

Building a wealth empire

RBC has developed into a top-15 wealth manager this year, at a time when many of its rivals have struggled. With regulation a key industry focus, the bank's experience of co-operating with regulators in far-flung places could give it an advantage. **Beatrice Arnfield** reports

Avoiding bad news is proving to be a selling point, RBC Wealth Management is finding. Thanks to the prudent management of its parent company Royal Bank of Canada, wealth CEO Michael Lagopoulos says the business is attracting clients who are unsettled by any hint of insolvency at other banks.

"In the past, clients may have used two, three, or even four financial institutions for their private banking needs," Michael Lagopoulos, CEO and President of the international arm of RBC Wealth Management, told *Private Banker International*.

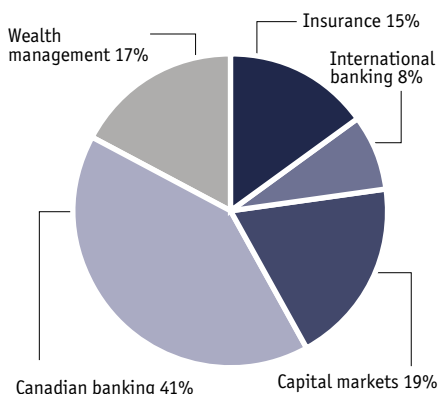
London, UK-based Lagopoulos heads the international arm of RBC Wealth Management, reporting to wealth CEO George Lewis, who is based in Toronto, Canada.

"What we've seen is that clients have been taking money away from hard-hit organizations and consolidating their assets with us and other highly-rated financial institutions," Lagopoulos says. He puts this down to RBC's AA- credit rating and the general strength of Canadian banks, none of which have had to be bailed out by the Canadian government.

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 Wealth Management has been quick to

REVENUE SPLIT

RBC – revenue by business line, five-year average (2004-2008)



Source: RBC

seize the opportunity to take market share.

With a core business of international trust, pension and inter-generational wealth transfer, RBC Wealth Management was slim in hedge funds, says Lagopoulos.

"We had much less than 10 percent invested in hedge funds and other illiquid assets, whereas our competitors had up to 50 percent investment," he says. "We had a lot in fixed income and cash. We also had index-linked notes and currency notes which are guaranteed by RBC."

RBC's conservative investment policy meant that, while clients did not receive the upside that they might have done from equity investments, they did get 100 percent of their cash back.

RBC's strong balance sheet also means that it has credit availability, while other banks have been cutting back and de-leveraging their balance sheets.

"A lot of clients are looking for credit availability," says Lagopoulos. "We are able to provide credit, where the collateral and client are suitable."

Lure of bonuses

"International private clients are not the only people attracted to RBC's strong balance sheet," Lagopoulos says, referring to the bank's increasing appeal to new recruits.

Hit by year-end bonus freezes and uncertain futures, a raft of top revenue-producing private bankers have joined RBC Wealth Management, where staff bonuses were not cut. These bankers bring with them their client base as well as their expertise.

This year, RBC Wealth Management has hired a number of bankers from rivals to expand its London office. In January 2009, a team of four from Citi were hired to serve non-resident Indian clients.

In February, US-based UBS private bankers Joann Holmes and Adam Edgell-Bush were hired to provide US-compliant investments in London.

RBC Wealth Management recently launched a new UK onshore business initiative to be headed up by Philip Harris, ex-head of UK wealth management at UBS. Harris has a remit to build a new team of



Michael Lagopoulos, RBC Wealth Management

private bankers focused on UK clients, Lagopoulos says.

Acquisitions

RBC Wealth Management has also been taking advantage of its parent's strong capital position to make niche acquisitions.

"It's a nice time to be in business and to have a strong balance sheet," Lagopoulos says. "We are one of the few people who are able to buy at depressed market prices when competitors need to deleverage or when they are forced by governments to sell assets."

Lagopoulos says that RBC is making the funds available for its wealth management arm to expand.

"We don't need a lot of capital to grow," says Lagopoulos. "We have great long-term client relationships, and we have produced strong returns over time for our clients with little volatility."

RBC CEO Gord Nixon confirmed his interest in RBC Wealth Management in an interview with CNBC on 1 June 2009.

"Wealth management is one of the bank sectors that is doing well," he told the television channel.

In February 2009, RBC Wealth Management acquired Mourant Private Wealth, a Jersey, Channel Islands-based international

private client trust business with operations in Jersey, Dubai and Cayman.

With over 1,000 employees in Jersey, including 44 from the acquisition of Mourant, RBC Wealth Management is one of the largest financial services employers on the island.

As well as making acquisitions, RBC Wealth Management has been setting up *de nouveau* operations in several locations. These include an onshore business in Brazil and new operations in Mumbai and Beijing.

When RBC Wealth Management opens an office in Moscow later this year, it will have operations in all four BRIC (Brazil, Russia, India, China) countries, where there are a substantial number of high-net-worth individuals.

"As well as wealth management, clients in these countries also want capital markets, merger and acquisition and IPOs," Lagopoulos says.

Trading on the strength of its Canadian brand, RBC Wealth Management is seeing above-average growth in these locations, particularly in Russia, which has an immediate affiliation with RBC, because both Canada and Russia are rich in natural resources, Lagopoulos says.

Regulation

An important factor driving the consolidation of private banking worldwide is the growth of regulation, according to Guillermo Kopp, Research Fellow at US-based consultancy TowerGroup. As an example, Kopp points to the US, where the high cost of compliance for private banks is providing an opportunity for Canadian banks to snatch boutique banks such as capital managers.

"Canadians know how to work with financial regulators," Kopp says. "They are not continually out to find loopholes. RBC too has a culture of ethics and compliance."

Kopp believes that RBC's credibility will help it attract clients in the US, where customer trust in banks is at a low point.

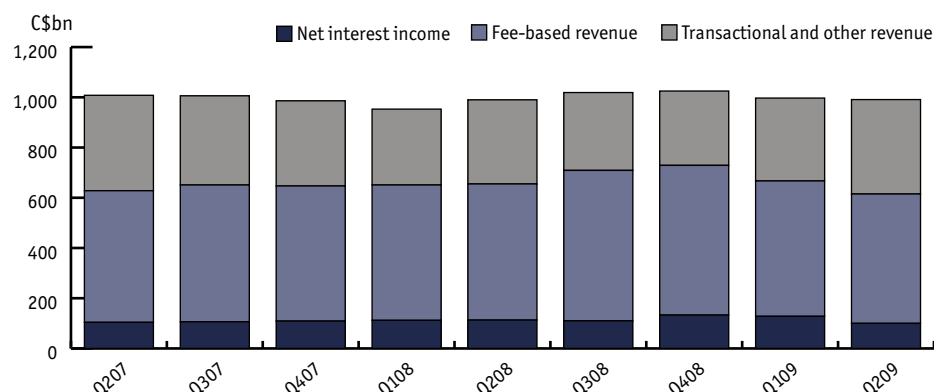
Lagopoulos sees no choice but to be compliant: "Regulators are flexing their muscles and the implications of non-compliance are severe," he says.

"We win trust around the world, because we have a reputation for being compliant and for working with regulators. It's the culture of RBC to be regulated, to run a compliant business, and to partner well with governments and regulators in countries. We have the advantage of coming from a well-regulated country."

Lagopoulos says that the way RBC com-

HOLDING STEADY

RBC WM – quarterly revenue by interest income, fees and transactions



Source: RBC

plies is to hire local people who understand local regulation and business.

"We also have segregation of duties," he says. "Risk managers and our compliance team report directly to head office, rather than to business managers, and they don't have a profit priority."

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Michael Lagopoulos,
RBC Wealth Management

Global reach

The main obstacle that could prevent RBC Wealth Management from competing with top wealth managers such as HSBC is the size of its footprint, says Kopp.

"RBC does not have the [global] reach of rivals, some of whom can draw on a retail banking network to attract high-net worth clients," he says.

Banks with a wide footprint are best placed to serve customers wishing to move money around in order to take advantage of the most beneficial tax regulation, Kopp says.

"As regulation tightens, being able to play across international jurisdictions is going to be a differentiating factor," he says.

RBC is at a strategic crossroads, according to Kopp: "Does it have the strategic will

to capitalize on the weakness of the US and Europe and play big in global wealth management markets?"

"In that case, it would compete with the likes of UBS, Credit Suisse, HSBC, Citi, JPMorgan Chase and BNP Paribas. These players are going to get bigger, and, if RBC decides to compete with them, it will have to put in a lot of work. The risk for RBC is to get trapped in the middle."

Lagopoulos says: "With 37,000 high net worth clients and US\$200 billion under management, RBC Wealth Management is already a first tier player. Internationally, we are not in the top 5 or the top 10. But we are in the top 15."

Lagopoulos admits that RBC's footprint is not as large as that of HSBC or Citi which own large retail banks.

"Instead, we focus on money centres, which have density of population," he says. "You have to spend a lot of time to get global coverage. When we acquire, we focus on operations that will bolt on to something we already do. That way, we build scale and profitability. The right way for us is to acquire people, small teams of people and pockets of expertise. But it is very important that our cultures match."

Lagopoulos says RBC is not going for global growth to cover every eventuality.

"We focus on strategy, not on a mission to replicate the likes of HSBC, as that is not within the strategy of our parent bank," he says. "We do the best we can with what we have."

For the five years to the end of 2008, the international arm of RBC Wealth Management saw revenue grow at a CAGR (compound annual growth rate) of 25 percent, and profits grow at a CAGR of 31 percent. For the last financial year, ROE (return on investment) was almost 39 percent.

"So our strategy is working," added Lagopoulos. ■