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Wealth Managers Begin Planning for Prolonged Downturn

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Some wealth managers and private banks are making plans for how to manage their businesses in the face of a sustained market downturn.

For instance in the UK, **Kleinwort Benson** has not ruled out such a scenario.

"So far, this year will be very much the same as last year in terms of net profit. We had planned for a substantial rise for this year, when we began budgeting in May 2007, but the markets have not been benign," **Robert Taylor**, Kleinwort's chief executive told *WealthBriefing*.

"We have a large discretionary asset management business that will help us through a downturn - it's important to have multiple annuity revenue streams.

"But we haven't ruled out that this could be a prolonged downturn and we're doing a lot of scenario testing for this view of the immediate future. Wealth management tends to be by its very nature, and psychology, an optimistic and growth-oriented business but you've got to consider what might happen on the downside too," he said.

Mr Taylor points to an instance, in November 2006, at an Allianz conference, where the looming combination of a global credit crunch and spiralling commodity prices was foreseen by people such as Frank Veneroso but, tellingly, no wealth managers took any notice in their planning.

His comments are echoed by MillenniumAssociates' **Ray Soudah** who told *WealthBriefing* that well performing banks this year will be those with flat to down twenty per cent profits versus like period for 2007. "Otherwise expectations for the second half will only be neutral for those that have been able to gather offsetting net new monies, no easy task in these markets," he said.

"Most Swiss private banks adopt a more cautious approach and plan for the risks of market downturns but no-one is going to create a business plan based on a predicted a two-year bear market," **Charles de Boissezon**, chief executive of **Banque Piguet** in Geneva told *WealthBriefing*.

Mr de Boissezon confirmed that banks are interested in hiring talented private bankers although there is less active recruitment in other areas. He certainly does not feel that there will be redundancies in the foreseeable future. "You may put off buying a new car in a downturn, but you still need a bank to look after your money," he said.

"Most private banks will have carried out scenario testing, not just for themselves but also for their clients - both are critical. Such testing would have put real meaning to the projections and stress testing that they prepared, often with much mumbling, for the Financial Services Authority as part of their ICAAP submissions," said , **Bruce Weatherill**, who has recently left his role as global head of PwC's wealth management unit, to set up his own practice.

Mr Weatherill points out that the FSA stress testing required looking at models of what would happen were there to be market falls and wealth managers looked at up to 40 per cent which was considered more like disaster planning than a realistic assessment. But as markets fall and credit tightens, such a scenario becomes more of a reality, he says.

It's a very testing time for wealth managers. It will sort out those who are serious about servicing clients as a core activity from those who have jumped on the bandwagon," he says.

Scorpio Partnership's **Sebastian Dovey** certainly shares this sentiment. "The industry has the potential to ride this turbulent market. But to complete the trip banks must pay greater attention to what they pack and how much fuel will need to be in the tank. We are not entirely convinced that many wealth managers are thinking about this condition strategically, commercially, or opportunistically. Those that don't wont get to the end..." he said rather ominously.

But *WealthBriefing* also understands that Pictet & Cie in Geneva is having to turn some business away because the private bank does not have the capacity to service it. The current economic uncertainty means that hiring additional staff is difficult to justify, although there is no hint of reductions.

"We take a view that looks through economic cycles - being neither too optimistic in upswings nor too pessimistic in downturns. This is a long term business and we are a long term player," says **Keith Gapp** of **EFG Private Bank** in Zurich. EFG says that it expects to weather the current difficulties and also expects that there may be opportunities both for attracting quality private bankers and even for acquisitions, although there will be no relaxation of their strict criteria for either activity.

Mr Weatherill also comments that the fall in markets will be most challenging for those that have a reliance on investment management without a banking licence or diversified service capability, a point also made by Mr Taylor: "We have a large discretionary asset management business that will help us through a downturn - it's important to have multiple annuity revenue streams."

Mr Weatherill said: "Wealth managers with banking licenses have benefited from a significant increase in cash deposits as clients hold a greater percentage of their assets in cash. The effect on banks is that they have seen a corresponding increase in interest margin as well as reaping the benefit of greater deposits which is particularly beneficial given the current credit crunch.

"In pursuit of size and scale to ensure they cover their fixed costs and make a return for shareholders it is likely that there will be more M&A activity.

Owners will reconsider their long term strategies in light of decreased prospects and the need to raise funds from what are still seen by many as potentially very lucrative businesses."