

In it for the long run: Weatherbys private banking

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by David Walker

Famous for holding thoroughbred prize money, Weatherbys is also attracting both new clients and talent to its private banking business, as investors search for more conservative management against uncertainty and a personalised service



Weatherbys is in the private banking business for the long run.

It has remained in the same family that founded it seven generations ago in 1770 to hold and distribute prize money for all UK thoroughbred races.

It still performs these functions, and registers all UK thoroughbreds' names and registers their jockeys' silks - hence its London office in Mayfair is fittingly decorated with portraits of treasured mares and stallions.

Weatherbys has also expanded to be banker to about 10,000 horse owners, through deposit taking and secured lending, which was a logical extension of overseeing the industry's prizes.

Weatherbys has been regulated as any other UK bank since 1994, and began private banking 12 years later. This year it introduced financial planning, and discretionary portfolios to the mix.

Leaving high risk to the races

Senior private banker Roddy Buchanan says the firm's racing industry clientele typically confine risk-taking to the track, preferring the bank to manage their cash and investments conservatively.

So, too, do clients from beyond these fields, who comprise over half the firm's new business.

“Preservation of capital is everything for us and in the financial crisis clients saw us as a safe haven,” says Buchanan.

Adrian Crichton, private banking director, adds: “The credit crunch was a time of huge recruitment in terms of new client balances.” Between 2007 and 2009 Weatherbys’ deposits grew 40% as many wealthy individuals migrated. It now has about £250m on its books.

The financial planning unit has steered clear of complex structured products that hamstrung some competitors and angered their customers, and Crichton says many of his clients find opaque strategies and derivatives an anathema.

The bank shuns them, and is also conservative in using its own risk capital, lending out at most 50% of the cash on its own balance sheet.

“Banks that had problems were lending 150% of theirs, whereas we were never going to have to wake up in the morning and wonder whether we could raise money from the markets to lend out.”

Getting to know the clients

Weatherbys takes an equally traditional approach to treatment of clients, preferring to invite them in for a coffee and conversation over impersonal web-based interaction.

Crichton says: “When we take a client on, we sit down with them for some time, and have a series of conversations about their intentions and ambitions for their family or life. Private banking is, or should be, about getting to know people and understand what their needs are.”

Weatherbys provide a full online banking service, including balance and transaction reporting, as well as internal and external transfers and payments.

Crichton says ensuring continuity in relationships with clients is crucial – but has often been lost in the high turnover of private bank staff.

“The frequency of change among private bankers can be a source of great frustration with clients in terms of services they get from their bank. When their banker moves on, the bank suddenly realises they do not really know the client at all.”

Another irritation common among clients, says Crichton, is “I only hear from my private banker when he has something to sell me, whereas I want to talk to him about a long-term plan’. You need to make sure what you offer is not all about the latest structured product off the production line.”

Weatherbys has recently recruited from Coutts, Adam and Co. Hoare & Co, each known for their long-term, and hands-on approach.

To avoid conflicts of interest with bankers selling product Weatherbys’ financial planning unit is open-architecture, and it assesses portfolios from the bank’s co-mingled fund management business for use just as it does any other provider’s products.

“Potential conflicts of interest can fundamentally destroy relationships with clients,” says Buchanan.

He says family-owned and run banks – Weatherbys and C Hoare & Co are Britain’s only two– avoid also the shareholder pressure listed rivals face.

“We are not driven by some pressures that exist within other private banks, where a client is a means to an end of satisfying the shareholder.”

Satisfying different risk appetites

As clients have regained some risk appetite since the financial crisis, Weatherbys has extended from cash management and lending, to offering commingled funds of funds from November.

Buchanan explains: “Given what has happened in terms of interest rates and people having been disappointed with cash rates generally, they have been asking what more a bank can offer them.”

The bank has four core models, each multi-asset class and global investing in about 10 onshore active and passive funds to achieve differing returns on various levels of risk.

The managers will be spread across mainstream asset classes, as well as in commercial property, commodities, and absolute return funds.

The risk each model takes is defined by comparison to the risk of holding 100% equities, as represented by the volatility of MSCI World, in sterling terms.

Gradations run from targeting cash plus 2% on 30% of equity risk, to making cash plus 5% on 90% of equity risk. Buchanan notes even the portfolio at higher end of the spectrum is quite conservatively managed.

“We will not be using complex products, but will use pure asset funds, with exposures tilted where appropriate by multi-asset funds,” Buchanan says. “We want products we can explain to our own clients, and that they can understand and recognize.”

Guernsey’s Asset Risk Consultants will assist in manager selection, monitoring performance, risk profiling and structuring portfolios.

Buchanan says ‘risk’ is a notion often misunderstood by clients, and defined in terms of past performance or volatility.

“The way various assets classes have behaved in the recent past has been fairly extraordinary, but lots of people ignore, or do not see that the world is changing.”

Emerging markets, once seen as risky, are now the main drivers of global growth, he says.

At the same time, the yields on 10-year gilts suggest this is not a risk-free investment, and Buchanan dubs it “frankly as a bubble waiting to burst”.

“The world has changed over the last few years, and you may have to look at a very different set of drivers, and of risk in that setting