overselling, a trait that Citigroup has made its own ever since the days of the roaring 1920s when it was under the stewardship of the infamous  Charles Mitchell, a pioneer of the hard sell.

Citigroup is unique amongst foreign banks in Japan. It has built an impressively large private banking business in a country that has proved very difficult for foreign firms to penetrate. So its defenestration will be a heavy blow. Heads have rolled. Peter Scaturro, the head of Citigroup Private Bank, received his marching orders as did Sir Deryck Maughan, the chairman of Citigroup International.

Meanwhile, Charles Prince, the Citigroup chairman, has embarked on yet another attempt to change the Citigroup culture. Some hope! Throughout its history Citigroup has sailed closer to the edge than just about any other big banking group. But this doesn't appear to have it done much harm. After all, Citigroup is the world's biggest financial institution. So why quit the habits of a lifetime?

We fully expect Citigroup to quickly make good any lost ground in Japan. And forget about reputational risk. Citigroup's days in the doghouse have not done it much harm in the past. So why should the future be any different? Amnesia often appears to be an endemic feature of both financial markets and the institutions that inhabit them!

**Winner: HSBC**

At first sight this may appear a rather odd inclusion to the winners list for 2004. HSBC enjoyed a relatively uneventful year by its own standards, although it did manage to successfully complete the takeover of Bank of Bermuda.

Nonetheless, with big money, or rather the promise of big bonus and remuneration packages, finally returning to the banking sector, HSBC stood out amongst its peers as a beacon of frugality despite being the world's second biggest banking group after Citigroup.

The original Shanghai Bank (or was it the Hong Kong Bank?) was based on the "Scottish model," a blueprint its successor institution appears loath to depart from, especially when it comes to spending money on its employees. Sir John Bond, its chairman, continues to set the example by traveling economy class on company business in Europe. This is as it should be. A bank's capital belongs to its shareholders not the employees (although courtesy of the agency conundrum it rarely seems to work out this way).

But HSBC appears on the winners list for another reason. It actually stood by a corporate customer, most famously during Philip Green's most recent non-attempt to gain control of Marks and Spencer, one of the UK's leading retailers.

Of course, some commentators, most notably the *Financial Times*, were quick to quibble at this apparent oversight. In their view HSBC should have used the might of its investment bank to back Mr Green (who is apparently an HSBC private banking customer). They appear to have overlooked the fact, however, that HSBC had in the meantime snapped up M&S' financial services business. Nice work!

With both HSBC and Royal Bank of Scotland Group firmly ensconced within the premier division of world bankers, perhaps the "Scottish banking model" does have something to it after all.

**Loser: Stephanie Villalba**

A former head of Merrill Lynch's European private client business Ms Villalba came to prominence during 2004 as a consequence of an ultimately quixotic attempt to extract $7 million from the firm on grounds of unfair dismissal and sexual discrimination.

After a protracted hearing at a UK employment tribunal Ms Villalba won her claim for unfair dismissal. But she lost her claim of sexual discrimination. This could turn out to be very costly. Ms Villalba used a Queen's Counsel (QC) to prosecute her case. These do not come cheap, especially as they are invariably supported by a bevy of "juniors". Our guess is that Ms Villalba will do exceptionally well to come out of the case with a bill of less than £500,000. It could be very much more. Still, according to former colleagues, she can apparently afford it.

Nonetheless, if Ms Villalba is on her uppers she can always come and work for *TheWealthNET*. We can't pay much but as the Tesco advertising jingle goes: "every little helps." And Ms Villalba's experience would certainly be very useful when it comes to shedding light on the highways and byways of the private banking market.

The UK employment tribunal did make some adverse comments about Merrill's employment policies. So would we. Ditch nepotism!

**Winner: Millenium Associates**

Despite initial hopes to the contrary the wealth management M&A market failed to catch fire during 2004. But this failed to impact the seemingly unstoppable progress of Zug, Switzerland-based Millenium Associates, Ray Soudah's M&A advisory boutique.

This was especially the case in any deals involving Swiss firms. Millenium was invariably involved one way or another, either advising the acquiring or disposing firm, and must surely now be the premier wealth management M&A specialist active in the market.

But Millenium's reach is not just confined to Switzerland. It extends to other European markets as well as the United States. With the wealth management M&A market likely to hot-up during 2005, Millenium and Mr Soudah should go from strength to strength.

**Loser: Laurel Powers-Freeling**

*WealthNET* readers with long memories may remember Ms Powers-Freeling as one of the masterminds behind "*Create* " Lloyds TSB's ill-fated attempt to make a bigger impression on the UK wealth management market at the beginning of the decade.

*Create* was an unmitigated disaster in a number of respects, but not for Ms Powers-Freeling. Just days after a cut down version of *Create* was finally launched, or rather excreted onto an unresponsive market, she jumped ship to Marks and Spencer to head its financial services division. She also received a seat on the Marks and Spencer board of directors. Even better, she became a member of the Court of the Bank of England.

Following the sale of Marks & Spencer's financial services division to HSBC, however, Ms Powers-Freeling is probably now jobless. However, she should have received a good pay-off so will not have to look to the likes of *TheWealthNET* for future employment. Indeed, she could easily be snapped-up by other financial institutions. After all, she has a pedigree at both an executive and board level, albeit with institutions that have not exactly sparkled of late.

But whenever has the lack of success provided an impediment to future gain in the meritocracy that is the UK financial services market?

**Winners: Small private banks**

For the past decade or so the siren voices of most management consultants and security analysts have forecast the demise of small and medium-sized private banks and wealth management firms. But year after year these firms have confounded the experts.

Of course some firms have faded way or been absorbed into larger groupings. On balance, however, the sector appears to be in a state of rude health with numbers bolstered by spin-offs from large firms and hedge fund management firms.

Small firms also made a big impression on the investment performance front. Take the 2004 PAM Awards where firms like Ansbacher, Ruffer and Liberty Ermitage performed with distinction in both relative and absolute terms.

**Loser: Glyn Jones**

Sometimes people are just too good at their job. Take Glyn Jones, for example. In recent years Mr Jones has played a pivotal role in restructuring two institutions.

When he was chief executive of Coutts he set in train many of the initiatives that have helped to transform what was just another UK commercial bank with a particularly well-heeled client base into a fully-fledged wealth management firm. Then at Gartmore he oversaw the firm's transition from a bog-standard institutional fund manager to a new model specialist fund manager with a heavy commitment to hedge funds and other 'value-added' products.

In so doing, however, he appears to have restructured himself out of a job and left the firm towards the end of 2004. Mr Jones has he said he may start-up his own firm. But if he is looking for a new job he should be spoiled for choice. There is still a lot of restructuring required within the wealth management sector. And Mr Jones is probably more qualified than most to do this.

**Winners: Compliance departments**

Compliance officers, together with internal audit officers, used to be the also-rans in the financial services aristocracy of labour. But not any more. Thanks to the efforts of regulators the world over, compliance officers have become much more important. Other employees, and even chief executives, ignore the edicts of compliance officers at their peril. And their remuneration packages have probably increased considerably to reflect their pivotal role in ensuring that the institutions for which they work conform to the new regulatory codes introduced by governments.

From an external perspective, however, it often seems that compliance officers remain just as thick and stupid as in days gone by. Concepts such as "as far as is reasonably practical" cut no ice at all. As a consequence regulatory codes tend to get 'gold-plated' with financial firms (and their customers) having to bear much higher costs than should be the case in conforming with government regulations.

Top management at private banks and wealth managements continue to complain about the Everest of government regulation they are expected to conform with. But as usual the problem begins and ends at home. Or in this case at their compliance departments.

**Loser: Common Sense** (see the above on compliance officers)