

# Death knell of private banking in Australia

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Jul 16, 2019

Australia has baffled foreign investment communities for quite a while, increasingly so after 1992 when compulsory superannuation helped grow what was 0.4 per cent of the world's adult population's savings into the world's single largest pot of wealth *ever* – more than US\$3 trillion (\$A4.33 trillion) at last count.

This single pot is larger than China's reserves of US Treasuries, larger than any sovereign wealth fund's collective wealth (including Russia or Saudi Arabia's) and even larger than any savings pool the US Federal Government or Reserve Banks have ever mustered.

Private banks globally began to salivate when they also realised that the composition of household wealth in Australia is heavily skewed toward non-financial assets, constituting about two-thirds of gross assets per capita, which for private banks translated into leveraging liquidity.

Better still, not only were financial assets less than one-third of total assets, average debt per capita amounted to one-fifth of gross assets, which is considered very low (or under-leveraged).

For a cottage industry such as private banking, famously aligned with Switzerland, it provoked much interest and resentment within boardrooms across Europe that not only was Australia's (and not Austria's) wealth per adult in 2018 \$US411,060 – making it the second-highest in the world after Switzerland – but that measured by median wealth, which ultimately matters most, Australia was "*numero uno*", with the Swiss second.

Despite this, and irrespective of the fact that Australia is still enjoying the longest uninterrupted economic cycle in history – with our last recession finishing in September 1991 – no domestic or international private bank has conquered affluent wealth management in Australia.

It is evident that not only are the [halcyon days over](#), developments in recent weeks show that the death knell of onshore private banking in Australia is approaching fast.

Last week the world's largest commercial bank HSBC unexpectedly sacked its long-serving Australian private bank CEO Hayden Matthews, despite the fact that Matthews was not only regarded as Australia's preeminent trusted advisor across Australia's wealthiest families, advising directly over A\$1.5 billion in managed wealth, his team was also on track to grow that to A\$2 billion by the end of the calendar year.

Matthews was respected across the philanthropic community, lauded by regulators as an example to others across the new and somewhat Orwellian Banking Executive Accountability Regime (BEAR) and considered by his peers as one of the best, if not the best, private banking has to offer in Australia.

But Matthews is not alone, with news that in recent weeks JP Morgan Private Bank has retreated from Australia, after its lateral attempt at banking Australian-domiciled private clients

via “booking” their fungible business out of Singapore in US dollars and “passporting in” potential overseas product – such as US hedge fund solutions or fixed income products – onshore. All perfectly legal and above board but, ultimately, too clever by half.

Name an international private bank, especially those emanating out of Europe or Switzerland, and since 1992 almost all have attempted and failed at capturing the Australian private banking market for any number of reasons: Dresdner, UBS, [Deutsche](#), ABN AMRO, Julius Baer, RBS Coutts, Adam Bank, EFG, Raiffeisen, Nomura, Pictet, Citi, Merrill Lynch, BNP Paribas, Bank Of Singapore, DBS and the list goes on.

The only exemption has been Credit Suisse, which is now the only true private bank service left in Australia.

Several domestic commercial and investment banks may purport to have or be private banks but by any internationally respected standard, they are not, nor should they present themselves as such.

Why Australia has been both a honey trap and a death knell for so many private banks is a labyrinthine set of challenges that all intersect and have formed the perfect storm.

The storm follows Australia’s recent banking royal commission plus Orwellian levels of international regulation, dubbed in the industry as “hypercompliance”. The tensions placed on Australian franchises of banks amid the US-China trade war have made Australia the "whipping boy". Making things worse, even family offices, private investment companies and billionaires' private wealth are migrating away from bank-offered services in many instances to exchange traded funds (ETFs).

At its best, private banking was supposed to provide select clients a steady pair of hands – to present unique investment opportunities unavailable (or difficult to access) by others and, when times turned sour, readily deployable defensive capabilities that would not only help stabilise volatile forces but ring-fence core wealth from arithmetic and geometric compounding capital losses.

But the "battle royale" with regulators, governments and prudential forces that followed the Great Recession has, a decade on, left private banks as Pyrrhic victors – technically winners but achieving this at a toll tantamount to extinction.

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