Private Banks – what are they doing wrong?

The number of wealthy individuals with more than £1 million of liquid assets is growing fast. But the private banks don't appear to be attracting a significant share of this potentially profitable market. James Lawson takes a look at how the banks can reach these high net worth individuals and retain them as clients.

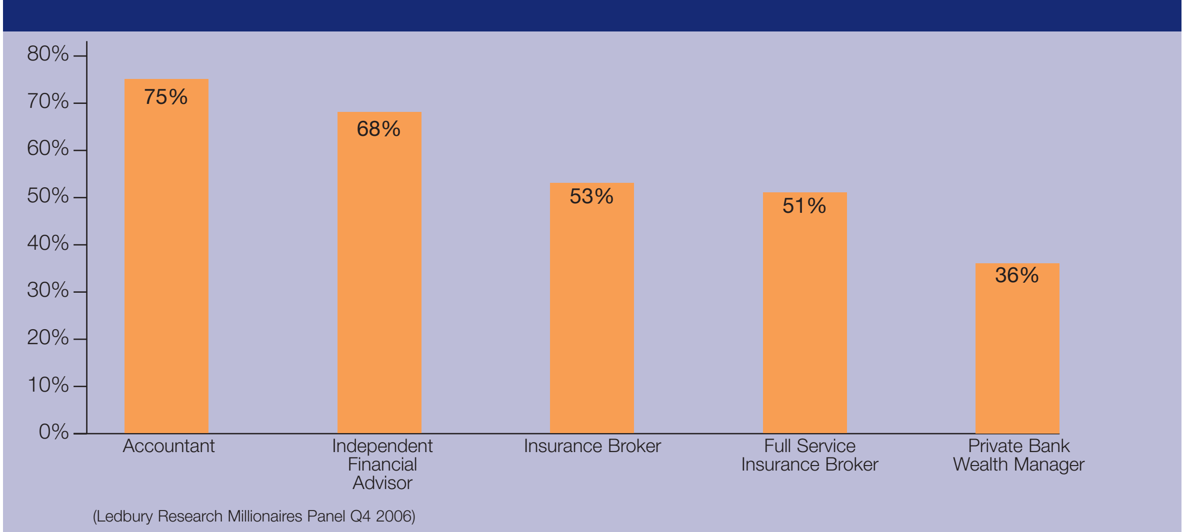
The weakness and opportunity

The wealthy are used to turning to professionals for help. Ledbury's research has shown that when these individuals need legal advice, they turn to their lawyers, when they need accounting advice, they turn to their accountants. Yet when they need help with their financial lives, many don't know where to turn. Some will turn to their family and friends, or perhaps their lawyers. But very few will call upon their private bank. Why is this happening?

It's not because they don't use professional advisors. Using Ledbury's UK Millionaires Panel, three-quarters currently have an accountant that they use already. The next most popular professional relationship is with Independent Financial Advisors (IFAs), which are used by 68% of the UK's millionaires.

A meagre 36% currently use a wealth manager or private bank, despite the fact that they all meet the minimum investable asset criteria to have an account at most of the major private banks (see Chart 1). In fact, the wealthy are more likely to use an insurance broker and full service investment broker before they turn to their wealth manager. The wealthy are actually twice as likely to use an accountant (2.1 times) or an IFA (1.9 times) before they turn to a private bank. So what is it that private banks are doing wrong?

CHART 1: USE OF FINANCIAL SERVICE PROVIDERS



As shown above, the wealthy already use advisors who should, in theory, be providing them with financial and investment advice. A comprehensive 90% currently use an IFA and/or a full service investment brokers. Though most private banks have different offerings, most would aim to provide a combination of these two. On the basis that just over a third already use a private bank, this means the potential market for private banks is nearly three times larger than it currently is. Note that this excludes the growth available to private banks looking to increase their share of wallet – this is simply on the basis of those who fit the asset criteria and already use a similar service.

Having measured the problem and established the importance of finding a solution using quantitative research, Ledbury turned to qualitative research to understand the issues. In this case, Ledbury used WealthViews – in depth interviews, lasting between one and two hours, with individuals who have at least £1m in investable assets. For the Private Banking WealthViews, to understand the potential issues, half of those interviewed had existing private banking relationships.

It's about trust

The first and most pervasive issue is trusting the advisor. Almost all of the wealthy have had solicitors and accountants that they have used for a number of years. Many, but not all, of advisors have come by way of recommendations from family and friends. Despite the fact that this audience seeks advice elsewhere, many told Ledbury they did not want it from their private banker.

For some this was because they saw private bankers as product pushers - WealthViews shows respondents feeling like "pawns in their [banker's] game". This perceived lack of independence is one of the reasons that IFAs are much more popular. However, note that many are starting to realise that the 'independent' element of their title may not always be strictly true.

There is no quick way of establishing trust – it is something that is bestowed by the client, not proven by historic performance or a double A from a credit rating agency. Despite this, private banks are not helping themselves when they communicate with their target audience, at the individual client advisor level or throughout their marketing.

For example, few bankers will explain their remuneration process to clients and prospects – partly because of the inherent sales incentives that permeates pay structures. The wealthy are savvy enough to realise this too. Interviewees in WealthViews talk about wanting their advisor to "hurt when I hurt".

It's about the long term

Even if the attitudes and pay structures nurture trust, there is little to encourage or prove that the advisor, or the bank, is interested in establishing a long-term relationship with the client. This is not proved by the fact that the organisation has been around for hundreds of years. The wealthy want to know that their advisor will be around in the future. Almost all have followed good professional advisors when they change employers. How many banks talk about the longevity of their advisors' service?

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Other respondents in WealthViews complain about not being able to trial the service. Even to those whose total assets are ten to twenty times the minimum investment requirements, many want to try before they buy. Most wealthy are cautious by nature. Sadly, to many bankers risk seems only to be measured in three grades (high, medium, or low) and used for the sole purpose of trying to put a client into one of three in-house investment portfolios.

Confusion leads to mistrust

Part of the problem is that many are turning to their investment advisors, or even brokers, for what they think is financial advice - as distinct from investment advice. These institutions have little incentive to clarify the situation. For them financial advice is simply a sales pitch for some of their products. This is something that consumers are wary of though. Ledbury's research with the mass affluent and the ultra-high net worth reveals that the top factors when selecting a financial advisor are typically "quality of advice" and "impartiality of recommendations".

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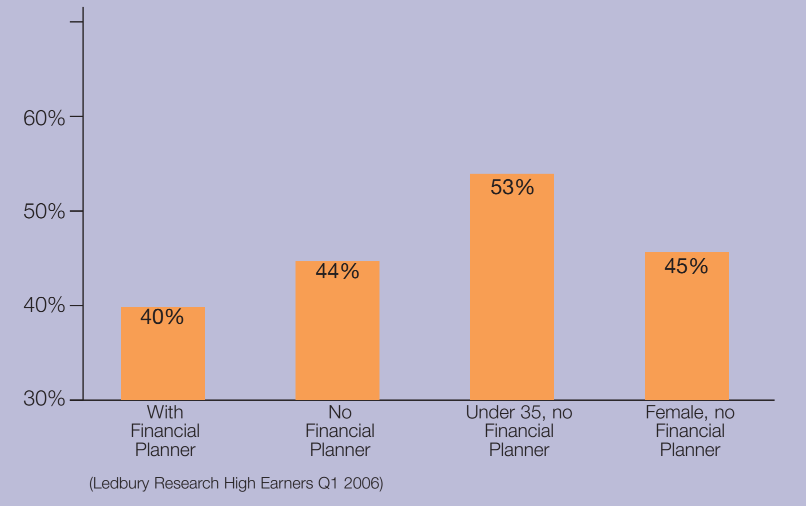
For private banks this confusion can be overcome by establishing a clear proposition as to what services advisors are offering. Simplifying products and services, as well as providing clear explanations of how the bank or advisor is being remunerated, will start to build an understanding and trust between the client and the industry as a whole.

There's no empathy

There are also signs of disconnect as to how financial advisors are communicating with their target audience. Ledbury's work with high earners (those taking home more than £100,000 a year) has shown that the two groups who are least likely to turn to a professional financial advisor are the young and women. These two groups are actually looking for people with similar backgrounds to themselves as seen in Chart 2. This is frequently because these two groups associate financial advice as being supplied by older men, to older men.

CHART 2: AGREEMENT WITH "MY FINANCIAL ADVISOR SHOULD HAVE A SIMILAR BACKGROUND TO ME"



This is a broad communication issue. Too many financial service institutions spend too little time understanding their brand and reputation. Some are slowly redressing this - first by auditing the institution's brand amongst existing clients, non-clients, and other stakeholders. By assessing the characteristics of their brand with these three audiences, it is possible to understand what and where the breakdown in communication is occurring.

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It's human nature

When comparing the 'success' of accountancy with the low penetration of private banks, another pervasive issue is that of human nature, notably procrastination. Many people know that they should be seeking financial advice, in the same way that they should be eating healthily or exercising regularly. Accountancy has the advantage of being needed at regular and specific times throughout the year, for example to help file tax returns. Neither personal trainers nor financial advisors have such an equivalent.

To combat apathy, financial advisors should create windows and lifestyle events where it becomes habitual for individuals to seek financial advice. These windows might include a new job, post bonus awards, getting married, having children, or retirement. Advisors can use these events to compel individuals to seek advice, rather than trying to compel the individuals directly.

They don't know where to look

A final issue is that many people do not know where to look for a financial advisor. When high earners were asked whom they would turn to for financial advice, both women and those under 35 said they would prefer to turn to their friends and family rather than getting any professional advice. Later, when Ledbury asked them if they had to get professional advice, where would they start, again the most common answer was a referral from friends or family (78%).

There are many hindrances for the private banking industry. Some of them have been discussed above. The biggest issue is a simple lack of understanding of the target market. In the rare occasions where consumer research is done it is typically amongst the existing client base.

Institutions need to appreciate just how valuable research can be. As a research agency focused on the wealthy, you might expect Ledbury to take this line, but don't just take our view – in WealthViews respondents were asked what they thought might kill off private banking, and as one gentleman summed up the fear of the UK's wealthy. "It passed away due to not knowing what their customers required". ◻

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