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A Tale of Two Passports: the priorities of ultra high net worth individuals

Johannes Baratta, Head of Key Clients within Deutsche Bank's Private Wealth Management Division, visited Jersey recently to speak to an audience of trust, family office, legal and financial intermediary professionals about the priorities for 'ultra high net worth' individuals in a post-financial crisis era. Here he discusses how recent shifts in the global economy are affecting their wealth management decisions...

Q: What are the key wealth management concerns for ultra high net worth individuals (UHNWI)?

Johannes Baratta: Those in the 'ultra high net worth' category haven't really felt the crisis in the same way as others. Their concern above all else is not to lose their money - they are most concerned with wealth preservation. If they have £2 billion to their name, their main aim is to keep that £2 billion, not double it.

Following the crisis, clients are also increasingly concerned about counter party issues – entering into products through one banking provider where there was only one exit route. The collapse of Lehman brought this into focus. Whilst Deutsche Bank has emerged strongly, there is still a concern about counter party risk and a lack of confidence generally in the banking sector.

Q: How have the priorities for these individuals changed recently?

JB: There has been a shift in attitude to risk and a move away from benchmarking. UHNW individuals don't think in relative terms, they think in absolute terms and over a long period of time.

They now recognise that the key point is that they see positive returns. Lots more observations come into it now - liquidity risk, the value chain, who the lender is and so on. The make-up of a portfolio is much more important too – it's only when they take a step back and look at their entire portfolio that they see just how much of their portfolio is liquid and how much is held in, for example, real estate, private equity or mortgages. On the one hand, they want liquidity because they don't want to have

their assets locked up, particularly as they don't know what the economic landscape is going to be like in a few years time. But at the same time, it's about chasing yield, which is difficult when interest rates are so low. As a result, they want a much more sophisticated approach to wealth management.

Q: *How can financial services providers meet the requirements of these individuals?*

JB: A major concern revolves around trust and relationships with their financial partners. The wealthiest individuals don't go for products – they don't want to be one customer in a pool of thousands of others. The 'club mentality' appeals to them, where they are given access to a service unique to them. For them, there is no 'rule for all' – everything must be bespoke and this is something that financial providers need to be alert to. For the wealthiest individuals, wealth management decisions are very much driven by innovation and relationships with financial partners.

Q: *What sort of issues are there for intermediaries, such as trust companies, advisors and lawyers, in accessing the specialist services that these individuals require?*

JB: The main issues for intermediaries revolve around legalities and quality of advice. With such vast wealth at stake and against an increasingly multi-jurisdictional backdrop, the portfolio management industry is increasingly concerned with the legalities about what constitutes 'good' advice and who are the 'proper' advisors. It is about acting with prudence and being sure about what is accurate, indisputable advice. Intermediaries that aren't fully fledged will need to draw on the expertise of organisations like Deutsche Bank.

Q: *What role do investment bank services play in the wealth management activities of the wealthiest individuals?*

JB: It is with all this in mind that Deutsche Bank established its joint venture between its private wealth management business and its global investment bank. In a sense, it offers these ultra wealthy individuals two 'passports' – one that gives them access to the private client world where relationships are so important, and one that gives them access to the kind of sophisticated investments and deals which are often reserved for institutional clients.

The reaction from clients is that this is exactly what they've been waiting for. They want the private banking relationship and the guidance offered by their local relationship manager, based in Jersey, but they also want the real access to the global investment bank. It's a compelling proposition – the Deutsche Bank platform has 9,000 products and a huge share across all asset classes. However, it is not just about product push. The objective is to invite people to have their problems solved, to talk through what they want to do, and to find suitable innovative solutions.

Q: *Is regulation important to them and is this having an impact on the jurisdictions they use?*

JB: Regulation and the reputation of jurisdictions are absolutely key. Wealthy individuals are always asking whether a jurisdiction has been proven to work – has it been tested, have there been significant cases there that set a precedent, and does it offer stability as part of their long-term wealth

planning. It's all about which jurisdictions have accepted the right laws and have the right frameworks in place that send a clear signal that everything is well regulated and transparent. As far as Jersey is concerned, it always ticks all the boxes. Clients see that it is a place that can be trusted and that stands up to robust scrutiny, from bodies like the IMF and the OECD.

Q: How do you see the priorities for ultra high net worth individuals evolving and are there opportunities for Jersey?

JB: Jersey has an immensely strong trust sector that looks after the wealth management needs of many ultra high net worth individuals around the world. But these individuals will also increasingly need global advice and we see real potential to grow business in supporting them – which is why we believe Deutsche Bank's joint venture between the private wealth management business and the investment bank can be successful for the wealthiest clients of intermediaries in Jersey. We want to make these individuals aware that we can support them, working in conjunction with their Jersey trust company, law firm or family office, all facilitated by a Deutsche Bank relationship manager in Jersey who is there to guide them along the way.

Ends.