

Analysis: The Future of Wealth Management

Good Bye Offshore Clients – But What Now?

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A recent analysis done by MyPrivateBanking Research shows that there is already a strong outflow of assets in Switzerland owned by private foreign persons. [Based on data of the the Swiss National Bank the assets held by foreign persons in Swiss bank accounts declined by 28.1% between January 2008 and November 2009.](#) MyPrivateBanking estimates that the overall net money outflow amounts to approximately between SFR 50 and 70 billion since January 2008. This is most likely a consequence of the campaigns of the US and EU governments to persecute offshore holdings of their citizens held in Swiss accounts or in other typical offshore jurisdictions like Liechtenstein and Luxembourg. By legal and less legal means tax authorities, in some cases in collaboration with secret services, have obtained bank data from various banks in offshore destinations. The US government has forced the Swiss authorities into an agreement to hand over the bank files of thousands of clients of the Swiss bank UBS. These clients face hefty

penalties in the USA, some will have to serve prison time. There is no doubt that under the pressure of ever increasing government debt the EU and the US will relentlessly force their way to get their hands on assets they perceive as evaded taxes.

As [we have analyzed before](#), the offshore banking business model faces a dead end. MyPrivateBanking Research predicts that within less than 10 years the bulk of offshore money will change its status to onshore: tax amnesties, criminal prosecution and new double taxation agreements that allow automatic data exchange will eventually squeeze out the offshore money from every jurisdiction except very shady ones.

But what can banking locations like Switzerland, Liechtenstein, Luxembourg, Austria or Singapore do to keep the assets under management or to even attract new onshore money? There is no doubt that the Swiss for instance have a very strong banking brand that goes beyond secrecy and discretion. Over decades a huge reservoir of wealth management experts and expertise was created. In addition, the Swiss Franc as a solid and stable currency adds to the attractiveness of Swiss banks.

The most pressing tasks at hand for private banks in offshore jurisdictions like Switzerland are important to manage the short-term impact of the transition:

- Support offshore-clients in their effort to legalize their assets in their home country. Various legal, accounting and even psychological support services should be offered at minimal cost.
- Compliance with tax regulation in the EU or USA must become common knowledge across all departments of the bank. Especially sales- and marketing efforts in foreign countries must comply with the respective national regulations.
- Employee training needs to incorporate the new onshore perspective. Specifically, bank employees need to be trained to detect early on possible tax issues of prospective or existing clients.

Yet, the long-term strategy of banks in offshore centers must go way beyond these short-term measures. Since the competition with onshore players in the home countries of many foreign clients of Swiss banks is already heating up a new approach is required to keep existing clients and win over new clients from foreign countries. Wealth management is not a secret craft that is impossible to copy. Today standard products and mandates, even hedge fund solutions and family office services can easily be offered by many banks in Europe, the USA or even banks in emerging markets. One possible strategy lies in following the assets to their home countries and build an onshore network in attractive foreign markets. Unfortunately, this is an expensive strategy only feasible for very large private banks.

Therefore, the domestic wealth management industries in Switzerland, Liechtenstein and other former offshore jurisdictions must make the transition to a new strategic paradigm. This new business paradigm must help to retain the old client base and win new clients. Whereas the former offshore clients were clients with rather clear and uniform needs, the new onshore clients are an increasingly heterogeneous group. From a business model primarily based on discretion, political stability and friendly service they must switch to a much more marketing and segmentation driven business strategy. Banking clients today have most different national and cultural backgrounds, their professional careers span across many different industries and their personal situations and preferences vary considerably.

As our research shows, the typical client base of a private bank can be segmented into more than a dozen micro segments, all of them requiring different strategies:

- The brand of a bank must work like an umbrella under which single brands are developed that target different segments. For example, the *socially aware world citizen* expects a bank to stand for responsible values. But how can this be reconciled with the brand expectations of a *performance driven rationalist* working on the C-level of multinational corporations?
- The communication channels have become extremely diverse. Whereas “word of mouth” and the occasional print advertising has sufficed in the past, the new *internet-eager clients* who increasingly rely on social media and the suggestions of their online networks need to be targeted through other channels including Facebook and other social networks.
- The access to the most sophisticated financial products through open platforms is paramount for the sophisticated and demanding *DYI - investors*. They are not prepared to pay anything for classic wealth management but access to sophisticated hedge fund tools may be worth a lot to them.
- Not every segment can be successfully targeted by every bank. A viable business strategy must first and foremost define which segments are *not* to be targeted in order to concentrate the own forces on the most promising clients/segments.
- Pricing models need to switch from a few fixed components to segment specific pricing. Cost transparency and control will be most important for some of the segments when choosing a wealth manager while other client segments are less price sensitive.

These are only a few critical points how a much more targeted, flexible and customized business model is required in a world with no or fewer offshore clients. To be clear: Offshore is neither a value proposition nor competitive advantage anymore. Only an approach build on systematic and strategic client segmentation can lead to a new and improved market positioning that differentiates banks in offshore jurisdictions successfully from their foreign and domestic competitors.