On the Verge of a new Recovery?

The leader by Aum, **Intesa PB**, posted a 51% increase in **profits** this year and € 4 bn of **new money**, while the assets on the market grew **8%** on average, and half a dozen of specialists in the **double digits**. Is the crisis over or is it the confirmation of a negative trend where the best **performer** takes all?

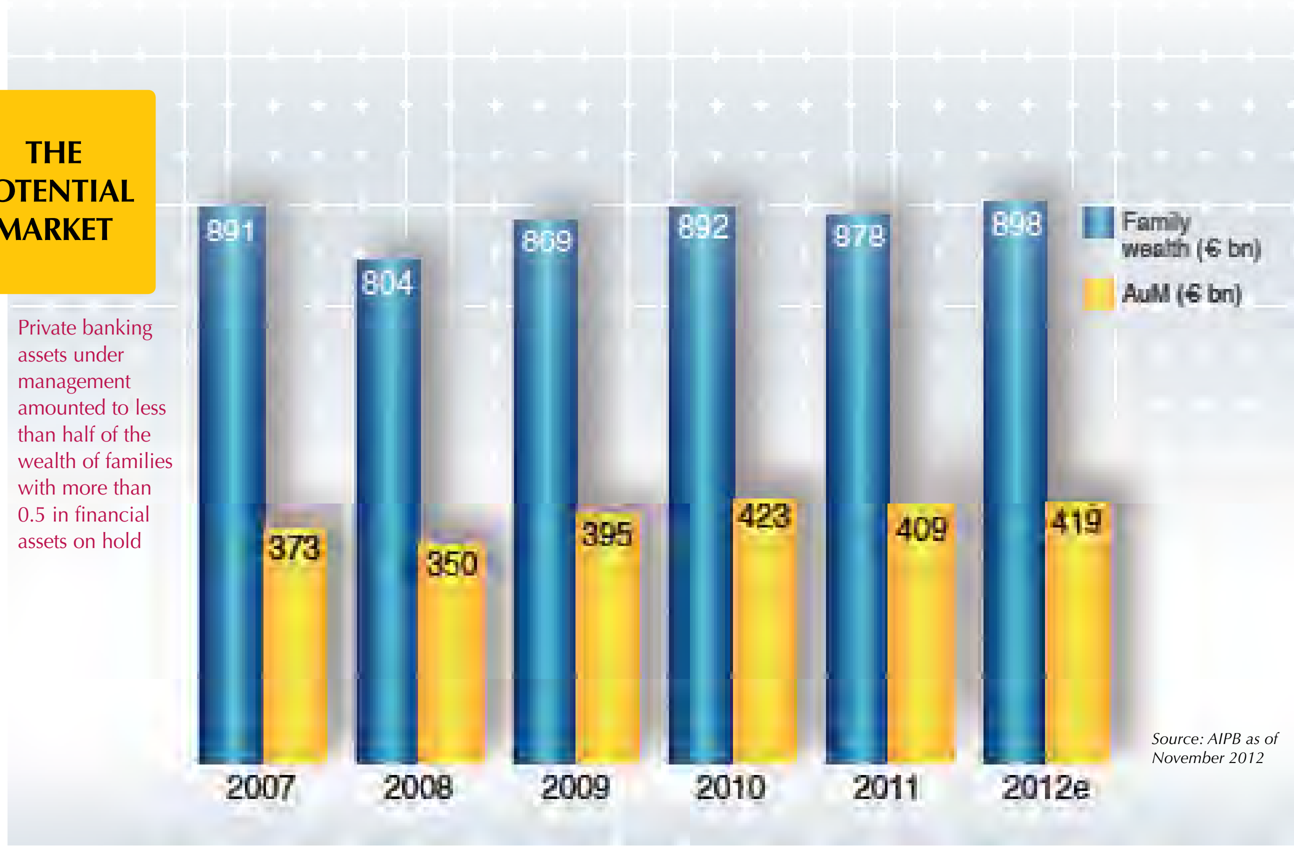
by Francesca Vercesi

In the wealthy provinces of Reggio Emilia and Modena, the mechanical excellence of Ferrari and Ducati can be found alongside the best traditional Italian food, such as Parmigiano-Reggiano cheese and Balsamic vinegar. In this same area, the homey private banking of Banca Popolare dell'Emilia Romagna reigns supreme. It has led the way this year, with its assets almost doubling in the wealth management segment (+89%). This is an astounding percentage in a flat market and it is only partly explained by the fact that its stock is still small (€ 4.7 bn). "We changed the perimeters and included all of the assets of wealth management clients, including the money in their current accounts. We also expanded the service to take in all of the banks in the group," came the honest admission from **Maurizio Morgillo**, the manager in charge of private banking at BP Emilia Romagna, whose margin of € 23 mn on 31 December last year amounted to just 5 bps of its AUM. For Banca Generali, the second best performer (+47% year on year) in the grimmest 12 months of the last few years the increase was a gift (+€ 1.5 bn in 2012) from a network of promoters who have been put under pressure by the CEO of the bank **Piermario Motta** and his managers in charge **Stefano Grassi** and **Bruno Manera**. "Frequent and constant contact with clients" was the explanation given by Manera for the success. The 260 private bankers (or financial promoters) in his distribution network sell protected capital insurance policies from the parent company Generali. Banca Leonardo, Credit Suisse and BNL BNP Paribas, the PB players completing the top five of the year, have hugely different business models. Their success in 2012 effectively underlines the anomaly – seen in statistical surveys as well – of the market in Italy, where "real private banking does not yet exist", in the words of one advisory guru. A look at the market's big numbers reveals that this rather scathing verdict is not too far wide of the mark. Of the 606,000 Italian families with over € 500,000 in financial assets (a number that has remained reasonably stable in the last five years), only 8% have entrusted private banking organizations with all of their money according to a survey conducted in recent months by Prometeia and the Italian Private Banking Association (AIPB), which brings together Italian and foreign banks and boutiques that provide services of this kind. However, perhaps the most interesting piece of information is that in a potential market worth nearly € 900 bn (the total assets of families with more than € 500,000), less than half (graph above) is managed by private banking organizations. In

Illustration by G. Scarabottolo

THE POTENTIAL MARKET

Private banking assets under management amounted to less than half of the wealth of families with more than 0.5 in financial assets on hold



Top 5 players by AuM growth

		1-yr Ch (%)	Aum 30-6-12
1	BP Emilia Romagna	89.2	4,729
2	Banca Generali	47.9	10,500
3	Banca Leonardo	40.5	4,600
4	BNL BNP Paribas	18.9	20,799
5	Credit Suisse	14.8	15,500

		3-yr Ch (%)	Aum 30-6-12
1	Banca Profilo	271.3	3,442
2	Banca Intermobiliare	170.8	11,288
3	Mediolanum	113.1	5,345
4	Credit Suisse	74.2	15,500
5	BNL BNP Paribas	65.1	20,799

Source Lombard data - Amt € mn

Major players and a breakdown of AuM growth in the last 6 years (€ mn)

Pos			Bank	of which			of which			AuM			ch (%)			
2012	2011	2010		AuM 30-6-12	managed funds	Sh (%)	AuM 30-6-12	managed funds	sh (%)	30.06.10	30.06.09	30.06.06	1-yr	3-yr	6-yr	CAGR (06-12)
1	1	1	Intesa Sanpaolo	73,000	na	-	75,000	32,000	42.7	73,000	65,000	83,367	-2.7	12.3	-12.4	-2.19
2	2	2	Unicredit	69,306	26,200	37.8	70,837	27,205	38.4	69,100	65,000	36,033	-2.2	6.6	92.3	11.52
3	3	3	Ubi Banca	35,000	na	-	37,000	13,200	35.7	36,900	36,500	20,702	-5.4	-4.1	69.1	9.15
4	4	4	Banca Fideuram	31,900	22,100	69.3	32,000	22,000	68.8	30,000	26,000	20,100	-0.3	22.7	58.7	8.00
5	5	5	Banca Aletti	24,900	12,200	49.0	25,700	12,800	49.8	26,500	23,566	20,600	-3.1	5.7	20.9	3.21
6	6	7	UBS	24,500	na	-	25,000	na	na	24,182	15,100	13,000	-2.0	62.3	88.5	11.14
7	7	6	Montepaschi	22,476	9,572	42.6	24,200	10,100	41.7	24,211	21,807	18,191	-7.1	3.1	23.6	3.59
8	8	8	Bnl Bnp Paribas	20,799	8,428	40.5	17,500	7,700	44.0	16,200	12,600	11,000	18.9	65.1	89.1	11.20
9	9	9	Credit Suisse	15,500	na	-	13,500	na	na	13,000	8,900	8,309	14.8	74.2	86.5	10.95
10	10	10	Deutsche Bank Group	13,600	5,800	42.6	12,910	5,380	41.7	12,400	10,800	11,971	5.3	25.9	13.6	2.15
11	11	11	Credem	11,300	4,500	39.8	11,000	4,730	43.0	10,800	9,900	10,200	2.7	14.1	10.8	1.72
12	12	20	Banca Intermobiliare	11,288	6,109	54.1	11,000	4,000	36.4	4,661	4,168	5,602	2.6	170.8	101.5	12.39
13	16	12	Banca Generali	10,500	6,480	61.7	7,100	4,400	62.0	10,000	19,500	21,601	47.9	-46.2	-51.4	-11.33
14	13	13	Banca Sella	10,300	na	-	10,023	na	-	9,334	7,294	6,518	2.8	41.2	58.0	7.92
15	14	16	Banca Esperia	9,400	3,800	40.4	9,000	4,000	44.4	7,100	8,580	8,500	4.4	9.6	10.6	1.69
16	18	17	Cariparma	7,600	2,800	36.8	6,785	na	-	7,069	6,654		12.0	14.2	-	-
17	15	19	Banca Euromobiliare	7,450	4,507	60.5	7,900	4,900	62.0	5,100	7,100	6,650	-5.7	4.9	12.0	1.91
18	17	14	Ersel	6,900	4,400	63.8	6,900	4,800	69.6	7,300	6,000	7,100	0.0	15.0	-2.8	-0.48
19	19	28	Mediolanum	5,345	na	-	5,500	3,900	70.9	2,435	2,508	1,520	-2.8	113.1	251.6	23.32
20	20	15	Popolare di Vicenza	5,034	1,232	24.5	4,719	1,090	23.1	7,140	5,970	6,080	6.7	-15.7	-17.2	-3.10
21	27	24	BP Emilia Romagna	4,729	na	-	2,500	1,479	59.2	2,850	na	na	89.2	-	-	-
23	23	22	Banca Leonardo	4,600	2,400	52.2	3,275	1,750	53.4	3,800	3,500	1,925	40.5	31.4	139.0	15.63
24	21	-	BP Milano	4,200	na	-	4,500	-	-	na	4,443	4,153	-6.7	-5.5	1.1	0.19
24	24	29	Banca Profilo	3,442	1,235	35.9	3,195	1,277	40.0	2,183	927	2,300	7.7	271.3	49.7	6.95
25	-	18	Azimut	2,800	na	-	na	-	-	5,600	na	na	-	-	-	-
26	25	27	Albertini Syz	2,496	1,494	59.9	2,695	1,679	62.3	2,586	1,995	1,768	-7.4	25.1	41.2	5.92
27	26	25	Banca Akros	2,247	772	34.4	2,668	815	30.5	2,800	2,270	2,218	-15.8	-1.0	1.3	0.22
28	30	26	Kairos	2,182	2,182	100.0	2,111	2,111	100.0	2,800	2,025	2,372	3.4	7.8	-8.0	-1.38
29	29	30	Banca Cesare Ponti	2,126	702	33.0	2,200	-	-	1,600	na	970	-3.4	na	119.2	13.97
-	22	23	Cassa Lombarda	na	-	-	3,339	-	-	3,373	2,850	2,200				-
-	28	21	Banca Finnat Euramerica	na	-	-	2,430	500	20.6	4,468	4,186	2,702				-
	31	31	CF Rothschild Italia	na	-	-	1,100	-	-	750	na	na				-
			Total	**444,920**			**442,487**	**171,816**	**49.6**	**429,242**	**385,143**	**337,652**				

Source Lombard analysis on companie's data

other words, there is huge scope for expansion in the Italian private banking market for anyone that wants to stake a claim. In more concrete terms, even without taking into consideration performance fees, a private client can produce a gross amount of 100 bps to 150 bps, so there is potential revenue of € 4 bn to € 6 bn up for grabs in a market that is currently worth less than half this figure. It is a tempting challenge, especially at a time when business is declining in the traditional segments, where lending is suffering from interest rates bordering on zero and investment banking has been made more difficult and risky by high levels of capital consumption. Strangely, though, few dare to venture into the field of wealth management – which is widely seen as the next step up from private banking – with an organization of the right size to create a profitable, growing business. There are numerous reasons for this and they are often down to situations that have been dragging on for years. The big traditional banking groups use their strength to keep as much of the market as possible to themselves. Sixty percent of it is in the hands of the five largest players and Intesa Sanpaolo leads the way with more than 20% of the market at present. The share of the big five has remained steady over the years, despite ongoing issues with the transformation and changing of models. Their main competitors are the Swiss, who are traditionally considered the exponents of genuine private banking. However, the much-anticipated Helvetic offensive was held back by offshore/onshore disputes and it never really got off the ground, despite the fact that UBS and Credit Suisse received unexpected help from the Italian government in the shape of no fewer than three tax amnesties which took their Italian assets to more than € 40 bn. Admittedly, the amount of Italian assets managed offshore by the two giants is at least as large as this, and some sources claim that it is actually much bigger. The small and medium organizations in the field come in the form of boutiques and the private services of smaller banks, which will never be strong or willing enough to join together in order to achieve good levels of profitability and therefore gain the capacity to seriously compete with the current leaders.

Movements under the surface

Nonetheless the trend lurking below the surface, despite the soothing words in official statements, is quite clear: the profitability of the business is falling. It dropped 20 basis points between 2009 and 2011 and it continues to decline. The traditional ability of the private banking industry to generate steady, constant revenues has been put under pressure by the volatile markets in recent years. The structural decrease in revenues is partly down to regulatory action that seeks to introduce more transparency into the murky pricing of financial services and products. Meanwhile costs are increasing because the services are becoming more complex. “The remuneration from private client investments is at one of its lowest levels in the last 20 years, while the restrictions and complexities for managers continue to grow,” summed up **Alberto Albertini**, the CEO of Banca Albertini Syz, one of the most outstanding boutiques in the market that has benefitted from a successful alliance with the Syz Bank in Geneva. Assets under management tend to decrease also because wealthy families need to draw on capital to supplement their incomes or provide financing for family businesses that can no longer be obtained from the credit system like in the past.

Reductions in performance-related pay, bonuses and banker benefits, cuts to expenses for training and representation, company cars, travel, specialization courses and sponsorships were the first reactions to the unkind environment. But soon the operators became aware that the key matter is putting the focus back on the quality of the service, adding value and investing in order to make the fees more substantial. The vast majority of the CEOs working in Italy say they want to invest in growth by implementing a distribution network and recruiting new bankers, as can clearly be seen from the answers in Lombard’s survey (see the table on page 54).

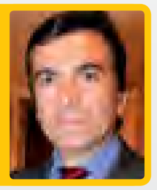
> **The results of private banks vary enormously. Approximately 10% have suffered losses and there have been outflows at 32% of them**

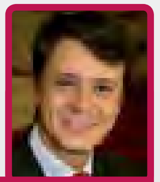
The bankers unanimously agree that the path to growth lies in advisory services. They are likely to all have their own take on the concept, but their intentions are clear. A fee-based advisory service is the goal of all of the organizations, large or small. At the current market rates, the fees of bankers/ad-

What the bankers think about their business strategy

From the list below, select two factors you deem strategic in gaining market share and tell us why: overperformance, open architecture, close relationships with clients, corporate and fiscal advisory services, offshore asset management, and performance-related management fees.

The performance of the managers has always been their main calling card and one of the most effective means of convincing clients to place the management of their assets in the hands of a professional agent. The scene is becoming more and more complex. Loyalty is rewarded and a central issue is being able to be the main point of contact of increasingly well-informed and demanding private clients, so having close relationships with clients is essential. (**Paolo Basilico**, CEO of Kairos)





Close relationships with clients are an essential way of ensuring they know everything that they need to know about their investment decisions and that their choices are based on a realistic assessment of the risks and the potential returns. This aspect is even more important in the current situation, with its high levels of volatility and uncertainty about the prospects of investments. (**Fabrizio Greco**, CEO of Ersel)

Close relationships with clients and performance-related management fees. (**Paolo Suriano**, Mediolanum)

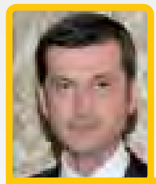
Close relationships with clients and advisory services for the governance of assets are the essential factors in the extremely unstable current circumstances. At the moment, dealing with professionals who can protect their assets is an even higher priority for clients than performance. (**Alberto Albertini**, CEO of Albertini Syz)

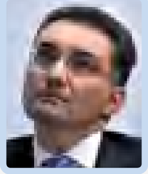
Close relationships with clients and open architecture. The first element is at the heart of advisory services, which must be based on a trusting and transparent relationship between private bankers and clients. The second factor is a distinctive feature of Deutsche Bank which ensures that the investment advice given to clients is completely independent. (**Sandro Daga**, Deutsche Bank)

Close relationships with clients and a broad range of corporate and asset governance advisory services. Even when the market is going through times of great hardship, establishing close relationships is a way of standing out and gaining new clients. The focus of investors is shifting from interest in the expected returns to the risks involved. There is also growing awareness of the value added of advisory services and a joint approach to families, assets and companies. Against a difficult backdrop, the positive figures showing an increase in AM requests and advisory contracts confirm the soundness of our approach. (**Maurizio Zancanaro**, CEO of Banca Aletti)

Open architecture and close relationships with clients. (**Gian Maria Mossa**, Banca Fideuram)

Open architecture – supported by broad corporate and asset governance advisory services – allows extremely independent dialogue with clients. (**Luca Caramaschi**, Deutsche Bank)



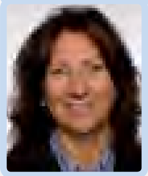


Open architecture and performance that outstrips the market are essential. However, the success is built on the provision of high value-added services: advanced financial advice, personal asset management, and corporate finance and investment banking services, involving assistance for companies and their shareholders with development strategies, M&A, divestments, LBOs and MBOs, fairness opinions, searches for debt and risk capital, and pre-IPO advisory services. (**Ferdinando Rebecchi**, CEO of Euromobiliare)

Offering an open architecture system is essential to being able to acquire new clients of high standing. In addition, it is fundamental to provide ongoing assistance by having frequent, constant contact with the clientele. (**Stefano Grassi**, Banca Generali)

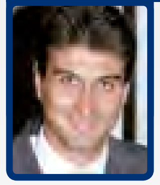
Ongoing contact with clients and open architecture management. Evolved advisory and a complete range of products in open architecture are two distinctive factors of the offer of ISPB we count on to attract new clientele and to continue to meet the needs of our clients. (**Paolo Molesini**, CEO Intesa Sanpaolo PB)

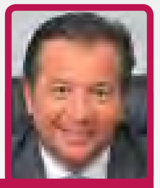
The key factors are the brand and the private bankers, who must constantly keep track of the markets and offer expertise and professionalism. Individual services or products alone will never be enough to attract new clients and keep them over time; it is necessary to promote dialogue between areas of expertise and listen to the clients. (**Silva Lepore**, Banca Sella)



Close relationships between private bankers and clients, open architecture (with the products of the 10 biggest investment firms in the world on offer) and performances that match or outstrip the market in the medium term. (**Dario Prunotto**, UniCredit)

Results are the most effective driver behind the acquisition of new clients, but having a close relationship with them is also a very important factor, especially at times like the present. (**Stefano Piantelli**, Banca Intermobiliare)





The key factors are: a wide range of products and services with a multi-brand approach to all assets, and high levels of service that focus above all on appropriately timed responses. The selection must involve expertise regarding financial, fiscal, inheritance-related and governance matters. It must also rapidly and efficiently cater to the needs of clients who are increasingly knowledgeable about all of the "core" issues in asset management. (**Paolo Contini**, Cariparma)

visors amount to between 40 bps and 150 bps of an entire portfolio. There is a significant difference between the two, especially when it comes to the biggest portfolios, which naturally involve the provision of more advice. "The development of paid advisory services, which account for only 3% of total revenues at present, can reduce the dependence of income on market trends," stated **Dario Prunotto**, the head of private banking at UniCredit and the Chairman of the AIPB. How can they go about introducing payment for an advisory service that until now has been provided practically free of charge? "We see it as the assumption of responsibility, which comes in the form of monthly advice on whether to buy or sell stock, together with a risk analysis of the portfolio," said **Paolo Molesini**, the CEO of Intesa SP Private Banking. "It is almost like management, except we cannot buy or sell without the approval of the client. In management – which we continue to do free of charge – we choose the assets and keep them under control. When it comes to advisory services, we manage the client's assets." Molesini shared some surprising information about the increase in assets with advisory contracts in the first ten months of 2012: it stood at 350%. Moreover, in the first 9 month of this year, the bank reached its best performance ever with operating profits rising +52% to € 153 mn, net profits up +62% and operating costs at 24 bps on AuM. "For private clients with € 1 mn or more, one contract in three is for advisory services. We also offer advice for portfolios at other institutions," explained **Gian Maria Mossa** of Fideuram, a company that had a gross margin of € 25 mn from private fees in the first half of 2012. "The clients must see advisory services as a special option in the selection of third-party products, management and performance fees," explained **Andrea Cingoli**, the CEO of Banca Esperia, which has fee-based contracts for approximately € 1.5 bn, a fifth of the assets managed for private (non-institutional) clients. The Pro-active Wealth Advisory service at UBI Banca (with € 35 bn in assets under management) has advisory contracts for approximately € 4.5 bn. Nonetheless, Prunotto openly admitted that "it is not easy to convince clients to pay for something they feel they received for free in the past." And **Luca Caramaschi**, in charge of wealth management at Deutsche Bank for HNWI (up to € 2 mn) agrees: "At the moment, clients in Italy are not accustomed to paying for advisory services, this service is something that must be built up over time." **Sandro Daga**, Deutsche Bank's head of private banking (clients below to € 2 mn) explained: "We charge for advice when there is a separate service involving the use of special software to calculate the volatility and manage the risk. The percentage is only paid on the assets under administration."

Performance at a glance: how they did it at 1, 3 and 6 years

Pos 2012		1-yr ch (%)	AuM (€ mn) 30-6-12
1	BP Emilia Romagna	89.2	4,729
2	Banca Generali	47.9	10,500
3	Banca Leonardo	40.5	4,600
4	Bnl Bnp Paribas	18.9	20,799
5	Credit Suisse	14.8	15,500
6	Cariparma	12.0	7,600
7	Banca Profilo	7.7	3,442
8	Popolare di Vicenza	6.7	5,034
9	Deutsche Bank Group (4)	5.3	13,600
	average	*3.8*	
10	Kairos	3.4	2,182
11	Gruppo Banca Sella (5)	2.8	10,300
12	Credem	2.7	11,300
13	Banca Intermobiliare	2.6	11,288
14	Ersel	0.0	6,900
15	Banca Fideuram	-0.3	31,900
16	Banca Esperia	-1.2	13,600
17	Ubi Banca	-1.4	36,490
18	UBS (3)	-2.0	24,500
19	Unicredit (2)	-2.2	69,306
20	Intesa SanPaolo (1)	-2.7	73,000
21	Mediolanum	-2.8	5,345
23	Banca Aletti	-3.1	24,900
24	Banca Cesare Ponti	-3.4	2,126
25	Banca Euromobiliare	-5.7	7,450
26	BP Milano	-6.7	4,200
27	Montepaschi	-7.1	22,000
28	Albertini Syz	-7.4	2,496
29	Banca Akros	-15,8	2.247

Pos 2012		3-yr ch (%)	AuM (€ mn) 30-6-12
1	Banca Profilo	271.3	3,442
2	Banca Intermobiliare	170.8	11,288
3	Mediolanum	113.1	5,345
4	Credit Suisse	74.2	15,500
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23	Banca Akros	-1.0	2,247
24	BP Milano	-5.5	4,200
25	Popolare di Vicenza	-15.7	5,034
26	Banca Generali	-46.2	10,500

Pos 2012		6-yr ch (%)	CAGR %	AuM (€ mn) 30-6-12
1	Mediolanum	251.6	23.32	5,345
2	Banca Leonardo	139.0	15.63	4,600
3	Banca Cesare Ponti	119.2	13.97	2,126
4	Banca Intermobiliare	101.5	12.39	11,288
5	Unicredit	92.3	11.52	69,306
6	Bnl Bnp Paribas	89.1	11.20	20,799
7	UBS (3)	88.5	11.14	24,500
8	Credit Suisse	86.5	10.95	15,500
9	Ubi Banca	76.3	9.91	36,490
10	Banca Esperia	60.0	8.15	13,600
11	Banca Fideuram	58.7	8.00	31,900
12	Gruppo Banca Sella	58.0	7.92	10,300
	average	*50.1*	*5.8*	
13	Banca Profilo	49.7	6.95	3,442
14	Albertini Syz	41.2	5.92	2,496
15	Montepaschi	23.6	3.59	22,000
16	Banca Aletti	20.9	3.21	24,900
17	Deutsche Bank Group	13.6	2.15	13,600
18	Banca Euromobiliare	12.0	1.91	7,450
19	Credem	10.8	1.72	11,300
20	Banca Akros	1.3	0.22	2,247
21	BP Milano	1.1	0.19	4,200
22	Ersel	-2.8	-0.48	6,900
23	Kairos	-8.0	-1.38	2,182
24	Intesa SanPaolo	-12.4	-2.19	73,000
25	Popolare di Vicenza	-17.2	-3.10	5,034
26	Banca Generali	-51.4	-11.33	10,500

HOW PROTECT ASSETS

Another question is whether it is right to introduce a strategy whereby the new services involve the banks, financial planning networks and other players already in the market, who provide them in addition to placing products and managing portfolios, or whether they should be special services for advisory fees only, with professional figures that work exclusively as advisors. This would mean that they are independent from the banking groups. According to KPMG, the basic idea would be a shift from competition between different operators within the current model to competition between different models. It would however be necessary to bring the access and operating conditions of the market for assets under management as well as those for assets under administration into line. This would make it possible to deal with funds through execution-only services that would

THE DEALMAKER

Under the banner of the Swiss model

The potential benefits of working in synergy were apparent to both sides. For **Paolo Basilico**'s creation Kairos Partners – which is reaching adolescence, since it will turn 13 in 2013 – it was a matter of gaining access to a global management platform that is particularly strong in the Far and Middle East and in Latin America, which are the areas where there will be the biggest growth in wealth in the coming years. For Julius Baer – which is Switzerland's third biggest player in private banking and the only big name in the country that is entirely devoted to the field – it provided an opportunity to gain real prominence in the Italian market, where it has been trying rather unsuccessfully to establish itself since 2006: its brokerage firm is currently managing assets worth just € 0.7 mn, most of which are from institutional investors. The negotiations lasted a year and they were drawn out because, in the meantime, the Swiss organization bought Merrill Lynch's wealth management assets (with the exception of those in the USA and Japan), but Basilico and JB's young, 37-year-old CEO, **Boris Collardi**, got there in the end and on the morning of 11 November 2012, they signed the partnership deal that will unite them in Italy in the coming years. It was not groundbreaking news because the general terms and conditions of the agreement had already been announced to the market in July. Basilico got straight to the point by saying "I have not sold the company to the Swiss, and there are no obligatory sale clauses in the agreement. The scheme revolves around a strategic alliance." The first objective is to found a new Kairos Julius Baer private bank in Italy, which will rise from the ashes of the Julius Baer SIM brokerage firm. As part of the agreement signed in November, the latter was bought and completely taken over by Kairos Investment Management. In exchange, the Swiss bank purchased a 19.9% stake in Kairos, the group's holding company, with only part of the payment being settled in cash. All of the private banking assets of the two groups in the Italian market – totaling approximately € 5 bn at current prices and around 50 employees (25 on each side) – will be merged together in the brokerage firm under the management of Paolo Basilico and they will provide the foundations for the new bank, which will be launched between the end of 2013 and spring 2014.

"The new bank will be the natural next step for the brokerage firm," explained Basilico, whose entrepreneurial philosophy is based on long-term outlooks and genuine independence for the advisors. He developed this vision under Renzo Giubergia in Turin, where he ran the Giubergia-Warburg partnership for years. "Asset management is a trade that will always exist. It needs to be given time to grow and it must not be made to comply with the economism-based criteria of advisory gurus who only think in terms of asset growth," said Basilico, pointing an accusing finger at a system he deems unsound.

Paolo Basilico

Despite the focus on principled behavior, the recent changes to the private banking market and the probable developments in the near future were contributing factors behind the agreement between the boutique from Milan and the Geneva-based bank. Like its competitors, Julius Baer will have to face up to the consequences of the impending tax agreement between the Italian and Swiss governments, which is likely to lead to the return to Italy of many of the assets that Italian tax evaders have accumulated in Lugano and Geneva over the years. Therefore, it is preparing to intercept the flows as they enter the country by creating a leading bank. Meanwhile, Kairos is being put under pressure by new requests from clients – and entrepreneurs in particular – who now want more than just the management of their assets using in-house funds or third-party products. Instead, they want an all-round service for all of their assets which they can also rely upon in the event of an emergency, when they might need a loan or expert financial assistance. "With the new Kairos JB brokerage firm, we will be able to cater to 80% of the new requirements of our clients," said Basilico. "The bank will allow us to deal with the remaining 20%."

Basilico openly admitted that the current market conditions would make it impossible to start up a new private bank, so the agreement with JB simply represents the continuation of a construction process that began in 2000. He has been lucky – or capable – enough to find a partner that supports the central aspects in the construction process: no conflicts of interest, product innovation, and the ability to attract and train talented people without having to comply with the thinking of a market that revolves around individualism. "We have always rejected the idea of paying our bankers with retrocession fees from the assets under management, as this is a system that has led to excess and dysfunctional behavior." By sticking to this approach and the principles of independence, the negotiations with Collardi came to a successful conclusion, despite the hostile actions and efforts to obstruct the agreement put forward by other organizations in Italy that also wanted to team up with the Swiss bank.

allow the unbundling of the sales and advisory sides. Consequently, it would be more sustainable to provide unbundled advisory services, which are currently struggling to establish themselves because they are forced to present themselves as something "on top" of placement, meaning that only niche clients are likely to appreciate their value.
Advisory services and high-quality advice are also mandatory to compete in more open markets. The signing of a tax agreement with the Swiss Confederation that was recently announced by the Italian government (see the box on page 55) could lead to tens of billions in new assets flowing into Italy from Switzerland, but also

"The big issue at the moment is investing in insurance policies, clients mainly want products that are easy to retire"

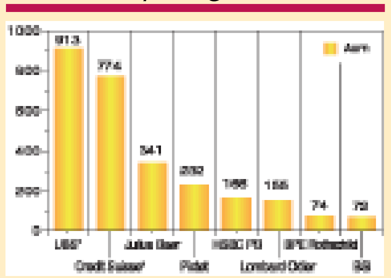
allow the Swiss bank to operate in Italy at the same conditions as domestic banks. It seems likely that there will be a period of tough competition as efforts are made to snatch clients from the Swiss banks that are currently managing the assets, which is something they do not always do with huge amounts of transparency and efficiency. There will also be a fitting response from the Helvetian organizations as they seek to defend

LUGANO WATCH

Waiting for an epoch change

Villa Negroni was the historical residence of a rich family from Lombardy and it provided refuge to Giuseppe Mazzini and other heroes of the Italian Risorgimento. The halls that were once frequented by political figures hounded by the Italian police are now playing host to aspiring young bankers from Ticino and a packed schedule of seminars and conferences. Once again revolution is in the air, but on this occasion it involves private banking, and Swiss banks in general. The situation may be more mundane this time around, but it is just as pressing. "We are readying ourselves for an epoch-defining, positive and welcome change," explained 70-year-old **Claudio Generali**, the chairman of the Ticino Banking Association (ABT), which has its headquarters in Villa Negroni. Looking down from on high in the villa, which is just outside the center of Lugano, Generali can see the Italian banks that are leaving the Ticino market – which is no longer tax free – and some that have even gone into liquidation. In the few months since June, both Credito Privato Commerciale and BankRed have been wound up, with the loss of around 50 jobs altogether. According to market rumors, Banca Sella has also decided to make an exit. However, a broader analysis of the situation and the prospects is being made by Generali, who was the Minister of Finance in the Canton and who also served for years as the CEO and later the Chairman of Banca del Gottardo, the second largest bank of the Canton and that merged with Banca della Svizzera Italiana in 2005.
The changes have been brought about by the imminent introduction of tax treaties regarding assets held in Switzerland by people who do not reside in the country. The funds will soon be subject to the tax regimes of the individual European countries of their owners, such as Germany, Austria, Italy and the UK. Any capital deposited in Switzerland in the decades after the Second World War has been protected by bank secrecy until now and it was essentially tax free. Bilateral agreements between Switzerland and number of countries mean that this will no longer be the case. Treaties with the UK and Germany will take effect on January 1, 2013 and a similar agreement with Italy is likely to come into force in the second half of next year. Account holders will have to pay a settlement for the past and from the following year they will be subject to the tax regimes of their home countries. The one-off deduction in settlement for the past will probably start from 26% of capital for German citizens. The percentage for Italians has yet to be established, but the Swiss and Italian authorities are currently drawing up the agreement. On November 5, the Italian Minister of the Economy Vittorio Grilli officially announced during the G20 summit in Mexico that the treaty will be signed "very soon, although not before the end of the year". Generali believes that "the rate for the Italian settlement will have to take into account inflation over the last decade and an opportunities analysis which must not neglect to consider the poor returns from the capital in recent years." Sources close to the negotiations claim that a figure as high as the German percentage would drive the money even further away from the Italian tax authorities, meaning that the efforts would all be in vain. The number of escape routes is diminishing, especially now that Singapore has basically closed its doors to undeclared assets, so it will be beneficial to establish a percentage for the settlement which will encourage people to report their holdings to the tax authorities. During these difficult times, the resulting tax revenue could prove to be a very important resource for Italy. The amount of undeclared Italian capital in Switzerland is thought to stand at somewhere between € 120 bn and € 150 bn. In theory, at the German rate the deduction would bring in between € 31 bn and € 39 bn for the Italian tax office in one fell swoop, but this calculation fails to take into account the dissuasive effect of such a high percentage. The former Minister of the Economy Giulio Tremonti is very familiar with the psychological traits of rich Italians. He has quelled the enthusiasm and estimated that the revenue will amount to just a few billion euro. "In one way or another, there will be a net outflow of capital from Switzerland, the UK, Germany and Italy, which will be followed by France," predicted Generali, "but we have been preparing for this phase for some time." In exchange for giving up the right to secrecy, Switzerland – or rather its banks – will be given free access by the European Union to the savings markets of the member countries. This means that they will be able to compete with local banks, relying on the strategic benefits of their efficiency, their management capabilities and, last but not least, the security offered by the Swiss franc: a currency which is itself an asset. For example, there is talk in Lugano of a billionaire who decided to move his assets to Italy during the last fiscal amnesty and convert them from Swiss francs to euro. He told a banker friend of his that he lost € 100 mn when the value of the currency subsequently dropped. Another trump card that the Swiss bankers are all counting on heavily is the solidity of their finances, as demonstrated by core tier one capital which is close to 20% in the universal banks and comfortably higher than that in the specialist institutions, which boast the highest levels in the world. Some may say that the reputation of the Swiss banks – and UBS in particular – has been harmed by the fact that they too were involved in the financial recklessness of the immediate past. They respond that they have learned their lesson and that the prudent, conservative management approach that they traditionally embraced for decades once again prevails among the upper echelons of the organizations. Whether they like it or not, the managers have to accept that the interest margins and brokerage fees have been stripped to the bare bone, so they have to make drastic, unadventurous decisions and provide advisory services with genuine value added. Meanwhile, they are now subject to much greater scrutiny from the authorities and the public. "It is a matter of going back to basics," said Generali. "Our banks are learning to perform a basic function as a driving force behind good investments for clients' savings."

Swiss heavy weights (Sv Fr bn)



*Source: corporate reports as of June 2012 except for HSBC and Rothschild at Dec. 2011 - * without wealth manag. Americas - ° without corporate & instit. clients*

Claudio Generali (69), born in Lugano, earned his degree in Political Economy in Geneva and began his banking career at UBS (in Zürich and Lugano). He later became director of the State Bank. In 1983, he was elected to the Ticino canton government (Minister of Finance and Public Works) which he chaired in 1985 and 1987. In 1990 he was appointed chairman of the board of directors of Banca del Gottardo and from 1991 to 2000 he presided over the Association of foreign banks operating in Switzerland. He is a member of the board of directors of the Swiss Cooperative Society for Radio and Television in Italian and part of the board of directors of the Swiss Radio and Television company of which he is the vice president. From 2001 to 2006 he sat on the board of directors of Swiss International Airlines.

their ground, as demonstrated by the latest moves by Julius Baer in the Italian market (see the box on nex page) and the investments in human resources and structures by CS, UBS and Pictet.
It is now the case – and it will be increasingly so – that providing advisory services means offering appropriate, coordinated financial solutions for all of the family's assets, especially as one moves up the scale to the most sought-after range of € 2 mn to € 10 mn in assets which makes up almost 50% of the current market, with approximately € 210 bn in stock. The ageing population and the concentration of wealth in the hands of elderly individuals is leading to growing interest in solutions such as long-term care (LTC) policies, which have the advantage of making assets easy to transfer, preserving the capital and providing a steady income. "The big issue at the moment is investing in insurance policies," said **Marco Mazzoni**, the chairman of Magstat Consulting. "Clients that were investing in hedge funds, closed-end funds or private equity funds before the crisis now mainly want products that are easy to retire." The ongoing crisis has also fuelled concerns about the fiscal management of stock – especially controlling stakes – as well as the sharing and transfer of assets to heirs. "We have seen significant interest in trusts," noted **Angelo Viganò**, who works with Banca Esperia's key clients and manages approximately € 2.5 bn. "We have set up eight of them in the last few months." When serving a clientele made up of entrepreneurs with medium and large companies, the boutique model no longer seems to be capable of taking on all-round competition. Entrepre-

UPS & DOWN

The Banker's Waltz

Credit Suisse Italy. Two big guns have joined the ranks at: Leonardo Todeschini and the relationship manager Francesco Fiumanò, both of whom have experience at Banca Profilo and UBS Italia. In addition, the Brescia branch welcomed Alberto Composta from Banca Esperia and Giacomo Bonazza from Santander PB, while Alberto Silvestrino left MPS Private Banking to join the Florence office.

Banca Esperia hired Sergio Del Piccolo from UBI Banca and boosted its fiduciary services unit with two external advisors: Uberto Barigozzi, owner of the firm by the same name, and Banca Sella's former CEO, Franco Benincasa. Duemme SGR appointed two independent directors: Francesco Di Carlo, an accountant and partner in the Studio Annunziata e Associati firm, and Marco Ercole Oriani, a full professor of financial brokerage economics. The trust unit has strengthened its ranks with the recruitment of Maurizio Beltrami and the legal professional Giorgio Bernini.

UBS Italia added MPS Private Banking's former man Tommaso Di Bello to its branch in Florence, while the Treviso branch welcomed Paolo Finco, formerly of FriulAdria PB.

Cassa Lombarda hired Stefano Calvi, Vontobel's former head of Client Advisory Private Banking Italy.

Giulio Baresani Varini is now back running things at the Milan branch of Santander PB.

Banca Euromobiliare hired William Gnocchi from Banca Esperia.

Francesco Fanti is the new head of Private Banking at MPS.

Banca Leonardo appointed Marco Merati Foscarini and Massimo Fortuzzi, who left his role as the general manager of IdeA SIM. Fortuzzi was the manager in charge of Italian Private Banking at Merrill Lynch Global Wealth Management from 2006 to 2009, and before that he was CEO of Antonveneta ABN Amro Bank from 2002 to 2006. Banca Leonardo also added Gennaro Frigione to the team in its Rome branch.

Massimo Fortuzzi

Société Générale started up a new Private Investment Banking unit that caters to business holding companies and family offices. Galeazzo Pecori Giraldi, the former CEO of Morgan Stanley in Italy, will take charge of the development of the unit and run things from Paris.

Banca Cesare Ponti, the private bank of the Carige group, appointed Antonia Rabbini as its head of Asset Management. She was recruited from UBS, where she had been working since 1996.

Stefano Calvi, left, and Galeazzo Pecori Giraldi

The BNL-BNP Paribas office in Modena hired Andrea Borsari from UBS Italia and Claudia Bassissi from MPS Private Banking.

Banca Profilo recruited Lorenzo Fusca (head of financial & portfolio advisory services) and Francesco Menini (portfolio manager) from Banca Esperia.

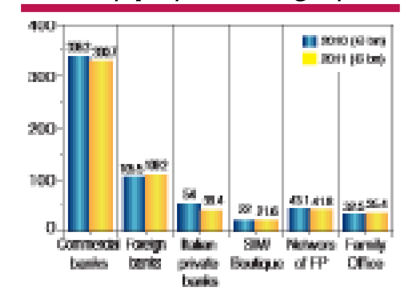
Alberto Croce and Simona Zavattoni have both left MPS PB to join Banca Finnat in Rome.

neurs want to be able to count on a wealth management structure that can also offer them financing if necessary without the need for them to cash in their investments, and this is something that only a bank can do properly. It is one of the reasons why Paolo Basilico is keen to set up a new Kairos Julius Baer bank or why the Giubergia family's, Ersel, in Turin, which has traditionally served rich industrial and financial families, is contemplating when to apply for a banking license. "It is not a top priority at the moment, but transformation into a bank is part of the group's plans," said Fabrizio Greco, the CEO of Ersel, which has € 7.3 bn in assets under management. "As a bank, we would be able to evaluate the support in each case individually and provide completely free financing for clients that are feeling the effects of the credit crunch in Italy." "The demand from private clients is increasingly focused on asset protection in terms of both safeguarding possessions and ensuring a smooth handover between generations," summed up Mossa (Fideuram).
Moving down the wealth scale to the typical affluent clients of companies like Banca Generali or Mediolanum, the selection is less sophisticated but no less attractive. The most popular solutions – including in the private segment – are deposit accounts with competitive rates and protected capital policies. UniCredit Private Banking attracted € 500 mn in five months with a management scheme for individually guaranteed portfolios involving investments in ETFs. The scheme has been surprisingly successful, bearing in mind that it involves passively managed products that are not always transparent and that the taxation system for them is not particularly favorable.

How to grow

When it comes to competition, and earning a place among the winners, advisory services are indispensable but they are not everything. It is necessary to be ideally positioned to make the most of the situation when there are liquidity events, such as the transfer of assets, or more importantly the sale of a company or a stake in it, or a listing on the stock exchange. These situations lead to double-digit increases in incoming flows and they really get banker's imaginations (and portfolios) going. In this game, the advantage is in the hands of the banking structures with close ties to corporate and investment banking. Deutsche Bank is one organization that has placed great importance on the integration of its private and investment banking teams. "The wealth management part of the group – which works in tandem with the investment banking side – has seen growth of 15% this year, with an extra € 600 mn to € 700 mn being added to the total of € 3.9 bn," revealed Caramaschi (Deutsche Bank) who manages 24 bankers with an average portfolio size of € 170 mn. Asset management is responsible for 35% to 40% of Caramaschi's private clients. Together with the funds, they have led to a fresh influx of € 150 mn to € 170 mn. The banker underlined the key role played in growth by open architecture. "No more than 8% of the products chosen by our clients are our own," he explained.
Banca Esperia is attempting to implement the private & investment banking model by exploiting its ties with its main shareholder, Mediobanca. In the two recent IPOs of Ferragamo and Cucinelli, Esperia managed to guide the flows into its management sphere. On the same side UBI Banca, the fourth banking domestic group, is trying to merge the private bank with the corporate division to create Italy's first private & corporate bank, under the direction of **Luca Monti**, the person in charge of corporate business.
Credit Suisse and UBS are ideal contenders for a leading role in the private & investment banking field, thanks to their strength in advisory. Although Credit Suisse did not manage to keep the Bulgari family as clients after it handled the sale of the company to LVMH for the record figure of € 4 bn, the Malacalza family stayed on as private banking clients of UBS after it assisted them with the sale of Trafimetal, which brought them € 1.2 bn in liquid assets. The possibilities of currency diversification and a refuge from the eurozone chaos are huge trump cards for the big Swiss pair, but they are both overhauling the working models for their Italian operations all the same. CS is slowly upgrading its model, which is currently based on the coexistence of in-house relationship managers with portfolios of € 120 mn to € 150 mn and a network of external promoters with portfolios of € 50 mn to € 60 mn. It is now boosting the in-house practice, where the importance of services for ultra-high-net-worth individuals is growing. "We expect significant development in our UHNWI activities," revealed Giovanni Carrara, CS's head of private banking in Italy. The recent appointment as the UHNWI head in Italy of Paolo Mancini, an investment banker, head of debt capital markets for corporate clients in Southern Europe, confirmed the trend. Interestingly, over at UBS – where CEO Sergio Ermotti is placing wealth management at the

Asset by players' category



Source: Magstat

In the next 12 months, do you plan to expand and, if so, by how much, the network of private bankers or to consolidate it at the current levels?

INCREASE	CONSOLIDATION
Banca Euromobiliare	Banca Albertini Syz
Banca Generali (15-20 units)	Banca Akros
Banca Intermobiliare (40 units)	Banca Aletti
Banca Mediolanum (+10%)	Banca Leonardo
Banca Profilo	Ersel
Banca Sella	Intesa Sanpaolo PB
BNL BNP Paribas	Unicredit
BP Emilia Romagna	
BP Vicenza	
Deutsche Bank WM and PB	
Fideuram	
Kairos	
UBS	
MPS (100 units)	

heart of the restructured bank – it seems that they want to expand the base of the clients in the affluent segment in Italy. Country manager Fabio Innocenzi prefers to speak about "the range of solutions within the wealth management clientele segment." And Fabrizio Tedesco, the head of private banking whose AUM increased by approximately one billion this year, clarified: "In managing the portfolios, we carry out two activities with a team of professionals: planning and corporate advisory services for medium-sized companies."

Pressure from below

The need to move upwards with wealth management is not only down to the search for a greater flow of fees, but also – and most significantly – due to the pressure from below created by networks of financial promoters and technological platforms that are accessible for a small initial charge and allow people to buy advisory. Young affluent clients in their thirties and forties who have assets of up to € 1 mn are beginning to use these services heavily. They offer an alternative to traditional private banking and are provided over the internet by independent advisors for small starting fees. In addition, the growth net flow recorded in the private segment by Fideuram, Mediolanum, Azimut and Banca Generali seem to show that financial promoters are tempting clients away from traditional banks. "The clients feel more closely followed by the bankers than they do with the service provided at the counter," explained Mazzoni (Magstat). "After a negative period for the financial markets, it is easier to find unhappy investors who are prepared to make a change." The private service at Banca Fideuram has € 32 bn from clients with assets of over € 500,000 (the same amount as the previous year). According to company sources, its team of 120 professionals had produced a margin of over € 50 mn by September 2012 (in 2011, the figure stood at € 43 mn, which was 4.18% of the assets in its charge) thanks to its new "Sei" advanced advisory program. Azimut ended the month of September with € 2.8 bn in its wealth management section. Meanwhile, the private service run by Paolo Suriano at Mediolanum saw 40% growth in 12 months, taking its total to € 7.2 bn.

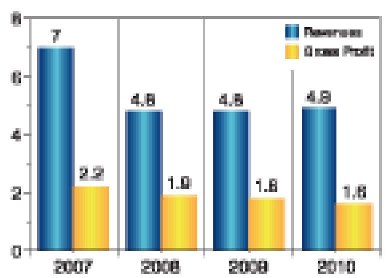
The more aggressive stance taken by financial promoters is not the only factor behind the diminishing market shares of the big commercial bank networks. There is also the fact that the need for direct fundraising encouraged commercial banks to resort to a large extent to the sale of "in-house" financial products (such as insurance, structured products and bonds) which give substantial margins up front, while also pushing Lombard loans. This led to the tangible dissatisfaction of many clients and triggered a vicious circle of loss of assets, reduced profitability and a damaged image. The top managers of large and medium-sized commercial banks are carefully considering whether bringing the private structures back into the retail divisions of banks is worthwhile. These structures were created years ago with the goal of boosting the range of specialist services and providing dedicated bankers rather than normal bank staff. However, it is increasingly hard for the earnings from the business to sustain the cost of an external structure, with governance and compliance committees and boards of auditors and directors. Therefore, everyone is heading back home, to the delight and significant financial benefit of the same strategic advisors who helped the same headquarters to spin off the operations years ago. UniCredit has already absorbed its private banking business, while there have been contradictory signals from Intesa. At an international conference in Vienna in late September, Paolo Molesini announced that CEO Tommaso Cucchiani was considering the possibility of dismantling Intesa Private Banking. In an interview with Lombard, Molesini denied this and rather enigmatically said: "There will be changes in the industry and now there is room for one-man shops, offering nothing but advisory services without fixed costs. The structures that are neither here nor there will have to become very big or very small." Anyway players in the field are relying on the idea that new shares of the market will be freed up for specialist structures. The reasoning behind this is that bankers from big commercial banks will have to answer to branch or area managers whose status and salaries may actually put them further down the pecking order, so the bankers will abandon ship and take their clients with them. But traditional banks can pull out the big gun of lending to convince clients to leave at least some of their assets with them. Nevertheless, it is thought that big changes are afoot.

"The clients feel more closely followed by the bankers than they do with the service provided at the counter"

Predators and prey

Some expect the changes to be triggered at the closing of the 2012 fiscal year, with results that look set to be satisfying for the private segment. In the first half of the year at least, portfolio performance was aided by the markets, adding a few points to the clients' returns. More importantly, the ECB supported the banks' fundraising with its famous three-year loans at 1%. They will have to be paid back one day, but they will have a significant impact on money market lending in the results for 2012. In conclusion, everyone expects there to be plentiful profits which will definitely mark an improvement on 2011. Consequently, the market multiples will increase for anyone who is planning to exit the sector. For example, Mediolanum has been looking for some time for an investor so that it can turn its 50% stake in Banca Esperia to account. "We have seen the return of a satisfactory economic balance," confirmed Cingoli (Esperia), "as well as 30% growth in revenues and stable costs, which also encompass the savings from the sale of assets in the hedge funds." The biggest scheme being lined up is likely to involve the Generali Group. The insurance background of the new CEO Mario Greco may mean that there will be a demerger of the banking business, which is concentrated in Lugano in Banca della Svizzera Italiana and in Italy in Banca Generali. It will not be easy to find a home for the two assets. In Ticino, antitrust issues mean that the two big Swiss players are automatically out of the running, while the third potential candidate – Julius Baer – has recently absorbed Merrill Lynch's private banking business. A big Asian bank might be interested in BSI, due to the business it has opened in Singapore, which is undergoing rapid expansion partly thanks to its synergy with Generali. However, at the moment this is nothing more than a possibility. It is even less clear how things would pan out with the sale of Banca Generali, although Greco has yet to confirm that a move of this kind is part of his strategy. There is no doubt that the current fundraising levels bear no comparison with the multiples of a few years ago, when they reached as much as 3 or 4 times AUM. There may also be news from the Anglo-Saxon world, although there will certainly not be any big additions to American or UK organizations. Citibank has decided that it does not want a direct presence in Italy, but in November it gave a boost to the London-based team for the Italian market by recruiting some big-name bankers from Credit Suisse. Goldman Sachs has a team of 12 people in Milan that is led by Alberto Cirillo and manages approximately € 2 bn. It has confirmed it intends to stick around and even expand by targeting the top clients of traditional banks who want to diversify by going to their global counterparts. The British company Schroders has kept a head office in Italy and it is thinking of becoming a bank or a brand of a foreign group. In the open market of the future, some organizations are thinking of relocating to Switzerland and no longer having companies that are subject to Italian regulations. L

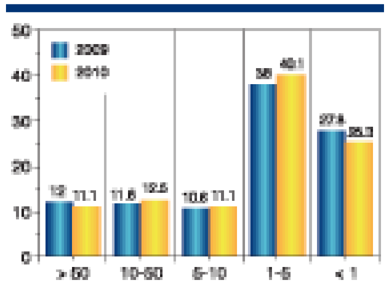
Profitability (€ bn)



Source: AIPB as of November 2012

The graph indicates that in the face of quite stable revenues in the last 3 years, gross profits declines until year-end 2010, according to the latest data available.

Wealth Classes (€ mn)



Source: AIPB as of November 2012