

Wealthy put their faith in individuality

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A rising number of rich individuals are distancing themselves from private banks in search of more independent advice, favouring smaller wealth managers or boutiques to manage their money.

“Clients are feeling the best advisers will be independent,” says Michael Maslinski, a director of Maslinski & Co, consultants to the wealth management sector. “There is an erosion of confidence in banks especially now they have invested in products they don’t understand.”

The closeness of private banks to their investment banks used to be a strong marketing tool but is now likely to be seen as a disadvantage, and clients want to distance themselves as far as possible, Mr Maslinski adds. “They are vulnerable and going through trauma.” He says the number of independent wealth managers is growing as disillusionment with private banks and their promotion of in-house products rises.

Many independent wealth managers are challenging the private banking business model with a different approach. One of these is London-based Lord North Street, which likes to describe itself as a private investment office. William Drake, co-founder and chief executive, believes “advice to high net worth clients should be independent with no agenda to push a client into a particular asset class”. The private investment office, which opened its doors in 2000 and has about £3bn of assets under management, agrees an annual basis-point fee with each client before any asset allocation is decided.

The size of the fee depends on the size of the assets, complexity of arrangements and service level required, such as how often clients want to meet. “The idea is we can be completely independent and unbiased because we make the same fees whatever the asset allocation,” says Mr Drake.

He believes the fee structure also helps to maintain an objective approach in choosing “indices or active management or one manager versus another. The basis-point fee is all we ever get and any rebates or discounts negotiated are paid into clients’ accounts”. Fund management fees are paid by the client and not by the private investment office.

“We [then] put our effort into the planning of the portfolio and since there are no in-house products there is no conflict of interest,” adds Mr Drake. Portfolios are tailored to a client’s – including wealthy families, endowments and charities in the UK and continental Europe – needs. The minimum investment is set at £25m.

The concept of making charges neutral to investment strategy has been something people have wrestled with for some time, says Mr Maslinski. But problems can arise if clients want to put all their money into cash – currently yielding a low interest rate – and do not want to pay a sizeable flat fee. He says “there is no perfect solution [for a business model]” but “finding the right balance is important”.

Some wealth managers such as Stonehage charge on a time basis for family office advisory services, but charge a percentage of assets for specific investment advice mandates. Mr Maslinski believes the charging structure should reflect the size of the firm, how people are managed and ownership.

“If management own the business they are more likely to think of the value reputation of the business, building it up with long-term clients rather than take a short-term product approach,” he says.

In a recent survey of wealth managers, including private banks, by Market- Dynamics Research and Consulting, UK client satisfaction fell overall by 3.5 percentage points to 57.5 per cent in 2008, compared to a year earlier.

Investors showed concern over the availability of financial advice; the frequency and quality of client communication, particularly about investments; the level of relationship staff turnover; and the level of fees. The research also showed that much of the dissatisfaction was driven by a fall in the perceived reputation of the organisation in question.

Part of the problem for those who need someone to manage their investment is “who to trust in the new complexity”, says Adam Wethered, co-founder of Lord North Street. “People just do not trust banks in the same way any more and wonder if they will be there in a year’s time.”

Mr Wethered and his co-founder are seeing a flow of potential clients from endowments and wealthy families which are looking for a different business model from the private bank. In the current uncertain climate they are also receiving a greater number of calls from investors who want more detailed information about how their money is invested and the implications of that allocation.

They want to see a greater readiness for change this year from investors taking the plunge to rebalance portfolios and to look more closely at governance issues and trustees, although wealthy families and endowment funds traditionally move slowly in altering investment allocations.

As private banks grapple with the fallout of parental problems, some investment banks will opt to split their private banking from the investment side, says Mr Maslinks. “But they will need to be separately capitalised and ringfenced first.” Other banks, such as UBS, are giving more autonomy to their private banking sectors, he adds.

For some, such as a team of ex-UBS employees who set up Vestra Wealth, an independent wealth manager, some 18 months ago, greater autonomy for private banks from their parent comes too late.

They have taken the first step towards being part of the growing trend of independent wealth managers who expect to see new clients moving from big private banks in the financial crisis.

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