

# Canadian, compliant, confidential

Canada's banks have emerged from the financial crisis as some of the safest bets around. RBC Wealth Management chief executive Michael Lagopoulos tells **Nicholas Moody** about RBC's plans to exploit its links with Asia and South America and why Canada sits above Switzerland in the private banking world

Safe and secure are not sexy buzzwords, but Michael Lagopoulos remains unfazed. The chief executive of Royal Bank of Canada's (RBC) international wealth management division is trumpeting his bank's credentials as one of the world's safest private banks as its larger competitors battle to deal with the post-crisis landscape. RBC's dictat of compliant confidentiality looks to protect its clients but remains comfortable when regulators come knocking. It is now looking to expand its links with Latin America and Asia. The danger is that this safe attitude could hold it back from competing against the large global players.

"Our view is there is no point being rich if you can not sleep at night. There is no point having money if you can not be comfortable," says Michael Lagopoulos.

"We never believed in banking secrecy we believe in compliant confidentiality, so confidentiality and privacy around your affairs is absolutely critically important but it is also important that you be compliant," he adds.

Meshing together confidentiality and adhering to regulations is the biggest challenge facing the global private banking industry in the post-crisis era, particularly in Switzerland. UBS, one of the top three global wealth managers, has been wounded by ongoing wrangles with US authorities over the tax details of 4,450 clients. Many other private banks are reconsidering their banking models to keep onside with financial authorities.

"We have not seen the attack on UBS as a problem, quite the opposite," says Lagopoulos. "We use it as a marketing tool to say, this is why you should pay for advice, this is why you should structure your affairs in a proper fashion and this is why it is worth paying to be compliant."

As a result, RBC's Swiss bank has seen significant growth in client assets, rising from \$4 billion to \$7 billion in the past four years.

Speaking to *Private Banker International* in June, Mirabaud managing partner Yves Mirabaud said bank secrecy was still important despite Switzerland's decision to comply with the Organisation for Economic Co-operation and Development's (OECD) rules

relating to exchange of information treaties.

Lagopoulos takes a very different view. "We are just as paranoid about the privacy of our client affairs as any Swiss bank but we do not see ourselves as a safe haven from anybody or anything because we're not sure those safe havens exist anymore. If they ever really did," he says. "Our focus on Switzerland has never been on tax cheats, it's always been on people who are looking for safety and security."

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## Safe and secure

Sensible regulation and strict lending rules have provided Canadian banks with strong balance sheets and put them in an advantageous position for international expansion.

RBC is Canada's largest bank ranked by assets with total market capitalisation of C\$82 billion (\$79.4 billion). Wealth management is one of RBC's five core businesses, accounting for about 14 percent of the bank's total profit. The bank has been helped by a strong credit rating and healthy balance sheet.

RBC's wealth management business however extends far beyond Switzerland, serving more than 35,000 high net worth individuals and institutions through more than 34 offices globally.

Lagopoulos oversees about 11,000 people in four core segments: Three are distribution businesses and one is manufacturing business dealing trust, tax, investments, banking and credit. Its international business is licensed to service Canadian and American clients.



Michael Lagopoulos, RBC

Up until 12 months ago, RBC's international wealth business had grown profits by a compound annual growth rate of 30 percent over the past five years. The past 18 months have dented this heady rise.

In its second quarterly report to 30 April, wealth net income was C\$90 million, down C\$36 million or 29 percent over the past year primarily due to an unfavourable accounting impact of C\$68 million (C\$61 million after-tax) related to foreign currency translation.

Profits were also down between 12 to 14 percent partly impacted by the strengthening Canadian dollar.

Lower market indices, clients going more into advisory than discretionary services and client transaction volumes dropping during the past two years have all had an impact, says Lagopoulos.

"Like all private banks, the last 12 months have not been great. We have had spread compression on profitability. You can make a good spread when rates are 1-3 percent, pretty hard to make a spread on 25 basis points," he says.

The short-term slowdown does not overshadow a steady ranking rise. Based on year-end 2006 data, RBC ranked as only the 20th-largest private bank with assets

under management (AuM) of C\$150 billion. By 30 April 2010, RBC's discretionary AuM has risen to C\$250 billion assets, which includes its asset management business. Its Canadian, US and International wealth business had AuM of C\$44.4 billion to 2009 year-end.

RBC's steady AuM growth has been fuelled by a concerted hiring push over the past 4-5 years. The wealth management arm has hired more than 1,200 staff globally during the past year with more than 700 being client facing employees. Hiring emphasis has been in Latin America, the Middle East, in Switzerland to handle African clients, and India where it has hired a non-resident Indian team.

**Asian linkages**

Latin American and Asia are two regions RBC's international wealth business is giving special attention. Lagopoulos says the Canadian bank is closing in on acquisitions in Asia and Latin America.

"We are expecting that between now and the end of this year we will have a couple of things to report," he said.

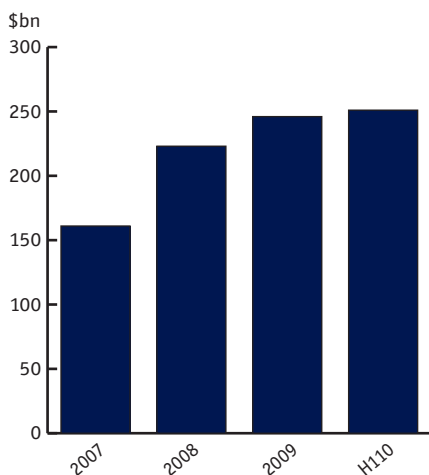
The growth of the Asian private wealth market is no secret. The 2010 *Merrill Lynch/Capgemini World Wealth Report* says Asia-Pacific high net worth wealth surged 31 percent to \$9.7 trillion in 2009, overtaking Europe's for the first time.

Lagopoulos wants to hone in on the Canadian link to the Asian market. Tapping into the estimated 100,000 Canadian passport holders in China is just one example of exploiting these links.

RBC has had wealth offices in China for the past five years, and operates hubs in Hong Kong and Singapore. Taiwan, Vietnam and Korea have also been identified as

■ **RBC WEALTH MANAGEMENT**

**Assets under management**



Source: RBC 2010 second-quarter results

important markets for new money going into Canada.

"The Canadian linkage to the Asian market is a very important one. China and India are important but also markets like Taiwan, Vietnam and Korea are important as well for new money going into Canada," he says.

"The linkage to Canada is something we push very hard and the benefit of being with Canada's number one bank is something that is very important to us."

Latin America remains other big part of its international plans. RBC has had a presence in the region for more than 100 years, with about 18 percent of client assets coming from the region.

The key markets are Venezuela, Brazil, Argentina, Colombia – with a smaller but important presence in the Caribbean, says Lagopoulos. It has built out its Latin American team in Toronto, New York, Miami and Geneva and spent "heavily" to build its client base in the region.

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RBC Wealth Management chief executive Michael Lagopoulos

**More private bank consolidation?**

RBC's desire to acquire leads Lagopoulos to speculate on wider industry trends. RBC has a history of purchasing highly professional business, its latest was in February 2009, when it bought Mourant Private Wealth.

He sees consolidation between private banks re-igniting prompted by the sell-off of international wealth businesses within banks that received state support.

Examples include Germany's Commerzbank which sold its international businesses Kleinwort Benson and Dresdner. KBC and ING also divested its Swiss and Asian private banking arms.

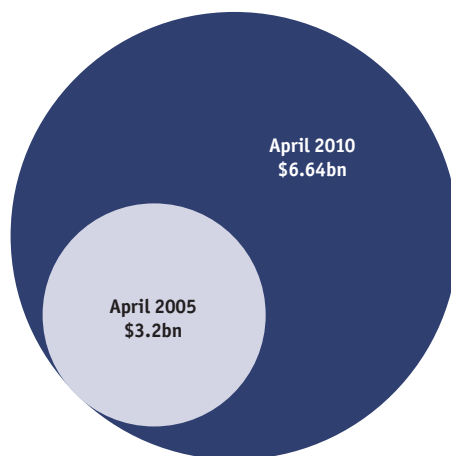
"We think there's going to be more consolidation. There are a lot of governments that stepped in to save banks, and they still own those banks," he says.

"The point of governments stepping in to save those banks was to save their local depositor, not to have them be the best Swiss bank in the world, or the best trustee in the Channel Islands.

"So where is the money going to get spent? Is it going to be spent on a better and better

■ **RBC WEALTH MANAGEMENT**

**RBC Wealth Management loan book**



Source: RBC 2010 second-quarter results

Swiss bank, or is it going to be spent on being a safer US or UK bank?"

**Big bank model**

Regulators in various jurisdictions may be eyeing up the one bank model for possible break up, however Lagopoulos remains upbeat.

"I am still very bullish on the big bank model – credit quality, safety and security and stability are going to continue to be important to clients. The way we've always sold our business is a 'boutique with a balance sheet'," he says.

When challenged about RBC's ability to genuinely compete against its larger rivals including Credit Suisse, JP Morgan, Bank of America/Merrill Lynch and Citibank, Lagopoulos goes on the front foot.

"I don't see that as a big deal, if you take discretionary assets you'd put where UBS was at \$1 trillion, can you do that much more with a \$1 trillion than you can at \$250 billion, I think you get to a size where it doesn't really matter.

"We are more than big enough to succeed, I think we are more than competitive – growth trends show – look at where we were five years ago and look at where some of the other players were five years ago and where we are today. I wouldn't accept that bigger is necessarily better in this business," he argues.

Looking ahead, the Canadian linkage with Asian and South American clients, is an important focus for Lagopoulos.

"When I started in this business 24 years ago I thought being a Canadian bank was a liability. Because nobody knew Canada, Canada's stake in the global economy has risen significantly," he says.

"About five years ago I would have said Canadian is about the next best thing to Swiss in this industry. Now I think it's the best." ■