Private Banking in Global Era

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ABSTRACT According to evolutionary theories introduced by Charles Darwin and Jean Baptist Lamarck, survival in a permanently modified environment takes place through adaption. The same is true today in the private banking industry. Whether it is through circumstantial mutation, embodied by young start-ups, or through the transformation of existing institutions, only the ones who are willing to accept change and adapt shall prosper. This fundamental law of nature is more relevant than ever for the financial services industry, and particularly for private banking. The private bank of the future will have to pick a side. Either it attempt to resist change to protect its assets over the short term or it embraces change to develop a sustainable model for profitability. We are convinced that the second alternative is the only viable option. Banks must rethink their vision and the way they operate. Existing models have been subject to unbearable levels of stress, putting at risk the very survival of several of these institutions. “The old way of doing business in private banking won’t survive it’s history.” “Bankers themselves are often the ones blocking industry evolution.” “It’s the number of changes faced by the industry, rather than the nature of the changes, that lead to revolution.” “All banks want to be revolutionary but soon get caught up by reality.”

Key words **:** private banking

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INTRODUCTION

The word bank is said to be of German origin. It is similar to the French word ‘banque’ and Italian word ‘banca’ both meaning bench. The word bank might have derived its meaning from the practice of Jewish money changers of Lombardy, a district in north Italy, who, in the Middle ages used to do the business, sitting on the benches in the market place.

Banking has become a part of our day-to-day life. We need services of a bank for various personal and business needs. It is the single most important financial institution in the economic development of a country. In fact, banks are the economic backbone of a country. Therefore, for sustained economic growth and for sound financial system well functioning and sound banking system is necessary. Banking of technology with operations. For accelerating economic development and public convenience, more areas are being brought under the ambit of banking network.

INDIAN BANKING SYSTEM

Reserve Bank Of India, the ‘central bank’ of country, controls Indian banking industry. Banking in India can be classified into commercial banks, foreign banks, cooperative banks, regional rural banks, development banks, financial institution and non-banking finance companies(NBFCs). Depending on the ownership pattern, commercial banks can be classified into:

a) public sector banks,
b) private sector banks,
c) Foreign banks,
d) Regional Rural banks,
e) Banks in co-operative sector.

BANKING STRUCTURE

COMMERCIAL BANKS

Public sector Bank
State bank & its
Associate banks
Nationalized Banks
Private sector Banks

Old Generation
New Generation
Local Area bank
Foreign banks
Representative office
Regional Rural Banks
Co-operative Banks

Only the ones who are willing to accept change and confront the future shall prosper.

The hypothesis presented here is not a result of exhaustive quantitative analysis but is based largely on the interview we conducted between September 2011 and March 2012 with European and Asian banks. At the outset, the objective laid out was to identify the generic components required by the private bank of tomorrow. This is determined by one simple question: Is private banking experiencing an evolution or revolution?

PRESENT TREND

The management layer is closest to the client through its client relations and advisory services and provides the foundation on which the bank client relationship is built.

The management component is mainly compromised of front office function. Increasingly banks have focused solely on this layer. We have seen the emergence of centralization or out-sourcing of the asset management, trading and other middle and back office functions, with only the management layer present at some location.

In parallel, we have witnessed a rise in external asset managers (EAM) or independent financial advisors. EAM work as through they were the front layer of a bank, although on a much smaller scale. But the critical distinction is that they own the relationship with the client. Banks with an integrated model accept a certain level of business introduced to them through EAM, as the client account continue to remain in custody with the banks.

However, this arrangement is not without conflicts as the two players have overlapping roles. Friction can arise between relationship managers objectives, which are subject to asset growth, and EAM who are not under direct control of the bank. Also, EAM eat into the banks share by promising better and unbiased services to clients. It won't be long before banks become averse to pertaining a competitor.

Similarly, the question over the division of responsibilities between the custodian and EAM remain largely unresolved. EAM represent a rapidly growing segment of the private banking industry, although form of open architecture where they are faced to search for the best products to fulfill the clients asset allocation. The extent to which the EAM segment grow over the next decide will serve as an indication of how well today's private bank's respond to this demand for independent and value-added advice for their clients.

FUTURE PROSPERITY OF BANKING SECTOR

The underlying trends outlined thus for demand clear strategic decisions on the part of the private banks. There is no running away from a detailed introspection to define common values that will shape the structure of the organization. The market no longer offers room for the existing uncertainty or blurred value propositions.

The fundamental question is not simple. Nevertheless, it is essential for banks to confidentially define their course and decide on a consistent approach to the future.

An ideal institution will be built by acting simultaneously on different aspects of its business model and operating model. The overlap of various elements prevents treating the causes of dysfunction in isolation, especially since the business model largely determines the operational model. The various forces in play are closely interlinked, and for a total organization overhaul to be successful they all have to be improved simultaneously. This calls for a gradual shift in the way the industry operates.

"Nonperforming institutions will soon disappear and the split between players will become more distinctive."

The bunch marks should be changed to look at what other industries are doing today rather than what was being done [by private banks] 10 years ago.

The industry will see the rise of extreme business models.

Small and midsize banks will benefits by disintegrating the private banking value chain.

CONCLUSION

“We have been discussing change for the past 10 years. The ones who have not moved yet will suffer.” The fear of losing control pushes banks to simply both models and products.This is not an evolution or a revolution but a devolution. We need to go back to the origins of private banking.Building a niche is key to survival but building that niche is very difficult.

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Almost all quality improvement comes via simplification of design, manufacturing… layout, processes, and procedures.

Tom Peters