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Organisation Insight: RBC Wealth Management

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A commonly observed fact about wealth management today is how many clients of private banks are expats who hold assets, business affairs and work commitments in more than one country. And a firm that has made a specialism in catering to this increasingly mobile world is **RBC Wealth Management**.

Part of Royal Bank of Canada, Canada's largest bank and the twelfth largest bank in the world, RBC Wealth Management likes to stand out from its peers by offering integrated wealth structuring solutions and products to expats. A key word that keeps coming up in conversations with its executives is "international". This focus on the expat market is astute, since even though offshore financial centres are under growing pressure from revenue-hungry governments anxious to stem revenue losses, the convenience and expertise of offshore banking centres remain powerful reasons for their survival.

With that in mind, RBC has been busy acquiring professional services firms in these centres, such as trust companies, to build out its capabilities in different jurisdictions. In the last nine years alone, the international wealth arm of the Canadian firm has bought nine businesses, with the latest being its acquisition of Mourant Private Wealth in Jersey. More acquisitions remain on the cards. The firm is building up towards opening an office in Russia later this year, which will round out one core strategy of having offices in all of the BRIC nations, which it sees as large growth markets.

As a banking group, RBC has avoided some of the heavy hits sustained by its neighbours in the US, not to mention the big losses of wealth management rivals such as UBS, but it has not been totally immune to the economic climate. In its last results, for the three months ended 30 April, the wealth management arm of RBC reported net income of C$126 million ($114 million), a drop of 31 per cent, or C$56 million, from a year before. When these results were published in early June, RBC said this decline was due to the impact of a decline in fee-based revenue and transaction volumes. RBC has suffered from write-downs on RBC Centura, which was exposed to losses, principally in the US commercial property market. It has not been able to ignore the costs and time-consuming problems of unwinding some trades it had with Lehman Brothers.

“In terms of market capitalisation, we have gone from being the 25th largest bank in the world in 2007, to the 12th largest bank. The banks that have gone for a top-10 spot have had a problem; the market expects them to achieve that and if competitors change their risk model, then the competitors are forced to follow it. RBC, by contrast, is a bank with a long view and has a very strong and independent board,” **Paul Patterson**, regional head, British Isles at RBC Wealth Management, told *WealthBriefing* in a recent interview a RBC's offices in London's City district.

“The Board has always held the view that it does not want the capital markets business to get too big relative to the rest of the bank. Indeed, we have clearly stated that we don’t want the capital markets side of the bank to account for more than 30 per cent of group earnings,” he continued.

“Our banking operations have not been immune to what has happened in the US marketplace, but compared with other countries, Canadian banks and RBC in particular have weathered the storm better than most,” Mr Patterson said.

“Indeed, the World Economic Forum has ranked Canada’s banking system as the soundest in the world. None of Canada’s five banks has had to resort to government help in shoring up their balance sheets. Furthermore, RBC enjoys a healthy Tier One Capital Ratio of 11.4 per cent and is one of only seven banks in the world to enjoy an Aaa credit rating by Moodys,” he said.

Growth path

It has certainly been a bank on the recruitment path, contrasting with some of its rivals. Over the past year, RBC said the number of wealth advisors stood at 4,423 at the end of April 2009, which is a rise from 3,872 in the previous year. As *WealthBriefing* has reported, the firm recruited a team of advisors with over $250 million dollars in assets under management from Morgan Stanley Smith Barney for its Lemoyne, Pennsylvania office. In May, meanwhile, it hired the Galli investment team – which had over $3 billion in assets under management – from Credit Suisse for its San Francisco office.

So what makes RBC Wealth Management tick? The firm was keen to stress its international credentials and the underlying financial strength of its parent in what has been a trying time for the sector as a whole.

“We do see our brand as being unique in the marketplace. We operate with the same value proposition regardless of where we are in the world,” Mr Patterson said.

“We focus on the international high net worth individual – expats, clients with business interests in more than one jurisdiction, families located in more than country, or people with an international perspective on their investments. We have recently announced our intention to launch a new onshore business, which will focus on UK domestic clients,” he said.

RBC Wealth Management adopts the model of the “professional services firm”, a model that it says is ideal for fostering a long-term business culture – there is a distinct lack of a revolving door syndrome at RBC – and good in ensuring that any acquired businesses retain their own ethos. RBC's shopping list of acquisitions since 1998 throws some light on its strategy: Ernst & Young, Jersey (2000); Dain Rauscher Corporation (2001); PwC's former trust business, Abacus Financial Services Group (2005); Coutts Offshore European Corporate Trust (1998) and American Guaranty & Trust (2006).

Structure and segmentation

Across the banking empire overall, RBC operates five broad divisions of business: capital markets, global insurance, Canadian banking, international banking and wealth management. RBC's chief executive is **Gord Nixon** and the group head of RBC Wealth Management is George Lewis, who has been a member of the RBC Group executive board since 2007. RBC is large: it has a total of about 80,000 staff across all divisions. The international arm of its wealth management segment is also no lightweight, serving more than 35,000 clients out of 35 locations in 24 countries. RBC Wealth Management has more than C$450 billion of assets under administration and C$220 billion of assets under management.

RBC Wealth Management is one of several wealth management businesses operating under the RBC umbrella. Besides the international arm that includes the UK, Channel Islands, Europe and Asia businesses, there is the global asset management arm; Canadian wealth management and US wealth management.

As for the international wealth management division, it incorporates groups such as the British Isles segment that covers Jersey, Guernsey, London, Cheltenham and Edinburgh.

Mr Patterson reports to Michael Lagopoulos, who is president and CEO of the international arm of RBC Wealth Management. Other British Isles senior executives are: Steve Romeril, head of trust and Richard Brooks, head of tax. On the investment side, head of advisory is Phil Cutts, who joined the firm as far back as 1985, while Mark Evans is head of global wealth management for the British Isles, having joined from Merrill Lynch in 2002. Head of manager research, British Isles, is David McFadzean; Peter Lucas is investment strategist, working with Kevin Flanagan, head of investments at RBC Wealth Management. Head of banking at RBC Wealth Management is Chris Blampied and head of Corporate & Institutional is Alan Brint. Alison Creed and David McCrae were recently appointed joint heads of RBC's Corporate Employee & Executive Services, which specialises in administering global employee benefit plans.

As these business titles suggest, RBC Wealth Management has a strong focus on areas such as trust and tax. It offers services including tax advice, trust and estate planning, discretionary investment management, investment advisory, structured solutions, banking, lending and global custody.

So what led RBC to take this approach to wealth management? "It is related to the start of our business," said Mr Patterson. "When you look back to our original operations in the Channel Islands, with Royal Trust in Jersey and RBC in Guernsey, both were management firms with trusts expertise. Many of the firms we have acquired have been professional services firms and that has been very much our model," he said.

“Although our unique value proposition is the trust capability and doing complex multi-jurisdictional fiduciary and tax work, the business is very well balanced with one third of the business coming from fiduciary and tax, another third coming from banking and the final third coming from investments.”

One third rule

And that “one-third” rule, Mr Patterson said, is a key ingredient to explaining why RBC has avoided some of the problems of rival wealth managers with big investment banking cousins. The firm has not bet its balance sheet on the credit markets as some rivals have done.

When it comes to segmentation, RBC regards a high net worth client as someone with a minimum of $1 million in investable assets, and an ultra HNW individual must have at least $20 million. Additionally, the international wealth management division of RBC clearly requires that clients have an international set of requirements.

Strategy

Across its divisions, RBC Wealth Management has five core strategies for operating the business: broadening the relationship with existing clients; continuous improvements in solutions for clients; operational efficiency; lift-outs of clients and their managers from other firms, and acquisitions of companies.

When it comes to buying a business, Mr Patterson said there is a strict test. “There is a tremendous discipline that we apply…all nine acquisitions have been successful. We look for a good cultural and strategic fit. If we don’t find it, we don’t go after it. We look at the price and we don’t overpay,” he said.

But for all the strictness, the current market environment, which has seen a number of banks put up business units for sale to replenish their capital, is an opportunity for RBC. “We are seeing more and more properties coming on the market as competitors reassess their operating models. We are a buyer,” said Mr Patterson.

“We have been a beneficiary of a strong Canadian banking system…there have been strong flows to RBC throughout the credit crunch,” he continued.

“We have seen lift outs of teams from banks, who, for one reason or another, have been disenfranchised. Not only do clients see us as a safe home, so do bankers. We have recruited a Latin American team, a US-focused team, a non-resident Indian team and we are in the market looking for an East European team and a Middle Eastern team,” he said.

Trusts in a cold climate

The business environment for trusts is not easy at the moment, particularly as governments, such as that of the UK, have worked so hard to squeeze the tax advantages of these structures.

“It is fair to say that the planning opportunities for domestic clients have been limited over the last two years. If you have a UK resident domicile, then there are very few things you can do from an international wealth planning perspective. However, there has been a great increase in internationalisation; more and more people are moving from their home country for a variety of reasons. When you get that international element, the ability to run and plan your financial business in a neutral fashion is very valuable,” said Mr Patterson.

But the benefits of trusts and wealth structuring, notwithstanding tax and regulatory changes, are still considerable, says Mr Patterson. For a start, international financial centres, such as Jersey and Guernsey, can offer safety and stability, which is attractive to clients in fast-growing, but politically volatile, emerging market countries. In addition Jersey and Guernsey are centres of expertise and accumulated experience.

Mr Cutts, meanwhile, stressed that a firm such as RBC has deep experience of ensuring clients’ money is only invested in structures that have been rigorously checked, a fact that is more relevant than ever in the wake of the Madoff scandal and litigation surrounding sales of certain financial products.

“We are open architecture in most of the investment products that we offer which allows us to provide clients with the best solution to meet their individual needs. We also take great care in advising our clients - in our experience, clients typically overestimate their risk appetite,” Mr Cutts said.

“In selling any investment product to a client, it is important that we correctly evaluate their needs and ensure that the client also understands his or her own needs and the product that they’re looking to buy. It was no surprise, for example, that Lehman’s products priced very well – we explained to clients why that was the case and so, afterwards, they bought our products instead,” he said.

“We will never refuse a client a specific product but we will make sure that clients understand the products they are buying and the risks they are taking. We employ product experts to review and vet all of our products,” Mr Cutts said.

And Mr Patterson added: “We think HNW and Ultra HNW clients have product requirements that are so sophisticated that no one person will have all the expertise to deal with them.” In fact, clients may deal with one manager but that manager will typically work closely in a team structure. It is not unusual for a client to meet a team of managers rather than just his CRM, Mr Patterson said.

And while cost-cutting has been an inevitable feature of RBC’s business in recent months, there are some items that the bank has not cut, such as air travel for its client relationship managers, as maintaining contact with clients is considered essential.

RBC typically finds new clients as referrals from existing clients, while others come via intermediaries such as accountants and lawyers.

The wealth management operation outside North America is rather different from how the business operates in the US and Canada, said RBC’s Mr Cutts. “The

Canadian and US wealth management market is very much more brokerage-based and is on more of a transactional business model," he said.

Canadian firms may not be as brash, or always as assertive in projecting a corporate image, as US or indeed, European financial institutions. But Canada, a G7 nation which has managed, by luck and prudence, to avoid the worst of the credit crunch, has a solid banking industry that provides a good platform for wealth management in uncertain times. On recent evidence at any rate, RBC Wealth Management seems on course to build on that platform.