

Wealth managers shouldn't avoid markets with complex regulations

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For many private banks, increased complexity and compliance has encouraged exits from some markets. The US is a good example. A number of private banks no longer provide services to Americans because of the aggressive enforcement of US tax, securities and other laws by the authorities — in part as a reaction to the historical abuses of banking secrecy by the private banking sector.

The perception that working with US clients is too complex and that compliance with reporting and other requirements is too burdensome does not factor in that dealing with complexity is what clients need help with. The US is the largest wealth management market in the world. A private bank exiting a market of that size because of complexity shows a lack of strategy and foresight. Complexity will inevitably grow in dealing with other markets, whether involving clients from emerging economies such as China or clients from developed countries such as the UK or elsewhere.

The more complex things are, the more wealth-owning families need help. The simple reality is that the private banking of the past, when bankers would say “*we don't care about the tax or other laws of your country, because we have bank secrecy – let's go out for a nice lunch*” can no longer exist. In fact, such an approach to client needs was never appropriate or helpful, but too many in the industry long for the days of easy answers.

Compliance is part of client service

Important for anyone involved in financial services today is to understand that compliance is a key part of client service. Clients are struggling with pages and pages of small print from their service providers, and with complex questionnaires relating to FATCA, the common reporting standard, investment suitability rules, beneficial ownership disclosures and otherwise. Any service provider who delegates this area to the compliance department is misguided — compliance is a client service, and clients need help to navigate complexity.

Financial centres have much to learn here. One clear lesson is to give up entirely on resistance to change, and cries for a return to the opaque world that once existed. Transparency is here, and will increase as the focus on income and wealth inequality intensifies. Fighting for a return to yesterday will bring a return to a financial centre that has nothing to offer but beaches and coconuts. And for places without the right climate, not even those.

A focus on the future means a focus on what clients really need: compliance with global tax and other laws, and help in navigating an increasingly complex world. There is much that a financial centre can strategically do to help on this front, including how it implements its own compliance with tax reporting and other regimes, and how it approaches bi-lateral and multi-lateral negotiations. It is late in the day to get strategic here given how far onshore governments and the international community have come; but it is not too late to change attitudes and focus, and to stop listening to the dinosaurs who claim that transparency is not really going to happen. It is already here.

Legislation is needed to support well thought out products and services oriented to the markets the offshore centre identifies as being realistic to develop. Openness with third party governments and a knowledge-led approach is what it will take to succeed.

Strategy, training, marketing and compliance

It is amazing how few players in the wealth management industry actually understand the important links between strategy, training, marketing and compliance.

Banks, trust companies, corporate service providers and financial centres all too often keep these functions separate. The marketing team runs off and hosts client events, and in the case of financial centres, appear at wealth management industry seminars giving away stuffed animals and coffee mugs with the logo of the country involved on them.

Those responsible for strategy sit around a table and talk about being compliant and how to avoid being on blacklists developed by the onshore world. The training team zero in on what people are not allowed to do, or focus on teaching people how to sell, with no clear relationship to how what and how you sell is affected by cross-border marketing and other regulatory requirements. And those on the compliance front do their thing, everyone else trying to avoid them, and the compliance team saying *no* to every question, to keep everyone safe. This is a losing approach.

For a financial centre, or for a bank, trust company, corporate service provider or other player in the wealth management industry, the key is to understand the need to link these areas.

Development of a strategy today requires close involvement with those who understand compliance and how the world is changing, and how compliance is a key component of the needs of future clients. Those involved in compliance can help deliver a strategy that includes how best to negotiate with other countries, arriving at effective bi-lateral and multi-lateral agreements that help retain and attract business. Co-operative tax voluntary disclosure facilities and much more can attract rather than repel business. A focus on particular markets is more effective than trying to be a one-stop shop for everyone.

Marketing has to deliver the key messages, and to reflect the reality that users have needs – but needs that are often *latent needs* – needs one has but which they do not yet know they have. Effective marketing means raising the potential client's awareness of global developments, and how using the financial center can help address needs. And using education as part of marketing, raising awareness, means that the training function has to fit in, using training to help market, educating intermediaries and others with potential to bring business, and training local and expatriate staff to understand the future and how best to communicate with existing and target clients.

How many events in the wealth management world focus on lamenting the move from secrecy to transparency? How many hours are spent on focusing on the past rather than on the future?

Notes:

- *This is part 2 of a two-part series. Part 1: [Can current offshore wealth management centres survive?](#)*
- *This post is a modified excerpt from the author's book, [The Destructive Power of Family Wealth](#), published by John Wiley & Sons in November of 2016..*
- *The post gives the views of its authors, not the position of LSE Business Review or the London School of Economics.*
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