



ICADE BUSINESS SCHOOL

**PRIVATE BANKING IN SPAIN:  
RELEVANCE AND FUNCTIONS IN  
THE CURRENT FINANCIAL  
ENVIRONMENT**

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## **Abstract**

Nowadays, the private banking sector is experimenting a successful growth since the last decade, in order to answer the needs of the wealthy people, who demands a special service to manage their patrimony. It has not always been the same, the entities who made these functions several decades ago have changed, the wealthy client is not the same than before, and the markets and investment products have experimented a great transformation that has allowed to diversify this business.

But not everything it has been a way of success without impediments. The financial crisis in 2008 came a new player who it has been converted in a main actor inside of the banking sector, his name is compliance. The regulation of Basel III, MiFID II, AML, etc, they have been some of the colleagues with whom the private banking has had to live together in these years, which has obligated to the private bankers to change the way of performance.

Private banking has a great opportunity of maintaining the activity in one of the sectors that is suffering the most from digital transformation. The great impact of the new technologies in order of displacing the personal bankers by the computers, the coming of the robo-advisors, or the appearance of fintech, are one of the several threats for the private banking. In this scenario, the private banking has the chance of preserving the figure of the private banker who advise the client, in order to promote the personal dealing versus the IA.

Key words: Private banking, financial advisory, compliance, financial products, financial planning.

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## 1. Introduction

Spain is a country that has experimented a great growth in their economy in the last decades, specially from the 70s decade, and this increasing has allowed not only the increasing of the life's quality of the Spanish people, but also the wealthy of them. The traditional investments used by the investors have changed to follow the innovations and the new actors in the financial markets, with new financial products that allows the investors to manage their money in a different way than they used to do before, in order to protect their wealthy from the loss of value, and to get profits in an environment where the interest rate are lower, changing the traditional environment.

The private banking is playing an important role in this new scenario with a lot of financial instruments to invest the money and with the new needs of the wealthy people. SICAVs<sup>1</sup>, SOCIMIs<sup>2</sup>, alternative investments or investments funds. There are a huge spectrum of instruments to manage the wealthy, and the private banker has to be the intermediate between these new instruments, the markets, and the clients, giving a service which required a high specialization of the bankers and their teams, especially in this time when the protection of the investor is one of the priorities by the authorities, as MiFID II has showed.

In this new environment, the private bankers also must be able to use the new technologies in order to improve the service giving to the client, but also as a friend to increase the efficient of the process. However, the private banking cannot fall into the error of deleting the personalizes dealing with the client, which is one of the most important features of the private banking, so the innovations in banking should be seen as an instrument of collaborating, not as a substitute of the service.

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<sup>1</sup> SICAV (Sociedad de Inversión en Capital Variable): collective investment institution with the form of a society, which invests the money of the shareholders in financial and non-financial instruments.

<sup>2</sup> SOCIMI (Sociedad Cotizada de Inversión en el Mercado Inmobiliario): collective investment institution with the form of a society, which invests the money of the shareholders in real state, at least the 80% in renting.

## 2. Objectives

The main objective of this Master thesis is to describe the private banking in Spain, one of the sectors that has been more relevant in the last years inside of the financial environment, but also who is going to deal with the banking digitalization as the other sectors of the banking.

For this reason, this thesis has the purpose of analyse the origins and the future of this sector, the functions that it performs, why it is so important nowadays, which is the regulation about the private banking, and who are the main threats in the future.

To realise and get the purpose of the work, the methodology will be based in some questions which are going to be answered during this thesis.

### 3. Methodology of the investigation

To do this thesis, the investigation will be structured in different parts, in order to equip the thesis of a logical structure easy of understanding by the lector.

In the first part, it will be exposed the introduction, the objectives, and the methodology to realise this thesis.

In the second part, it is going to be described the actual macroeconomic situation of Spain and the recent economic years, in order to understand the characteristics of our economy, which is essential to understand the role of the private banking. Without moving away of the economic context, this thesis is going to describe more specifically the history of the private banking in Spain, but also analysing the evolution of the sector, with key data that explain the evolution and the current situation.

In the third part it will be explained different aspects such as:

- *What is the private banking and the main features of this type of banking.*
- *The services which a customer demands in the private banking.*
- *The figure of the private banker: characteristics and education that a private banker need.*
- *The relationship between the customer and the private banker, and the management of it.*
- *The needs that the private banker is be able to solve.*
- *The ways and the financial products that the Private Banking use to manage the wealth of their clients, focusing in some of them such as SICAVs or SOCIMIs*
- *The regulation and the compliance which is affecting the sector*
- *The law system that regulate the private banking*

In the fourth part it will be estimated and analysed the future of the sector, focusing in how the new technologies can affect the private banker, because they are the main threat of the banking sector. To do this, it will be exposed aspects such as:

- *The huge potential of the private banking.*
- *The main threats of the private banking*

- *Fintech, and how they are going to affect banking*
- *Perspectives of the private banking in the next years*

In the fifth part, it will be exposed the conclusions about the thesis.

## 4. The concept of Private Banking

Private banking could be defined as the financial activity orientated to wealthy customers, with the purpose of manage their wealthy in the long-term period according to the objectives and needs of the clients. This activity has 4 principles:

- **Independency:** the private banker performances with independent of his bank, putting the interests of the clients before the interest of the bank, with the purpose of helping the client instead of selling financial products. For this reason, the private bankers usually earn their salary depending of their number of clients, but also the clients belong to a bank due to the banker, not due to the bank.
- **Particular client:** the private banking is orientated exclusively to a particular clients or family groups, handle not only the financial wealthy, also of all the wealthy and other issues such as fiscality and inheritance. The private banker must give to the client the feeling that he is not one more inside of the group of clients. This feature is narrowly related with the idea of exclusivity.
- **Special dealing:** it is one the most fundamental pillars in this activity, the establishing of a strong and confidence relationship with the private banker, because he will be the people who is going to manage our wealthy, but also the people who is going to know all about us, so create this kind of fraternal relationship (without forgetting the professional relationship) it will be fundamental. Also, with this kind of customers the private banker has to be careful with the details, which is one of the most important premises at the time of maintain the fidelity of the clients and to get new prospects.
- **Discretionary management:** this kind of management is basically giving to the private banker the allowing to manage the investments with a specific order, without consulting every operation with the client. This kind of service it is optional inside of the private banking, and it shows the grade of confidence that the customer has in the private banker. If not, the banker just does the advisory of the client, but the client will have the last decision. (Institut D'Estudis Financiers, 2017)

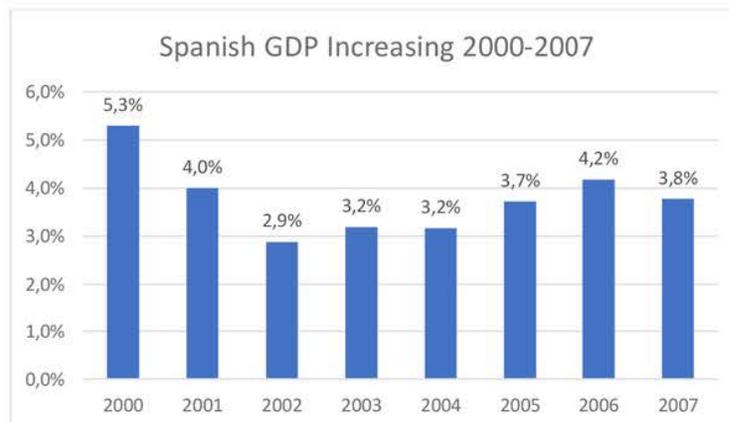
## 5. Economic Situation of Spain

### 5.1 Golden years 2000-2007

This period was one of the most successful in the economic history of Spain, endorsed by the powerful of the construction, the entrance of the country in the Eurozone, and the arrival of immigrants to support the huge demand of workers from the Spanish labour market. Moreover, Spain was a country which was to be able to change the economic situation in a few years in order to get the requirements that Frankfurt demanded to adopt the unique currency, so the economy was in a healthy situation in macroeconomic terms at the beginning of the millennium.

Next, it will show the graph of the GDP growth and the unemployed rate to explain how it performances the economy in these years: (Estadística, 2018)

#### *1.Spanish GDP Increasing in the period 2000-2007*

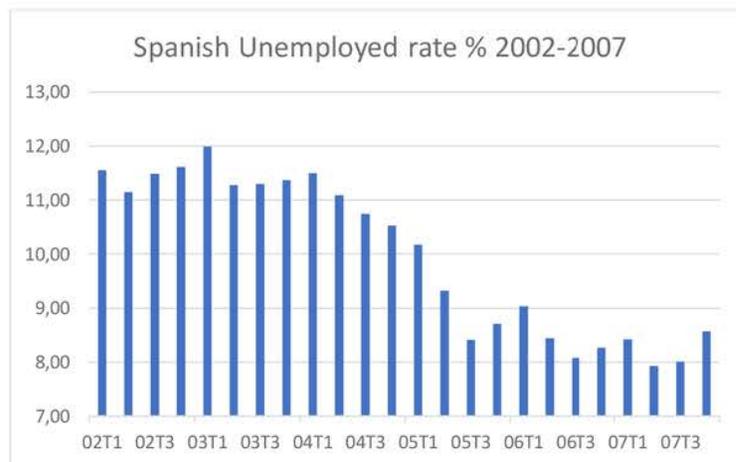


(Instituto Nacional de Estadística)

Firstly, it could be observed how the Spanish economy grew more than 3% all these years, specially thanks to the construction and tourist sector, who traditionally have been the motor of the Spanish economy in terms of GDP and employment. The revaluation of the houses and the facilities to access to the credit were the fundamental fuel to maintain the growth of the economy. In these years, people asked for a money loan to buy a house with the confidence that the value of this house would increase, so it was impossible loss money because anybody thought that the

prices of the houses would fall down, and the real estate was looked as the safest way of investment. Considering these aspects, the construction companies had incentives to hired people to build more and more houses to satisfy the demand, and these workers became in potential demanders of buildings and consumer products, so the system it was as a circle. The system was fed by a financial sector that gave credit without managing the credit risk with the need of comply with a strict regulation as now, so the requirements to access to the credit were easy to comply, and the financial sector had the stimulus to give credit due to the income of the margin interest rate.

### 2.Spanish Unemployed Rate in the period 2002-2007



(Instituto Nacional de Estadística)

Looking the second graphic, it is observed that the unemployed ratio decreased until the 8% in 2007, a level that is very low in Spain due to the especial characteristics of our labour market, which suffers the economic cycles more than other European countries. Also, a lot of immigrants came to Spain in this period because we needed labour people to work in the building, and the government adopted measures to allow the access of foreign people to Spain. This phenomenon not only had economic effects, but also increased the population of Spain especially with young people, which it helped to alleviate the demographic pyramid of Spain. The demanding of real estate in Spain came from different fronts, and the country got build much more houses than our neighbours of Europe with more population.

Looking the macroeconomic statistics, the debt of the country was low and Spain got surplus, with more incomes than expenses. The savings to pay the pensions were healthy and every year grew, which it is very significant because pensions have been one of the most important problems of the Spanish economy in the last decades, and nowadays is one of the challenge that the Spanish government is going to have to solve in the next years without a lot of time. This situation is easy to explain considering the macroeconomic environment, with a lot of people working and with the economy growing more than a 3% per year. The government could reduce a lot the public subsidiaries used to the unemployment people or another social assistance, due to the excellent situation that the Spanish families enjoyed, and the saving pensions fund grew with the quotes from employees.

The high salaries in the sectors around the construction link with the fast and cheap credit allowing people living over their possibilities, and the lack of control by the government, were the factors that driving the country to a situation that it became unsustainable. Also, the financial system had a lot of number of banks and saving accounts collaborating with this situation and lending money to the construction and real estate sector, then, the balance of the saving accounts was full of real state.

## 5.2 Economic crisis 2008-2014

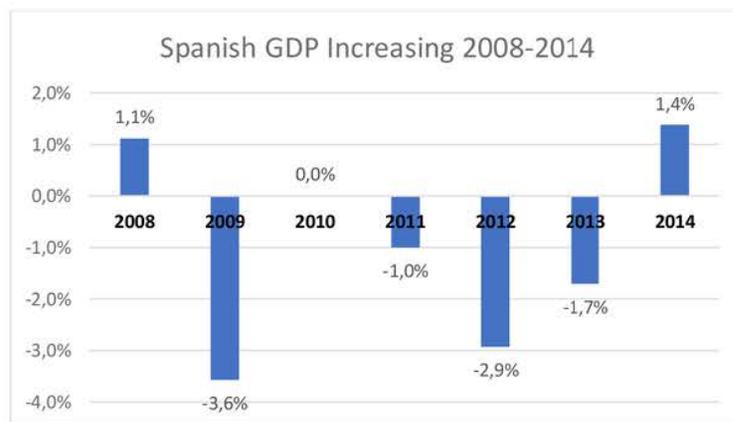
At the final of 2007, the real state bubble was evident, but some voices denied this idea, and the measures to change the situation or avoid the problem were minimums. Finally, the subprime crisis in United States affected all the countries, included Spain, and we started to suffer the first problems.

The real state price was stabilized and started to decrease, people started to lose their jobs, the delinquency increased, and the real state crisis became in a financial crisis that at the end affected the real economy. In this situation, the banks started to lose money due to the mortgage default, so they closed the liquidity and credits to the real economy and to other banks, contributing to the financial collapse. When the people saw that the value of their properties was under than the real value, they decide not buy houses because the method of buying because the value will never go down it was

demonstrated that was false, and the demand of houses started to fall. Moreover, a lot of people that based their economy in the growing of the real estate ( capital gains and renting) they saw how were in a situation of “negative equity” and without the possibility of recovering their investments.

When people left of demanding houses, the construction and the real state sectors started to stop the activity, and a lot of people were firing, which driving a situation with a lot of the Spanish families without revenues, and the country in one of the most serious crisis of the history of Spain.

### 3.Spanish GDP Increasing in the period 2008-2014



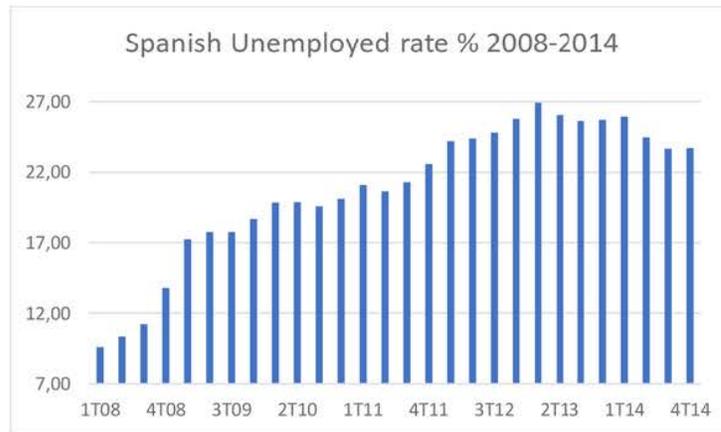
(Instituto Nacional de Estadística)

In terms of GDP, the spanish economy suffered a recession during five years, which destroyed a lot of the wealthy that the country had created during the golden years, and the capital buffer of the country it was not enough to minimize the effects of the crisis. This situation was replicated in the rest of the countries, but it is true that Spain suffered more than others countries the crisis, specially in terms of employment.

In the aspect of the financial markets, the Spanish stock market with the IBEX 35 as the main indicator, suffered a falling from 16.000 points to 7.000 points, losing the money of a lot of Spanish investors but also the losing of value of our companies, and the situation was more dramatically in the rest of companies which are not represented in the IBEX 35, especially in all these companies related with the real estate. In this situation, the saving accounts suffered the problems related with the big weight of the

real state in their balance, especially when the construction companies started to go to the bankruptcy and when a lot of clients could not repay the loans, driving the sector to be concentrated and obligated the government to lend money to some of this entities in order to avoid the bankruptcy and the consequences to the savings. In these years Spain was closed to be rescued by Europe.

#### 4. Spanish Unemployed Rate in the period 2008-2014



(Instituto Nacional de Estadística)

Also, the strong increasing in the number of unemployed people produced that the government had to spend a lot of money to pay the unemployment subsidiaries. The unemployed rate was closed to get the 27%, and the young unemployed rate got the 50%. The construction sector destroyed most of the employees, and all the sectors related with these companies, removing the employees that the real state bubble had created. The falling of the employment had consequences in the revenue of the state with the falling of the tax income and the quotes from the employees to the Social Security, which contributing to weak the saving pension funds. The government developed a plan based in the construction of a lot of infrastructures in order to revitalize the economy and to create jobs, which was called "Plan E", but it just was useful to increase the debt of the country and to increase our risk premium, so the interest that we paid for the debt was another problem for our economy.

### 5.3 Spanish Economy Recovery and the horizon 2014-now

In 2014 the situation started to improve, and the unemployment rate started to down for the first time in six years. The internal consumption, the labour reforms, and the international economic environment improving and helping the Spanish economy to improve too. During these years, Spain was a country which grew more than the other countries in the Eurozone, also the risk premium down, and the debt stopped of increasing in the rhythms of the last years.

The currently forecast is not optimistic, because the economic growing is going to stop in order to follow a world deceleration, and the prices of the buildings are increasing in some parts of the country, so the threat of a new real state bubble is present. Moreover, the world environment is uncertainty, with the Brexit producing hesitates in Europe, and the tension between USA and other regions as China or Europe respect trading issues. However, Spain is a country where the financial system is more health than before, with a banking system where there are less banks than before, also they are more regulated, but with a population where the unemployment is still a problem, and where the low salary power is disgusting the population, specially to the young people. Spain is currently the second country with the highest unemployed rate of Europe, only behind Greece

## 6. Evolution of the Private Banking in Spain

### 6.1 Private Banking History in Spain

The lack of private bankers in Spain during the century XX is easy to explain if it is observed the constant problems that the Spanish economy has suffered during these years, turning Spain in a country of the second division during this century inside of Europe, being relegated from the top position that occupied during the last centuries.

At the beginning of the century Spain had lost the colonies of Cuba, Puerto Rico, and Filipinas, in the disaster of 1898, so the economy was poor and with a high debt. It was not easy years to Spain, suffering a lot of internal political problems in the country, with a political system with a short life and with constant changes (monarchy, republic, military dictatorship) that only contributing to damage the economic situation.

In these years, in Spain we had a war in the north of morocco in order to defend the last colonies of the country, and this conflict finished to increase the illness situation of the Spanish political and economy situation. The Spanish economy during the beginning of the century was rural, with just a few regions with industry and with a low weight of the third sector, so we were a country that it was in the last position inside of the second industrial revolution in Europe.

The First World War had positive effects in the Spanish economy due to the country took advantage of their neutral position to sell products to the belligerents countries, so we did a lot of money while the war was happening, but this economic euphoria had a short life, because the politic instability of these years did not help the economy, and the civil war finished of destroying our economy.

It is easy to understand that in this environment the private banking had not enough space to be developed. During the first years of the government of Franco, in Spain we had an economic system out of the world economy, but also out of the financial markets, where the protectionism was the standard of our economy, and the interventionism of the state was the main actor, also, we had to recover the country from a civil war that had destroyed the country.

It is in the 60s decade when Spain starts to open to the world economy, then, the economic growing and the foreign investment started to come to Spain, but the propitious scenario to the private banking does not come until the final of 70s, when the volume of wealthy people and the needs of managing their wealthy creates a scenario in which the banks could develop a new kind of services, but we did not have private banking yet.

The banking in Spain has been characterized by the existence of a lot of small banks which were distributed by regions with a strong compromise to each of them, such as the saving accounts, so at the final of 70s we could find a fragmented banking map, where the private banking had not a real importance. In these years, wealthy people had not a specialised department inside of the banks in order to demand a service to manage their wealthy, so it is difficult to talk about the existence of the private banking during these years, at least with the same grade of specialization than now.

In these years, it was normal that wealthy people allowed managing their money by foreign entities, meanwhile in Spain the wealthy people who cannot access to this entities gave the management of this money to the big national banks, but in a commercial way, without the standards of quality that this kind of clients demand. We should know that the evolution of the wealthy people in Spain has been significant, it means, in the decade of the 70s, the 75% of the wealthy people had his money from the inheritances, but nowadays, the most of the wealthy of the private banking customers come from their works and business, so it is very important to know the new requirements of the customers at the time of choosing a private banker.

In this scenario it should know that the limitations to access to the financial markets it was very strict, for instance, the first investment fund came to Spain in the 70s and just invested in the national stocks, because the foreign investment was forbidden. Nowadays, the financial markets and the economic environment of Spain have experimented a great transformation, and it is necessary to the wealthy people to take helping of professionals who manage their wealth in the more complex financial markets, but also, the characteristic of the new markets with interest rate in the 0%, which cause that the people has to search for new investment opportunities to get yield of their savings because the traditional assets are not enough at least to beat the

inflation, but also, the appearance of a lot of new investments products has given the opportunities of diversifying the risks and the investments.

## 6.2 Current situation of the Private Banking in Spain

Nowadays, the private banking is one of the sectors of the banking that is experimenting a great increasing in the last years, with the banks doing an effort to captain new clients in this type of banking service. Also, the forecasts to the private banking are so good due to the good perspectives of the economy for the next years, especially with the increasing of the number of wealthy people.

The number of wealthy people in Spain has grown despite of the crisis, and the medium-high classes are recovering the acquisitive power, so the business of the private banking has a great spectrum of clients for the next years.

The other segment of clients, the Ultra High Net Worth, who are the people with a wealthy of more than 30 million of euros, has experimented an increasing in the number of members of this selected club in the last years. If it is analysed the data of the wealthy tax, the public taxation calculates that the number of ultra-wealthy people has increased from 200 to 579 between 2006 and 2016, and they are the most important objective of the private bankers. The wealthy of the wealthiest people of Spain has grown in the last 9 years, but the year 2018 has been one of the most difficult years in the financial markets, and anybody could have avoid the losses this year, for instance, the 200 wealthiest people of Spain have lost 16.500 million during the last year due to the important fallings in the stock markets around the world. (Leal, 2019)

Looking the data of the tributary agency (Agencia Tributaria, 2017), most of the wealthy people is who has a wealthy between 300.000 euros and 1,5 million of euros. In this group we can include the 68,5% of the taxpayers, and the next group would be between 1,5 million and 6 million will be the second more width. The other segments of the clients would be between 6 million and 30, and the rest will be over 30 million, but it is more residual these groups. If it is observed the regions of Spain, Cataluña and

Madrid are the autonomous regions with more wealthy people, after we will have Valencia and Andalucía. (Radio Televisión Española, 2018)

However, Spain is a country with great differences between the different parts of territory, where most of the wealthy is in Cataluña and Madrid, and the rest of the wealthy people who are objective of the private banking is in the golden triangle. This triangle agrees with the regions of Spain where the unemployment rate is lower, and the rent per capita is bigger. (Martin, 2005)

### 5. Geographical Distribution of the Spanish Private Banking Potential Market



(Banco de Finanzas e Inversiones)

To analyse the currently situation, there is a table where we can see which are the top banks in the private banking of Spain in terms of assets under management, and the main point is that all of the banks in this raking have experimented an increasing of the number of assets under management, so it is a proof about this sector is growing at this moment, also, we can look that the increasing have been so big in some cases, so the tendency is positive for the next years.

The increasing of the number of customers who use the services of the private banking, link with the lower interest rate scenario, has stimulated the competition between the different banks to attract this kind of client, due to the profitability which

they can add to the bank, but also this is good for the customer, because the entities will be forced to improve the services and reducing the fees in order to attract clients.

*6. Spanish Private Banking Ranking by assets under management in 2016&2017*

Posición	Grupo	Patrimonio 2017	Patrimonio 2016
1	Grupo Santander	103.125	96.295
2	BBVA Banca Privada y Patrimonios	67.706	59.673
3	CaixaBank Banca Privada	63.203	61.091
4	Bankinter Banca Privada	34.995	31.202
5	Banco Sabadell Urquijo Banca Privada	26.396	24.934
6	UBS (Suiza)	19.000	16.000
7	Banca March	14.790	13.102
8	Deutsche Bank (Alemania)	11.187	12.172
9	AndBank España (Andorra)	8.832	7.640
10	A&G Banca Privada	8.730	7.141
11	Renta 4 Banca Privada	8.350	5.800
12	BNP Paribas Wealth Management (Francia)	7.700	7.000
13	Grupo Bankia	6.293	6.145
14	Ibercaja Patrimonios	5.500	3.850
15	Indosuez Wealth Management (Francia)	3.904	2.942
16	Tressis	3.900	3.700
17	LiberBank Banca Privada	3.354	3.414
18	FINECO Banca Privada Kutxabank	3.181	2.802
19	Grupo EDM	3.087	2.702
20	Abante Asesores	2.900	2.600
21	Banco Alcalá	2.173	2.070
22	Novo Banco	2.080	2.000
23	Alantra Wealth Management	1.600	1.400
24	Abanca	1.560	1.352
25	Bank Degroof Petercam Spain (Bélgica)	1.500	1.475
26	Atl Capital Gestión de Patrimonios	1.400	1.350
27	Laboral Kutxa	1.375	1.345
28	Orienta Capital	1.189	1.158
29	Banco Mediolanum (Italia)	917	778
30	Mapfre	804	737
31	Diaphanum	509	89

(Funds People, 2018)

If we look the table, we can observe how in the top of the ranking there are the main Spanish banks, and just there are three foreign banks in the top 10. This situation can be explained in the next way:

- Spanish banks in the top are very longer in the banking map of Spain, also these banks have bought the different saving accounts which existed in the century

XX, and that were bought in the beginnings of the XXI century, so it is logical that these banks manage the money of most of the Spanish people. Also, in this situation started to appear Spanish independent banks as A&G Banca Privada, or financial boutiques as Abante Asesores, which search giving a different service to the clients in order to be different from the traditional banks.

- In Spain the foreign banking has needed a lot of time to enter in the country, and nowadays in commercial banking there is hardly an entity which work in Spain as can be ING Direct or as it was Barclays (finally bought by CaixaBank in 2015). In the private banking the situation was different, but also has been difficult the introduction of these banks in the business, but they have achieved a good market share due to the service that they give to the Spanish customers is different to the Spanish bank. The main foreign banks in the Spanish private banking sector are swiss banks (UBS, Credit Suisse, Edmond de Rothschild), Andorran (AndBank, BPA, Credit Andorra), and American (JP Morgan, Goldman Sachs).

## 7. The client

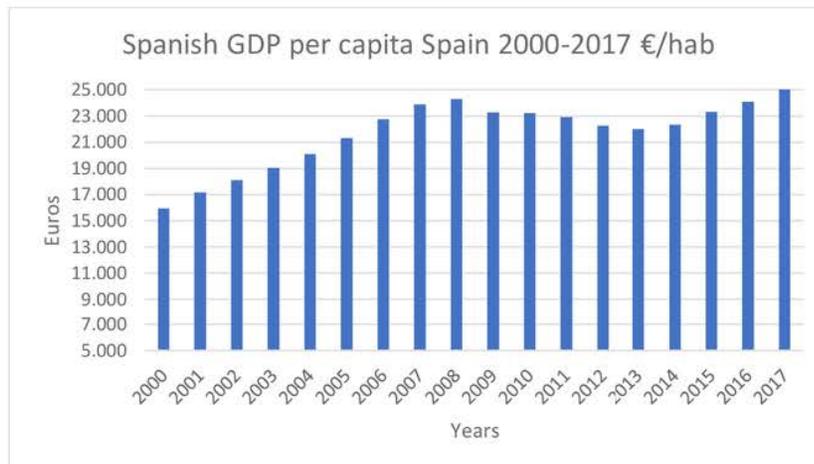
### 7.1 Role of the client

It is the principal element in many of the business, but specially in the private banking due to the characteristic that he has, and it is not only referring to the amount of money, but also the special service that this kind of customer demands to open an account in a Private Banking.

Traditionally, the wealthy people in Spain was who had been wealthy "always", it means, aristocracy people and the bourgeoisie that had built up business in the industrial revolution in Spain.

In the decades of 70s, the 75% of the wealthy people had the money from the inheritance of their families, so this people it was worried about manage the wealthy in the way that they did not want to lose money more that earning money, which is one of the pillars of the private banking. However, during the economic developing in Spain, which started in the 60s, it started to appear the "new riches", who were people that run business or liberal professionals, who started to accumulate wealthy and changing the wealthy map in Spain. In the 2000s the change was very significant, we must see that just the 25% of the wealthy in Spain depends of the inheritance, and this change has been in just 30 years. And not only the new riches, in general the wealthy of the Spanish people has suffered an important increasing in the last years, we just must see the Rent per capita of Spain.

### 7.Spanish GDP per capita in the period 2000-2017



(Instituto Nacional de Estadística, 2018)

Watching the graph, the Spanish people has 10.000 euros of wealthy more than in the beginnings of 2000, it is true that these numbers are far away of the numbers that a private banking customers have, but it is very significant to understand the sector. In Spain to be consider as a private client you must have 500.000 euros of liquid wealthy (not included real state), and you are consider a potential customer when your liquid wealthy is bigger than 150.000 euros, because it is considered that starting from this amount of money the probabilities of getting the minimum amount of 500.000€ of wealthy are bigger. But depend of the bank the minimum amount to be client change, normally the foreign banks required more money to be client, specially Swiss and American banks, who do not usually accept clients under 1M of euros.

The "new riches" are a kind of clients different of the traditional clients of the private banking. Nowadays, this kind of clients are characterized because they know more about the economy and the financial markets than the traditional clients, also, they use the technogy as a friend at the moment of manage their finance, and the fidelity for the banks is less that before, and they go with the bank who offer the best yields.

## 7.2 Relationship with the client

In the private banking the way of relationship with the client is maybe the most important part of the business, because it is the way of transforming a prospect in a new client, and it helps to maintain the fidelity of the clients. We can divide the process to get a client in several steps:

- **Find the prospect:** firstly, the private banker has to do an analysis of the market, searching potential clients, and this is going to be doing with the help of the assistants. To do this searching, the banker can use some simple methods such as looking in the recent news who has done an important selling of a company and if he has received a big amount of money, searching the most wealthy people of the different regions, or looking for professionals with important salaries in the big companies. In the current environment the private bankers has a lot of opportunities to find these people, so the ways of searching are huge.
- **Contact the prospect:** when the banker has found the prospect, it is the time to contact with him. Firstly, the banker will look if he has contacts who meet the prospect, because it is easier to meet with the prospect if you have somebody in common with him. If there is no a contact, the banker will contact by a "cold call" or a "letter", in order to wait for an answer. Sometimes the private bank organized a meeting between the clients and the bankers, but also they invite prospects to the event and the clients can bring friends who are also prospects.
- **Meeting with the prospect:** if the prospect give a positive answer to the banker, he will establish a meeting with him. Normally, the banker will invite the prospect to the office or he will go to visit the prospect for example if he lives outside of the city where is the office established. In this meeting the banker should introduce the bank, and listening the needs of the prospect in order to give an adequate solution for them. Normally, the banker does not have enough information about the client before the meeting, so he will have to listen very careful the indications of the prospect in order to prepare a good financial planning for the prospect in the next meeting. The process of

meeting with the prospect can be composed by several meetings and events, because it is normal that the prospect has contact with different banks, and he has to think about who of them is the best to manage their wealthy.

- **Turning the prospect into a client:** when the banker achieves that the prospect joins to the bank, the first step is doing the KYC, and the idoneary test. Also, the client has to pass the anti-money laundering test to be a client of the entity. In this moment, the banker and the different teams of the bank (fiscal, legal, portfolio, etc...) have to work in order to develop the financial planning of the customer. This part is one of the most important, because if the teams do not work together, the client can reject the proposition, and the key to avoid this situation is to listen very carefully which are the needs of the client, but also, the risk profile, which is going to define the future of the relationship.
- **Maintain the relationship:** while the client is part of the portfolio of clients of the banker, he will have to maintain a constant relationship with the client, with meetings to review the situation of their financial situation. Depending of the amount of wealthy of the client, it will be normal to have details with the client.

### 7.3 Differences between the commercial banking and the private banking

When a client goes to the private banker he does it with the purpose of searching someone who be able to manage their wealthy, but with a requirements and demands which are very different than in a normal bank. To understand this, it is very useful to describe the differences between the commercial banking and the private banking:

- In commercial banking, the dealing with the clients is very different than the private banking, because in the first type of banks, they are trying to reduce to the minimum expression the physical contact with the clients in order to promote the digital channels to contact with them due to the effort to reduce costs about offices and employees, because they know that the yield they can achieve of this type of clients in the most of cases are not enough to maintain the actual structure. Some of the traditional banks are developing a new kind of offices and bank segment to include clients with a wealthy over 100.000 euros

because the bank knows that they can get yield with this amount of money, and it is interesting to them to deal with these clients as a private banking clients, for instance Banca Premier in CaixaBank, who is not a real private banking but they show us like this, in order to get profits of a segment of clients very big. In the other hand, in the private banking the dealing is totally different, and it is changing depending of the amount of money of the client, but this is logical, because in a lot of cases the bank spends money for example in lunch with the clients, trips to met them, events, etc...and it is a investment that the bank realice in order to give a sepecial treat to the clients, so they have to recover the investment. In the opposite to the commercial bank, for the private banking is very important to mantein a good office to attend the customers, sometimes luxury offices to give a good impresion to the client.

- Commercial banking in the most of situations just save the money of the clients and sell financial products without listen the real needs and the objectives of the clients (this situation is going to change especially due to the improving of the customer protection), while in the private banking the clients has an specific banker who studies the situation of his client in order to listen the needings of the client to search and propose the best solutions for him, not with the prupose of selling products.
- In private banking the products such as the investment funds for example, are different that the products that a normal client can buy in the commercial banking, because this kind of products require a particular amount of money that it is necessary to acces to them. This is one of the reasons that wsplains why a lot of clients use this kind of banking, because they want for example investing in special vehicles which are only avalibale in the private banking.
- Private banking usually offers services such as the fiscal advisory, which is giving to the clients by the wealth management division inside of the private banking, which is very demand because in Spain the fiscal system is very strict with the high fortunes, with marginal interest rate that can reach the 45%, but also with the planification of the inheritance of the family, a toppic very difficult to deal inside of wealthy families.

- In private banking exists one option which is characteristic of this kind of banking and that it is not available in the commercial banking, and this is the discretionary management of the portfolio, which it means that the private banker can manage your portfolio in the way that he decides just with your previously consentment.

#### 7.4 Demands of the private banking clients

The clients of the Private Banking search for a private banker who looks for them, who listen their problems, needings, and objectives, and who help them in order to get the objectives, but always respecting the decisions of the client and preferring the customers interesting before the banking interesting. We can summary the demands of the customers in the next five points:

- **Private Banker exclusively:** It means, a banker specialised in the industry, who always is going to be the person that will talk with the customer, become the confidence person of the customer. For example, this kind of professionals have to be always available to talk with the clients, and normally they do not have a big amount of clients because if not is difficult to be focused in the clients for separately. It is normal that in the case of clients with a significant amount of money, the private banker should move to visit the client to meet personally instead the client move to the office.
- **Financial Advisory:** the client wants that the banker studies the personal situation, and he should search the best options for him. To do this work, the banker has several teams that give supporting to the banker in different aspects, such as the financial advisory team, portfolio management team or fiscal team, who collaborate with the banker to create an especific planning to the client. To do this planning, the banker and the team have to do a deeping analisis of the situation of the client. Not lose money, maybe the main objective of the clients in this sector, because most of them know that they can earn a lot of money with their works or business, so they do not need earn money from their savings, just avoid the erosion of the wealthy, but normally in order to

beat at least the inflation. However, the environment of negative interest rate has eliminated some of the conservative options to the client in order of not losing money.

- **Products and services to offer to the client:** this is a point that not only has suffered an important regulation in the commercial bank at the time of offering products or giving financial advisory services. In private banking there are the same rules than in the commercial bank at the time of offering products to the clients. Before to offer something to the client is compulsory know the risk profile of the client and realize and assesment of him, in order to know if he is able to invest in determinate kind of products. It is very important because in private banking the espectrum of products is too width. Depending of the assesment and the risk profile of the client, the banker will offer different products, and if the client decide to invest in something that we consider that is inadequaty for them we have to advise them by writen. This point is very related with the financial advisory, because with the high amount of new financial products that have appeared in the financial markets the customer needs somebody who can explain in which consist each of them.
- **Totally wealthy management:** in the private banking the customer not only searches for a management of the liquidity money, also they search for a manage of all the wealthy, specialise respect the fiscal issue. It is one of the most importatnt topics, because in private banking the banker has to help the client in order to get a good fiscal estrategy which allows to manage the wealthy in a effective way. It is in this part where it has especial importance products such as SICAVs or SOCIMIs, which allow to do an integrrality management of the wealthy.
- **Inheritance Planification:** the banker has to advise how to do an effective distribution of the weatlhy of the clients between their descendants, point very important in a country as Spain, when we have a different inheritance tax depending of the autonomus region, and it can suppose an important decreasing in the money to inheritance.

## 7.5 Services that offers the private banking

The private banking offers a lot of kind of services, several of them are the same as in any bank, but we are going to focus in the 4 most important:

**Financial advisory:** this service is defined by the european directive MiFID II as “the provision of customized recommendations to the client, by the initiative or not of the investment company, respect one or more operations related with the financial instruments”. (MiFID II)

Normally, a private banker is a person with formation in finance who has the capacity to advise in the management of the wealthy, paying a fee by the services, but in Spain is not normal taking directly the comission, if not receiving the money in terms of indirect fees over the amount managed. Also, there are associations as EFPA (European Financial Planning Asociation) who try to regulize the sector asking for certifications that acredite the ideonity of the banker to advise the customers in financial issues. It is very important knowing that before of realizing the financial advisory activity, the advisor has to do a idoneity assesment to the customer, in order to know what kind of investments are recommendates for the customers. In this test, the banker is going to evaluate the following aspects: (Finanzas para todos, s.f.)

- The knowledge about the financial products, the level of studies, and the work of the customer
- The experience investing in the financial markets
- The financial situation, incomes, and future expenses of the customer
- The investment objectives and the risk profile (conservative, moderate, risky)

**Discretionary Management:** this service is exclusively for private banking clients, and it is based in the agreement between the client and the banker, in which the client gives the authorisation to the banker to manage the wealth without has to ask in every moment to the customer if he has to do the investment or not. In this kind of service the customer will pay a fixed comission in function of the amount of wealthy managed, but also it can be possible a variable comission depending of the results.

**Financial Planning:** this service include the financial advisory, and basically is knowing the client with the objectives and the needings, and providing the best options to get the goals, interviening in the fields of fnancial markets, real state, fiscal, insurance, etc...in order to manage the wealthy.

**Family office:** it is the financial, juridical, and fiscal avisory that you give to a family with a high wealthy, and with a high diversify of assets. Other objective is getting a good familiar organization. With this kind of instruments the family searches for separating the family avtivity of the business activities, and give the management of the wealthy to professionals who preserve the value of the wealthy in order to avoid the erosion of the wealthy for the next generations. The family office is a figure who performance as a member of the family, because it is the person who know everything about the family group and it is necessary to create a strong linking between him and the members of the family.

## 8. Legal aspects

The financial sector is one of the most regulated between the economic world, also, banks suffer the heaviest regulation inside of the financial sector. MiFID II, PSD 2, Basel III, AML regulation, AIFMD, etc...they are some of the members the banking sector compliance.

The importance of the compliance and the changes that it has supposed in the financial sector make obligatory describe the main compliance applicated in the private banking, especially in terms of the consumer and investor protection, also, the compliance path is still long.

### 8.1 Anti Money Laundering and Terrorism Financing

We can understand the Anti Money Laundering as these kind of activities which wants to give the legal aspect to the money which has an illicit origin, with the objective of introducing this money in the financial system as a licit money. In the other hand, the Terrorism Financing is the using of the financial system to finance these kind of activities.

In Spain, this issue is regulated by the law 10/2010 of 28 April, but in Europe we have a common directive about this issue, the 2005/60/CE directive, to armonize the legal actuaciones about this topic. The main regulator about this topic in Spain is the SEPBLAC (Executive Service of Prevention of Anti Money Laundering and Monetary Infractions) who establishes a serie of measures to prevent the AML.

Private Banking is considered as an especial activity by the SEPBLAC, in order to consider that the amount of money negociated in this kind of banking service is bigger than in the retail bank, and it is more common the foreign investments and the transactions with another countries, which usually is one of the most importants objectives of the AML regulation, because one of the most common ways of laundering money is using the transactions with tax heavens, or using a foreign currency.

In the recommendation issued by the SEPBLAC to establish an internal control inside of the entities, the Private Banking is especial mentioned in two aspects (SEPBLAC, 2018):

- At the moment of autoevaluating the risk of the anti money laundering, is compulsory doing a document in which the entity should identify and showing the risk exposure to the AML of the business. In this autoevaluation, the main characteristic is that private banking is considered how one of the riskiest activities to be used for the AML, like the international movements of funds.
- Other point to be considered are the diligence measures and the application of it in order to identify the activities of the clients of the bank, such as the KYC (Know Your Client). In private banking, the diligence measures are more estrict than other bank activities, for instance, the entity must ask for additional documents to the clients or the autoritation of a superior organism in some aspects. As private banking, other activities as the money transfer with people who resides in countries with high risk about AML will have the same controls.

## 8.2 Woflsberg Group Principles Anti Money Laundering for Private Banking

This guide was realized for some of the most important banks in the world as JP Morgan, HSBC, or Banco Santander, in order to create a guide of principles of how performance in the case of anti-money laundering, especially in the ambit of Private Banking, and it is divided in 11 parts:

1. The first part is related with the acceptance of the client, in order to see if the client complies with the requirements to see that their money does not have an illicit origin. To do this, the bank must identify the client, in the case of physical people through the identify documents, and in the case of societies thorough proofs that verify that the entity exists.
2. The bank must verify if the client needs an extra information in the case that the client has funds that provide from countries which are considered as a fiscal heaven or countries with a lot of risk of being used to laundering money, or in the case that the client is participating in a business characterised by the

money laundering. Another special case is when the client is a person with public responsibility such as a politician or a high directive of a company, in this case the diligence must be extra. All these measures must have the approbation of someone of the high direction of the company.

3. The third part emphasise in the needing of doing a constant checking of the information, so the reporting is fundamental in this aspect and the collaboration between front office and the compliance officer.
4. The bank must develop an internal procedure about detecting activities related with the anti-money laundering, to do this they will define which activities are suspected and how control it.
5. This part gives to the private banker the responsibility to oversight the account of their client in order to analyse if there are suspected movements, and how performance when he detects it.
6. It must be an internal system to check the control system designed by the bank to control the activities.
7. The employees of the company should communicate to the direction of the company every certain time all the information related with the anti-money laundering
8. The bank will provide formation related with the anti-money laundering money to the employees and this formation must be renovated every certain time in order to be actualising about the topic.
9. The documentation will be saved at least 5 years.
10. The bank will say in which cases an independent unity must intervened
11. The bank will set up a department about anti-money laundering

(Wolfsberg Group)

### 8.3 Data protection

One of the most important aspects which is not only relevant in the economic environments, if not in all the sectors, it is the data protection, whose regulation has changed the last year, when the 25 May 2018 the European union approved the new

directive about the topic, due to the last directive was from 1995, and the development of internet and new technologies have obligated to do a change in the law.

With the new directive, all the members of the European Union will have the same regulation about data protection, and the companies that dealing with personal data must assure that they comply with the regulation, and they prevent damage in the personal data.

In order to increase the legal security of the clients, the companies always must show to the clients how the company is going to deal the personal data, such as where the data is going to be save, which are the destinations of the data, or how many time the company is going to save the data.

In the case of the banks, they are obligated to have in the team a worker handling of the data dealing, a responsible people about the data, who must control periodically the treatment of the data, the risk of them, the security, etc... We cannot forget that banks are similar to an hospital, we are dealing with the money of the clients and with their most confidential information. (Peco, 2018)

#### **8.4 Banking secret**

The banking secret suppose that the banker is not going to say anything about the client information neither the banking account information. This aspect is related with the protection of personal data that we have seen before.

The banking secret does not have a special law in the Spanish law system to regulate this ambit, but in several articles of the Spanish constitution such as 18.1 or 20.4, the constitution recognizes the right to the intimacy of the personal data, including the economic data. In Europe, the regulation 679/2016 about protection of the personal data considers in the article 4 that inside this category will be the economic data.

However, in case of legal investigation, the law 17 of the judicial power says that it is obligatory to accept the decisions of the judges or the police, also, the bank must

collaborate with the authorities in this case, and they can give the data. (Guías Jurídicas, s.f.)

## 8.5 MiFID II

The Directive about the financial instruments and markets was approved in 2004, and the reform was done in 2006, which is the actual MiFID II. This directive has different objectives, but the main purpose is the investor protection. We can resume the main objectives of MiFID II as follow:

- MiFID II search for the harmonization between the different countries in Europe respect the financial markets, where all the regulators (as CNMV in Spain) can collaborate and they have an ammonized regulation, also MiFID introducing the multilateral business system.
- The second objective is emphasising about all this product which does not include in MiFID I, in order to cover all the innovations about the financial products and markets.
- The third and most important objective of MiFID II is the investor protection, in order to avoid that the minor's clients can be lied or receive a bad advisory from their financial entity. The complexity of the markets has increased during the last years, and the low interest rate scenario has produced that most of the investors leave the traditional investments to search for investments with more yields.

In one hand, the directive wants that the workers of the financial sector received a formation in finance that accredits that they know the financial markets, the financial products, the legislation, and the normative about data protection and investor protection.

In the other hand, the directive wants to protect the investor by the classification of the clients. One of them is doing an assessment of the client in order to identify if the client is professional or he is minority. A professional client will be the state and regional administrations, the financial entities or financial entities authorized by the states to operate in the financial market, and businessmen who comply special

characteristics. In the other hand, the minority clients will have the maximum level of protection by the law.

The other classification must be related with the risk profile, it means, the banker must do an assessment of the client to decide if he is conservative, moderate, or aggressive, but also he must realize an ideonity and convention test in order to know the financial knowledge of the clients to know what kind of products are or not recommendable to the client, and to inform the client before selling a product and by written if this product is not recommendable for him.

## 9. Financial planning

### 9.1 The process

At the moment of doing the financial planning of the client we should respect the different steps in order to give a service which it could allow the client to achieve the financial goals and solve the needings.

The first step is studying the currently situation of the client, gathering all the possible information about him, such as:

- Sources of income, and general expenses
- Currently wealthy and distribution of this (real estate, liquidity, financial investments, debts...)
- Business or investments in another countries
- Next significant expenses, such as the buying of a house, the payment of the wedding of the son, or the education of the children.
- Fiscal situation
- Familiar circumstances
- Finance knowledge

With this information, we can set the start point to initiate the financial planning, and it will be easier to do a correct assesment and to advise the client.

Now, we should know which are the objectives of the client and the needs that he has, and here it is very important the investment term and the level of risk that the client is allowed to assume. In general, the investment term is long-term, and the risk profile are three, conservative, moderate, and aggressive. Always the private banker must respect the personal decisions of the client, and adapting the term investment and the risk to the personal circumstances of the client.

When we have the objectives clear, we must start to design the portfolio to the client. This portoflio it will be influenced by the three main aspects in the financial investment: liquidity, risk, and return.

One of the chances fot the private banker and the portfolio management team will be find the correct equilibrium between this three points. At the moment of doing the portfolio, first af all, the banker must analyse the current econmic situation and the

economic forecast for the next year, but also, which kind of assets are being a better performance, and the expectatives about them. In this part, the analyse will be about the variable income, fixed income, commodities, investment funds, alternative assets, etc.

After the analysis of the market, the banker could choose the assets to invest. Normally, the decision will be between fixed income and variable income depending of the risk profile of the investor and the investment horizon term. For example, young people will prefer invest in riskier assets than the older people, because the investment horizon is bigger. Once the planning is designed, the banker will send it to the operational team and they will do the different operations to buy the assets and to build the portfolio. The private banker in this moment could do different management of the portfolio depending if the management is discretional or not, but always the banker should do a constant checking of the portoflio.

## **9.2 Special products of the private banking**

### **9.2.1 SICAV**

The acronym of Variable Capital Investment Society is one of the most popular investment vehicle in the private banking. A SICAV is exactly a Collective Investment Institution but with the form of a society, meanwhile the investment fund has a fiduciary form. This society collects money between the investors to manage it, but also, they have the capability of being in the stock market, in Spain would be in MAB, that it is the Alternative Stock Market.

SICAVs are very popular due to the fiscal advantages, because they just must pay a 1% of taxes over the profits, and they can deferment the payment of taxes. The minimum capital to set up a SICAV is only 2.400.000 euros, so it is accessible to the wealthy people. The fiscality of the SICAVs about profits is the same that an Investment Fund, and this was thankful the change of the law in 1991, which allowed a downing of the Society tax rate in the investment fund from the 13% to the 1%. Moreover, the shareholders must pay taxes only about the profits that they get from the SICAV, which

can proceed from two ways, through the selling of the SICAVs stocks (in the case that this selling generate benefits) or when they receive dividends.

The main attractive of the SICAV to the investors is the deferment payment of taxes, it means, when the shareholder obtains earnings from the SICAV, he can decide paying just the 1% over this profits, and reinvest the other 99% in the SICAV, so he does not have to pay the general tax (19% in the general case) every time that he obtains benefits, just when he decides to retire definitely the money, so it is a very attractive fiscal system to the investor.

The owners of the SICAVs are called shareholders, and they can sell and buy stocks of the SICAV in the stock market, but, normally the real property of the SICAV is handling by one family, and the other shareholders are called “mariachis”, because they just be figurants to get the minimum number of shareholders to build the society, which must be a minimum of 100.

SICAVs are sometimes criticised by the public, but they are a legal form of investment, and whoever can invest in SICAVs buying part of the shares in the Alternative Stock Market. A SICAV is as a company that invest in a lot of financial assets, so they follow an investment policy like other investment vehicles, and it can be a good option for the minors investors because the investment fund normally has an investment policy more strict, moreover, all the SICAVs are registered in the CNMV and they are under control of this organism, publicising the annual accounts and the destination of the investments, so this give transparency and security for all the investors.

One of the differences with the investment fund is that the SICAV must maintain a 3% of the assets as liquidity, and the Investment fund just a 1%. Moreover, the SICAV has the possibility of being constituted in compartments like the investment funds, in order to create different classes inside of the SICAV in order to allow the access of more investors to the SICAV. Every class must have a minimum of 20 shareholders and 480.000 euros, but together they must sum a minimum of 100 shareholders and 2.400.000 euros.

We must know that in the last years it has become very popular the commercialization of foreign SICAV in Spain, especially Luxembourg SICAVs, but also Swiss, Italian, and

French. As a Collective Investment Institution, the SICAV can be ammoniated, when the society is established in one of the countries of the European Union, so in this case is called UCITS (Collective Investment in Transferable Securities) and they can be commercialized without restrictions. The other case is when the SICAV is in a country that is not part of the European Union, so in this situation the selling of the SICAV in the European country must be authorized by the local regulators.

The selling of foreign SICAVs in Spain has experimented a great increasing in the last years, in order to improve the diversify of the private banking, also, the clients demand this kind of service.

### 9.2.2 SOCIMI

The increasing of the real estate market in the last years in Spain, linked with the bad performance of the stock markets, has produced an increasing of the attractive of the real state yield, which are over the 5% in some places, such as Madrid. We have to add that investing in real estate in Spain has always seen such as the predilect strategy in order to have a good and safety investment.

A particular investor can invest directly in real state through the buying of a house or an office to rent to a company, but this kind of investment is too expensive and it is very difficult to diversify between houses with a high value even for the wealthy people, also, and this is one of the most important point of the popularity of the SOCIMIs, the fiscal regulation of this societies give an advantage respect the directly investment in real estate, because it is not the same the taxes that you pay if you get rents from your own houses that if you get the profits by a SOCIMI.

SOCIMIs in Spain are very young because they started to appear in our markets in 2012, but they became popular in a few years, being valued by the private banking as an investment vehicle for their clients. These are some of the characteristics of a SOCIMI: (Errejón, 2019)

- The 80% of SOCIMI revenues must come from the rent of the buildings
- The assets must be in the portfolio of the company at least 3 years

- The company must distribute dividends following the next rules: 80% of the rental revenues, 50% of the money getting from the sale of an asset, and the 100% of the profits arise from the investment in other SOCIMIs)
- The social capital must be at least of 5 million of euros, but also the company must have minimum one building.
- The company must be in the Alternative Stock Market, with a free float of the 25% of the capital or 2 million, and the leverage level cannot be over 70%.
- The SOCIMI does not have to pay the income tax and they have a 95% exempt in the Patrimonial Transaction Tax.

As we can see, the investment in SOCIMIs is more liquidity and less risky than the direct investment in real state, and with an attractive fiscal system, so it is easy to imagine why this investment vehicle is one of the most demanding between the private banker clients.

## 10. Future of the private banking

### 10.1 Potential of the private banking

Looking the actual economic environment, with the irruption of the new technologies, new industries, and the opening of the financial markets, it is easy to see that the world is changing quickly, and the private banking cannot be the exception. The clients are not the same, the money came from other sources, and nowadays the financial markets give us a huge spectrum of products to invest this money.

The case of Spain is different, because it is more difficult the appearance of new riches, so this is a “game of zero sum” where the entities earn clients from the other entities, however, there are countries in South America and Asia which are experimenting a great increasing, and some of this fortunes have chosen Spain as a country to invest, and it is a good opportunity for the Private Banking in Spain to collaborate with them.

A problem that there is in Spain, but also in the other developed countries is the demographic situation. We are in a situation in which the young people has not the same interest in save money than their parents, so the main clients to manage the wealthy are people from the middle-age and older people, and this will be a problem in the future. Young people is more propensity to spend money than save, which in some cases is due to the young people has an excessive economic dependency of their parents, also, the work is more precarity and the salaries are lower, so it will be difficult that the actual generations have a wealth when they reach the middle-age, however, one of the most important functions of the private banking is to get that their clients could give the inheritance to their descendants with more value than when join to the bank, so, the private banking will have to convince their inheritances to maintain the money in the bank, and this is a chance, because the private bankers have to fight with the difficulty of doing a great job with different generations inside of a family.

The private banking has also a good opportunity to take advantage of the popularization of the investment. Nowadays, people know more about markets than a few years before, but also the markets are more complex and there are markets and

instruments that in some cases are dangerous to the normal investor, so normally the wealthy people prefer to go to a private banker in order to avoid losing money in a complex financial environment.

## **10.2 Increasing of the financial markets and products**

The financial markets are changing every day and creating new financial products that give to the investor's new opportunities where destinate their money, but also opportunities which assume risky. It is ending this world when the client only can invest in bonds and in the Spanish stock market, nowadays you can invest in every market around the world, and not only in stocks, the investment in derivatives it has experimented a huge increasing during the las decade but also new markets as FOREX has earned a lot of popularity.

These new markets have attracted new complex products that have a lot of risk to this people who do not know about it, and the efforts of MiFID II of protecting the investors are not enough. Instead of this products, the low interest rate scenario promoted the development of some products as investment funds in order to get more yields to the clients, and the private banking also offers investment funds to their clients but normally are funds with special requirements related with the amount of money that the client must invest. In the actual environment these products are the most popular among the private banking clients.

## **10.3 Main threats of the private banking**

### **10.3.1 Banking Digitalization**

Banking is a sector who must deal with the digitalization as all the economy, but if it is true that this sector is suffering the consequences more than other sectors, especially in terms of employment. The model of the typical office in the street is antique, and every year banks are firing people in order to reduce cost and destinate more efforts to the digitalization.

If the traditional banks want to maintain the leadership of the financial sector and avoid that fintech take out them the market share, the traditional banks must develop an effective strategy about digitalization, and they do not have a lot of time to realise this transformation because the changes are very quickly. Banks are not only suffering the appearance of new financial start-up companies such as Fintech, also they will have to deal with the technology giants such as Apple, Amazon, or Google, who have started to offer financial services, and with a cheaper and digitalized structure than the traditional banks.

Nowadays, the user is who decide whenever and wherever wants to do the financial operations or to see the financial services, and this point is related with the business channels that the clients must access to the bank, also with the client's experience. In this environment, the idea is that the client can borrow for a loan or open an account with his phone for example, but in the banking sector the security and the identification of the clients is one of the most important characteristics, and the digitalization will be able to solve these problems.

The other part of the digitalization would be the transformation of the internal process of the bank in order to create internal and external process that allow to reduce some elements of the intermediary chain, to increase the efficiency and reducing the cost of the process. For instance, to send documentaries between departments of the bank, to control the data of the clients by automatization process, or to sign internal documents in less time. (Asociación para el Desarrollo de la Experiencia del Cliente, 2018)

In the next years, we will see if the banks are going to disappear or just the banking will be a sector without physical presence. The most important agents will be the next: (Izertis, 2018)

- **Informatic applications:** they are the apps that all the banks have nowadays. They allow to the client access to their financial position and realize operations with their mobile device. It is easy to use by the client, cheap for the banks, and they increase the flexibilization.

- **Security:** this point is one of the most difficult of getting, because the data protection and the anti-money laundering changes have spent a lot of effort in the needed of having all the clients identify. Now, when the client is going to open an account or doing an important financial operation, the client must to go to the office and realize the formalities physically in order to be verified by the personal of the office. However, the banks are investing a lot of money in security systems to be able to verify the identity of the clients without the need of coming to the office, but also to the payment ways.
- **Artificial Intelligent:** inside of this category would be the automatic chats, which are developing by a boot who simulate a real employee who try to solve the problems of the clients. This kind of technology is at this moment using in the customer attendance, but the banks invest money in order to develop this technology also in the back-office.
- **Internet of things:** it means, the capacity of the new devices and new technologies to send information between companies and banks in order to improve the experience of the clients and to be able to offer a better service, but also, allowing the devices to realise payments, for example directly by the phones, which it is possible by the exchange of information between the bank and the app who allow the payment.
- **Blockchain:** this kind of technology is related with the cryptocurrencies, which has experimented a great increasing in terms of popularity in the last years, and these currencies has putted in the map the name of blockchain. Blockchain is a system based in the codification of the information, that allows transferring the information and the digital data thought a system that give full of security to the transfer, which is near to impossible of manipulate this transfer. Also, the transfer by Blockchain do not need the certification of an intermediary, and the information cannot be deleted. The applications if the blockchain in the future are several, but to the banks the most important will be the smart contract, which allow to the client and the bank doing contracts without intermediate with security. (Acciona, s.f.)

### 10.3.2 Robo-Advisors

Inside of the sector of the new technologies, the robo-advisors are one of the most important threats, not only to the private banking, but also to all the commercial banking sector.

A robo-advisor is name of an informatic advisor, who use algorithms to give us the best investments decisions in order to achieve our goal. To performance, we should give to the robo-advisor several data such as our age, familiar circumstances, revenues, horizon of the investment, and our objective. The robo-advisor will give us the best combination of investments to achieve the goal. Most of the robo-advisors are operated by fintech, and they need the support of a few number of workers, just to design the robo-advisor.

**Advantages:** robo-advisors are available always because they are not a physical worker who has to be in an office, and you can access to them wherever you want and whenever you want, also they are cheaper than the normal advisor because the cost of maintain a robo-advisor is very low. Moreover, the machine does not take into account the emotions or feelings of the market, so sometimes this is good because avoid following some tendencies of the market which follow more the feelings instead the real situation.

**Disadvantages:** we are dealing with a machine, and a lot of people (specially in private banking) when they are dealing about money, they feel more comfortable with a human than with a machine. Moreover, the machine performances by algorithms and they do not have in account some emotions that sometimes have a great influence in the market. But the great problem to the robo-advisor is that is only prepared to simply investments portfolio, but when the robo-advisor must take into account more variables maybe is not prepared for it.

**Conclusions:** robo-advisor is a reality, and they will have a long path in the next years, but in a sector as the private banking maybe they will not performance very well, because the wealth management is more complex than decide a simply investment portfolio, and the client in this sector prefers the personal dealing with the advisor.

Moreover, other aspects as fiscality, mobiliary, inheritance...are too complex to be managed by a robo-advisor. In my opinion, a robo-advisor is a good choice for people with a low wealthy and with simply investments objectives, because they can save money with the advisory, however, this method is better that it is blended with a personal advisor. (BBVA, 2018)

### 10.3.3 Passive Management

The passive management, which is representing by the ETF of Index Fund, is a threat to the private banking, which is earning a lot of popularity in USA, but in Spain is still with a few market shares.

A ETF is a mix between an investment fund and a share, because it is a financial product that you can buy as a share in the financial market because has a quotation in the stock market, however, the investor is buying a fund that replies the some index, such as the Ibex 35.

The buying of this kind of products is known as passive management because the management just buy a determinate ETF that replies the index, it means, the fund just invests in the companies of the index. For instance, a IBEX 35 ETF it will be an investment fund that will have a portfolio composed by the 35 companies of the IBEX and in the same proportion that these companies are representing in the index, with the objective that the movement of the ETF will be the same than the Index movement. Also, the passive management can invest in another funds that replies a determinate sector or market.

This kind of management is very dangerous not only for the private bankers, but also for commercial banking and advisory financial companies due to the commercialized of this kind of funds that the people can save money of commissions if they limit their investment in put their money in a ETF without have to look if is more convinced invest in one or another company, or in one or another sector, because the companies that commercialized this kind of products know that the variable income in the long term is profitable, and it is more preferable put the money in this products instead of paying money to an fund manager who is going to receive a fees by the service. In the other

hand, you do not have to pay fees, just the price of the ETF, which it will depend of the market price in this moment.

Nowadays, there are companies (especially fintech) that allow us to invest in a lot of ETF around the world, in order to create a diversify portfolio that trust in the general development of the variable income. Usually, this kind of service is going to be offer for people with a low wealth and with a few knowledges about financial markets, who does not want to be worried about their investments and who prefer save money from the fees of the traditional bank. However, in the private banking market is more difficult the successful of this product because the public of this kind of banking usually prefers a more aggressive investments, and if you reply an index is more difficult get a high profit.

## 11. Conclusions

In this section it is going to be exposed the main conclusions and ideas obtained based on the aspects developed in this thesis.

The general conclusion is that the Private Banking is in a point in which there are several fronts which are going to be difficult of beating, but the private banking sector has enough potential and weapons to get it. In the short-medium term, the private banking has to be able to establish a predominant position in the business if it wants to survive in the long-term.

The first front or “enemy” is the digitalization and the whole world around the fintech. They are not an exclusively problem of the private banking, also it is to the whole banking and to other economic sectors. The technological advance is impossible to stop, and the irruption of fintech is a reality which has obligated to the banks to improve their services and to reduce the structure cost in order to increase the efficient and competitiveness. This point is easier for the retail banking than the private banking because the second one depend of the personal contact with the client, which is one of the basis of the business in private banking, the dealing with the client and the figure of the private banker, so the efforts are directed to the assistant teams.

To deal with the problem in an effective way, the best option to the private banking (but also to others banking sectors) is to establish agreements with these fintech, buying some of them, and invest money in the digitalization, however, the private banking must invest with the purpose of doing the process more quickly and to reduce the platform cost without affecting the personal dealing with the client.

The other front of the private banking is the law system and compliance. Classic investment products of the private banking such as SICAVs are always in the spotlight of the governments due to the fiscal characteristics of this kind of products, which rise controversy between some sectors of the society. Besides this product, the law system is who change the fiscal system about another financial products, but also respect the income taxes and inheritance taxes, and this is something that affects the private

banking performance. The only way of facing these changes is with a good legal team that be able to solve design effective strategies to face the new legal environments.

However, the question which is causing the biggest headaches in the banking sector is the compliance, with all the regulation obligating the banks do an extra effort at the time of doing the operations that before did not have the same regulation than now. The measures of compliance in order to protect the investors or to avoid the AML for example, are going to follow developing in the next years, and every bank will need a specialised compliance team to face the regulation that come.

The regulatory authorities must applicate the same regulation over the shadow banking, it means, all this financial entities and activities that are not under the regulation, but they are closely linked with the traditional banking. Activities such as crowdlending or private equity are very common in the financial environment, but they are not playing under the same rules, and this is causing a disadvantaged situation in which the risks are very high due to the narrow relationship between the two banking worlds.

After looking the main challenges that the private banking has in the short-term horizon, it is important to see the strong points of this sector, which give us the idea that this is a sector that can overcome these problems.

The economy is in a situation of uncertainty, but the regulation measures have added to the financial sector some strengths to face a crisis in a better situation than in the last one, also, the economic perspectives for the next years are good, and the clients of the private banking usually can resist better a crisis. Respect to the threats of new competitors who can take out market share, most of the private banking have a reputation, history, expertise, and know-how, that allow them to maintain a predilect position in the market, maintaining the fidelity of a big amount of clients which has been built during years of years of effort, and the quality is the real key in this sector.

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