The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

VIP Banking Attracts Clients as Dynasties Form

By Olga Razumovskaya

June 22, 2011



VIP Banking Attracts Clients as Dynasties FormWhen choosing private banking services, forget pop stars flying in on a private jet for your son's bar mitzvah or beluga caviar being delivered to your doorstep on a whim — such stories have nothing to do with the real thing.

They are common misconceptions of what private banking services provided by "a serious bank" are, says Tim Knoll, head of Deutsche Bank private wealth management in Russia.

This area of banking is anything but exotic, although it is still a novelty — in relative terms — in Russia.

Private banking services are offered to high net worth individuals — people with assets of $1 million or more available for investment — and involve topnotch, highest-class banking services, from financial and investment options to legal and tax support and certain lifestyle services.

Russian private banking is only 15 years old, and the majority of its clients are relatively young, Natalya Solodovnikova, head of HSBC Private Bank, told The Moscow Times.

"The main specific feature of Russian private banking is its youth, meaning youth both literally and figuratively. ... Dynasties have not yet formed in Russia, and a generation shift has just started. We are living in a time of searching. Banks are looking for clients, clients are looking for bankers," she said.

Knoll said Russian private banking clients differ from those in the West. "All of our clients are active businessmen. They grow their companies," he said.

In other words, private banking clients in Russia have first-generation money, while in Europe they are mostly from large and rich families — dynasties — that have used private banking services for generations and have been serviced by, if not the same manager, then at least the same bank.

The Russian private banking market is growing a lot faster than in the West, Knoll said, since "new, young money" is driving its progress.

Another specific feature of Russian clients is their maximalism, Solodovnikova said.

"Either [clients] do not want to take risks at all and choose the safest portfolio, to secure what they've earned through hard work, or they want to maximize their profit and are ready to take investment risks," she said.

These demands keep private bankers on their toes, constantly looking for new options and opportunities.

While some private banking managers, like Alfa Bank's VIP banking head Yelena Lisitsyna, say that generally speaking, as a fully-fledged segment, there is no such thing as private banking in Russia, others disagree and even name figures.

Solodovnikova estimates the market volume at $20 billion to $22 billion.

Gregg Robins, head of UBS's wealth management business in Russia, is of a different opinion.

"[Private banking market volume in Russia] is large and difficult to measure precisely, though estimates range from $600 billion to $1 trillion. What is more important is that it is growing, because the growth creates new clients and new opportunities," he said.

The reason behind this disparity in the numbers is clear: The market is closed off and difficult to evaluate. Market participants rarely disclose their financials, explained Andrei Veklov, chief executive director at UralSib Bank 121.

Among the most realistic numbers are those given by Capgemini and Merrill Lynch in the World Wealth Report, he said.

"Last year, according to Capgemini, Russia had 117,700 high net worth individuals. The annual growth was 21.3 percent," he said.

Defining who are those high net worth or ultrahigh net worth individuals is also tricky in Russia, precisely because the area is so new.

While in the West, especially in Switzerland, the stronghold of world private banking, clients often have $1 billion or more to invest, Russian clients may be worth just 10 million rubles ($355,000) to be eligible for private banking services.

Private banking services in Russia cost clients from 0.5 percent to 1.5 percent of the amount of their assets annually, said HSBC's Solodovnikova.

"For universal commercial banks, the share of private banking business in total revenue accounts for 10 percent," Solodovnikova said.

"For Russian commercial banks, the private banking business means firstly creating relationships with a client, servicing his corporate interest. Sometimes it means personal relationships with shareholders," she said.

This often non-market character of relationships between banker and client presents risks for both, she explained.

For example, if a bank serves a big corporate client and its top manager becomes dissatisfied with the bank's private banking division, it can seriously damage the bank's corporate business.

There is a reverse situation too. Often shareholders' friends hope to use their ties to receive a better interest rate, which could result in the bank's margin suffering.

There is no single mold for the portfolio structure that is offered to clients in Russia, private bankers say.

"That said, Russian clients have a strong preference for liquidity products of various types and have favored these in their portfolio compositions," Robins of UBS said.

"In years past, Russian clients were less diversified and more concentrated in the Russian market. This has been changing due to a number of factors, the crisis being an important one," he said.

Russian millionaires prefer to keep the majority of their assets in Western bank accounts, primarily Swiss, said UralSib's Veklov.

He cited PricewaterhouseCoopers data that indicate that the share of such assets among high net worth individuals is about 90 percent. There wasn't such an imbalance of asset distribution before the economic crisis, he said.

"Russian private banking managed to attract clients more actively for mid- and long-term investments in the country. Largely because, from the clients' side, demands for risk control and accountability were lower," he said.

Russian banks offer strong local capabilities, such as deposits and local trading, and the ability to use their balance sheets aggressively, Robins of UBS pointed out.

But Russian clients want global exposure, they do not want to limit themselves to investing in Russia and the instruments offered on the Russian market, Solodovnikova believes.

Looking ahead, both local and foreign banks see a tendency in private banking services toward diversification and a departure from VIP service, when the banker is trying to sell to the customer a better version of the available service, in favor of mature, well-developed wealth management, when the banker acts as a consultant and investment adviser.

Original url:
https://www.themoscowtimes.com/2011/06/22/vip-banking-attracts-clients-as-dynasties-form-a7776