

Private banks in Asia suffer hangover after party

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By [Saeed Azhar](#) and [Tony Munroe](#) - Analysis

SINGAPORE/HONG KONG (Reuters) - Private banks in Asia face tough times as rich clients burned by complex, high-margin products choose simpler investments and shun institutions that are worst-hit by the financial crisis.

Lower fees and shrunken asset levels will mean more job cuts as private banks can no longer afford the armies of often-inexperienced bankers built up during the boom years of 2004-2007 to serve Asia's growing pool of millionaires.

While the reputation of the entire industry in Asia has been tarnished, the banks that are damaged less in the global meltdown may gain market share at the expense of UBS ([UBS.N](#)), Citigroup ([C.N](#)) and Bank of America's ([BAC.N](#)) Merrill Lynch.

But the banks are facing growing flak from investors who say they are pushing products instead of offering independent advice.

Angry clients who lost money on structured products such as "accumulators," which were especially popular in Hong Kong and earned the nickname "I kill you later," have made public protests and some have filed lawsuits against private banks, forcing the industry into damage control mode.

"The restoration of confidence and trust is an overriding priority for the wealth management industry," said Kathryn Shih, head of wealth management for the Asia-Pacific at UBS ([UBSN.VX](#)), long the industry's leading player.

"Asian private banking was on growth steroids for the last four, five years," said Roman Scott, managing director of Calamander Capital in Singapore and an expert on the industry in Asia, which he estimated managed \$641 billion in assets in 2008.

"The headache is going to be more severe because the growth was higher," he said.

Private banks provide personalized financial and banking services to the rich who typically would have at least \$1 million in investable assets and may want to invest beyond their home countries. They may also offer luxury concierge services, such as hard-to-get tickets for concerts and prime holiday destinations.

BUYER BEWARE

Certain characteristics of Asia's high-growth private banking market will exacerbate the pain on the way down.

Unlike old-money millionaires in Europe, many Asian private bank clients are entrepreneurs who still run their companies and had a larger appetite for risk. They were offered -- and they sought -- highly leveraged structured products, which collapsed as markets tumbled.

"The level of hit to mark-to-market values and the level of depletion of cash reserves has been much, much higher here than you would get in sort of older, third-generation, non-working people's money," Calamander's Scott said.

Indeed, Citigroup disclosed this month that revenue at its Asian wealth management arm dropped 29 percent in the first quarter, a steeper decline than in the United States.

Private banks are also suffering from the hangover of a hiring binge in the region. The boom has seen UBS and Credit Suisse ([CSGN.VX](#)) almost double their staff in the region since 2005. UBS currently employs about 3000 people in wealth management in Asia-Pacific.

The stereotype of the private banker in Asia is not the grey-headed veteran of industry tradition, but the attractive young charmer.

Kenneth Gan, private-banking specialist at recruitment firm Hudson, said he often met private bankers who were in their late twenties in Asia, whereas in Europe those with a similar age profile would be mostly assistant or junior private bankers.

The end of the boom is forcing the banks to act.

This month, UBS cut 240 staff in its wealth management arm in Asia-Pacific, while HSBC ([HSBA.L](#)), among the least-damaged global banks, said it will cut 100 private bankers in Hong Kong.

"Clearly the large global brands which have overstretched themselves in the region and have the attachment to investment banking losses have suffered," said Stephen Wall, a London-based director at wealth consultancy Scorpio Partnership.

FRAGMENTED FUTURE?

Some observers say the future of private banking in Asia is a more fragmented, European-style model, with small, independent advisors un beholden to big banks.

Among global players, those that suffered the least in the global downturn are expected also to pick up market share.

HSBC Holdings ([HSBA.L](#)), already a power in serving Asia's rich, is seen as a relative beneficiary of the hard times elsewhere, along with Credit Suisse, Deutsche Bank ([DBKGn.DE](#)) and Standard Chartered ([STAN.L](#))

Big local banks like DBS Group Holdings ([DBSM.SI](#)) are also expected to gain, along with European specialists like Julius Baer ([BAER.VX](#)), Lombard Odier and EFG ([EFGN.S](#)).

Private bank executives appear to be getting the message that they need to change with the times.

"The industry needs to go back to basics," said Aamir Rahim, chief executive at Citi Global Wealth Management Asia Pacific.

"In recent years, the unrelenting pursuit of yield was damaging. I believe that nothing justifies putting a client's wealth at the risk of annihilation," Rahim added.

(\$1=1.168 Swiss Franc)

(Editing by Muralikumar Anantharaman)

