

New charges aimed at less lucrative clients

Changing strategies

Higher fees seem to be one response to lower interest rates, writes Lucy Warwick-Ching

Private banks are throwing their weight behind their investment management arms and levying fees on customers who are not making the most of the full range of services on offer.

Coutts & Co, the Queen's bank, charges £600 a year to customers with a basic current account, unless they have £250,000 of savings, investments, a mortgage or a combination of these things with the bank. This fee has been in place for some time, but until recently clients with just £10,000 on deposit were exempt from the charge.

Other banks to have increased the minimum threshold for free banking in the past year include C Hoare & Co, which now charges £60 a month for each current account with less than £25,000, up from a previous minimum of £10,000. And Weatherbys private bank charges £480 a year for its core banking services, but waives this for deposits, loans or investments of £250,000 or more.

"With interest rates so low at the moment, it is just not sustainable for private banks to have a large number of clients holding small amounts of cash on deposit," says Christine Ross, group head of financial planning at Société Générale.

"That said, clients who want a personalised service often don't mind paying a small fee to get a better level of service. For example, those people who want to be able to phone their bank and speak to someone they know often understand that this personalised service will come at a cost."

Some experts suggest the fees for nominal bank holdings could be aimed at pushing less profitable clients back on to the high street while encouraging wealthier clients to hold more of their assets with a single bank.

"Fundamental banking capa-

bilities have been pretty unfashionable among private banks for some time," says Sebastian Dovey of specialist wealth management consultancy Scorpio Partnership. "Many of the operators in the UK really don't actively promote their interest in this area unless they are forced to."

He says that while C Hoare & Co. has been one of the few banks to celebrate its banking services, others, including Coutts, have become focused on investment management in recent months "because this is where the higher revenue streams are".

James Fleming, managing director of Coutts' London business, agrees and says the bank is now putting more emphasis on its investment management service as it is "beefing up its investment capability".

"The costs of this industry are rising, so in a falling interest rate environment we need the business to be more efficient," says Mr Fleming. "As competition in the market has been

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increasing, we have upped our game to create a better offering for the client - investment management is one area that people are particularly interested in."

Another area in which private banks have sought to tie in clients in recent months is through lending, with some tightening their lending criteria for large mortgages, insisting that clients invest cash with them in return for a loan, or to get the best rates.

Barclays Wealth this year introduced two tiers for lending, based on whether a client invests with it.

It now applies a higher rate of interest on loans to clients who hold only current accounts with relatively small sums and a



Coutts has raised its minimum threshold for free banking

Corbis

lower lending rate to those with accounts of more than £500,000 or other assets placed under management.

"Private banks have always given preferential rates to individuals who invest all their cash with them, but now some banks are introducing stricter conditions for lending," explains Nigel Bedford at largemortgageloans.com.

"To access the lowest rates via a private bank, clients often have to invest other assets with the bank's wealth management arm, but the amount of funds will depend on the bank."

Other banks are expanding their services to catch the most desirable clients.

Philip Grant, managing director of Lloyds TSB Private Banking and Bank of Scotland Private Banking, says: "Quality can only be reached by building a strong, lasting relationship with the client, where the managers and advisers gain a deep understanding of each individual's circumstances, including their short, medium and long term financial goals.

"Something that we have found particularly useful is developing professional specialisms within the private bank, so we can provide a more tailored and knowledgeable service."

The banks say the slight shift in sentiment away from current accounts reflects the tough economic climate in which they are now operating.

Declan Sheehan, chief executive at HSBC Private Bank UK, says transactional banking is a core part of the bank's service, but points out that the cost of providing current accounts has gone up, so the bank needs to make sure people have sufficient balances to pay for the extra level of service that clients expect from a private bank

"Retail banks charge fees for services such as cheques and overdrafts," he says. "Within private banks there is less opportunity to charge for these services so, over the long term, we look to earn some margin on clients' balances and through maintenance fees.

"Unfortunately, with interest rates close to zero now, all banks are earning little on client balances. Hence, the greater discipline about who is offered private banking services and the increase in account maintenance fees."

For some people - who are happy to do their banking online and do not need a relationship manager - HSBC's Premier Banking Service could be more suitable, says Mr Sheehan.

HSBC is one of many UK banks that now stipulate the value of assets the client must have.

For example, HSBC Private Bank will consider only those with £2m to invest, while Goldman Sachs International demands investable assets of £5m before it will look at new clients and Standard Chartered requires borrowers to have at least £1m in investable assets.

Coutts asks for clients to have £1m of assets and RBS Private Bank wants borrowers to open a bank account with them.

Some say the reason behind the increase in bank charges for individuals with lower deposits and the raising of the minimum assets held by a client is simple.

"Raising the minimums can provide a pretty simple screening process for getting the right type of clients," says Mr Dovey.

"Clients with that amount of cash have a higher probability of having at least five times that amount in investment funds and most probably have a lot more."