

Advice: Results of Private Banking Report

Dealing with Costs - Recommendations for Clients and Advisers

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In our mystery shopping study we analyzed the investment proposals we received from the top-20 European wealth managers in respect to their [asset allocation](#) and [cost structure](#). Both areas showed significant weaknesses and following we have compiled a list of recommendations for clients and as well wealth managers on how to deal with the costs:

Recommendation for clients:

- Choose the right management model for your needs: Clients have to determine their [investor type](#) and right strategy to choose the type of wealth management best suited for their goals, capabilities and costs. Depending on the selected model, costs will vary considerably. An experienced investor can save money by only having an online bank to do transactions. An inexperienced investor requires more advice and will have to pay for it.
- Request transparency on fees and costs. Clients should demand from their bank, as a requirement, a full disclosure of all [hidden costs](#) of the suggested products as well as kickbacks they receive from third parties. In many jurisdictions the wealth managers and banks are even legally obliged to give a full disclosure of their kickbacks to the clients.
- Insist on cost effective products: Clients should challenge their adviser and ask for the benefits of the suggested managed products. Often there are more [cost-effective index products](#) with the same characteristics to replace them.
- Negotiate. Private Banking is a “buyers’ market” and clients should always negotiate on the rates first offered. They will improve their position by preparing themselves with offers from various banks and wealth managers, understanding the different cost drivers and communicating their requests precise and determined.

Recommendations for Banks:

- No false packaging: A low flat-fee, but a high level of hidden costs might win clients in the short term. However, it is certainly not a pricing model likely to

establish a healthy long-term client relationship.

- Be proactive on transparency: The “good, old times” of clients reluctant to switch their bank and reluctant to challenge their adviser are over. Clients get more sophisticated, shop around and will increasingly demand in-depth information on costs and kickbacks - supported by a legal environment pushing for transparency. Banks should not wait until they are asked or required to disclose information. Instead we recommend proactively telling the client about hidden costs and kickbacks and hereby gaining his goodwill.
- Offer cost-effective products. Clients get more critical of managed products like mutual funds and the associated costs. Whenever possible banks should propose cost-effective products, thereby showing their competence and increasing return as well as client satisfaction.
- Explain value and costs of managed products. Banks should actively provide clients with their reasoning behind choosing a specific product and as well the associated benefits and costs.
- Clean up your pricing schemes. We have seen price list requiring several pages to list every possible service, often differentiated by investment volume, kind of transactions and other variables. As a result clients get confused and will lose overall trust. Make it simpler.