

Private bankers lower their hopes

With the Hungarian private banking sector facing a high risk of potentially losing its wealthiest clients as Hungarians take their business elsewhere, it is working on adjusting to the changed environment, including opening towards the high end of the mass market.

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The vision of Budapest becoming a Central and Eastern European financial center has become a distant fantasy, Blochamps Capital CEO István Karagich told the *Budapest Business Journal*. Far from attracting funds from foreign private clients, many private investors are seeking to geographically diversify their assets. So much for the ambitions of making Budapest the 21st-century financial center of the region, or the "Luxembourg of Eastern Europe," as envisioned by the Ministry for National Economy.

Funds deposited in foreign banks by Hungarians could increase by an annual HUF 40–50 billion in the near future, up from the estimated annual HUF 200–300 billion in previous years, according to Karagich. He pointed out that the value of Hungarian offshore deposits could exceed the HUF 2 trillion managed by the Hungarian private banking sector. Some of these assets return to Hungary as working capital, he added.

Why has capital flight accelerated? Blochamps puts the blame on the tax policies of the past ten years, the way private pension assets were placed under state control, the handling of bank secrets in Hungary and on

the shortcomings of the tax amnesty on repatriating foreign assets.

Another new development is that now even the upper middle class can join the political and business elite in taking their money abroad. "While the recent changes in the tax system could have theoretically strengthened the low end of the private banking segment, the experiences in how the government has handled private assets will urge clients with savings of HUF 20, 50 or 100 million to open accounts instead in Austria, Slovakia and Slovenia," Karagich said.

Rebuilding client trust will remain a top priority for bankers, as the unconditional trust financial advisors enjoyed before the crisis has disappeared, Karagich pointed out. Service providers are expected to restructure their clients' portfolios in order to better balance actual risks taken by customers and their true risk-bearing ability. As bank activities are nowadays under tighter scrutiny than ever before, banks also have to pay more attention to reporting and compliance.

Blochamps expects an expansion of supplementary services, which were previously considered unimportant, including such small comforts as a separate meeting room for VIP clients. Blochamps urges private bankers to expand the range of value-added services, such as advising clients on how to live a luxury lifestyle, including traveling, shopping and foreign education. Expert investment advice might be needed in investments in arts and real estate as well as tax and succession-related issues. Another important area is wealth management by what is known as a family office, a private entity meant to serve all the personal and financial needs of one wealthy person.

The number of private banking clients remains below 20,000 despite the fact that the number of such accounts more than doubled to more than 43,000 during the past five years.



THE HUNGARIAN PRIVATE BANKING SEGMENT

	2005	2006	2007	2008	2009	2010	2011*	2012*
Number of accounts	21,390	28,570	34,340	39,670	42,340	44,000	45–46,000	46–48,000
Assets managed (HUF trillion)	0.92	1.31	1.76	1.79	2.21	2.40	2.50	2.60

Source: Blochamps Capital Private Banking Database

*projection

As private banking clients often have more than one account, Blochamps calculated with an average 2.2–2.4 accounts per client.

The sector's profitability is showing a downward trend, thus the real challenge might be keeping the amount of assets managed at their current level, not increasing them, Karagich said. Hungarian banks will find it harder to keep their private banking customers, as the wealthiest with assets of several million euros will probably be served in Frankfurt, Milan, Vienna or London.

Based on Blochamps's current assumptions, if banks lose their high net-worth customers, they would strengthen their personal banking services offered to the high end of the mass market, where assets are of between HUF 20–100 million per client. The so-called mass affluent segment has significant growth potential as the market is virtually untapped, according to Karagich. He expects that in the medium-term, several banks will provide premium banking only rather than traditional private banking services. ■