New players emerge in private banking

Hungary's private banking market sees new players, such as fund managers, brokerages, investment firms and even insurance companies, while clients grow more cautious in the wake of the crisis. Wealth transfers abroad returned to their average level after peaking in early 2012.

Q: What are the main developments in Hungary's private banking sector?

A: The number of private banking clients in Hungary has remained unchanged for years, at somewhat below 20,000 despite the fact that the number of such accounts exceeds 45,000. As private banking clients often have more than one account, we calculated with an average 2.2-2.3 accounts per client. The combined assets of private banking customers held by Hungarian financial institutions are estimated to reach around HUF 2,500 billion.

As the private banking arms of big banks do not provide service alternatives for the customers compared to competitors, horizontal client acquisition strategies have stalled. New players emerged beside the traditional providers, such as fund managers, brokerages, investment firms and insurance companies. Although not yet seen in Hungary, in several Western European countries and elsewhere, new internet private banking service providers target customers with assets of between $100,000 and $1 million.

Q: How have customers' needs changed in the wake of the crisis?

A: Customers have become more cautious, more sensible and maybe demand higher quality services. But for sure they ask a lot more questions before they agree to buy anything. I do not think that Hungarian clients would be much less sophisticated or educated than foreigners.

Nevertheless, customers could easily be the winners of the turmoil of the past few years, as private bankers were forced to rationalize their businesses and enhance the effectiveness of their operations. There is now more emphasis on the education of both private bankers, with special training, and their customers, and I am not talking about sales' training here, which was sadly the only education line for years.

Q: What kind of products are sought by Hungarian private banking customers?

A: I think that the range of products available is practically unlimited. Hungarian clients have direct or online access to all the products they could possibly want in the world. There will always be new, innovative products, but the key is developing a good rapport between the client and the banker.

The quality of private banking services was one of the main topics of the last Heads of Private Banking Forum organized by BloChamps in Costes restaurant where we invited ten leading Hungarian private banking managers. The aim of the meeting was to discuss the main challenges of the sector, such as new regulation, data provision, cooperation with regulators, training and education of private bankers, etc.

Unlike bankers and investment service providers, unfortunately, private bankers who manage about 20-25% of private assets in Hungary have no institutionalized association. If they had one, they could have forced the government to act without so much delay, for instance, in January, when wealth transfers abroad peaked.

Q: Will wealth transfer abroad ever stop in Hungary?

A: Ever? Maybe... But seriously, there will always be wealth transfer, the question is to what extent and what volume. While wealth transfer reached an estimated HUF 200 billion per year during the past six to eight years, the government's tax amnesty brought back around HUF 26 billion in 2011 and more than HUF 50 billion this year. The National Tax and Customs Administration collected HUF 2.9 billion in the first seven months of 2012 and HUF 2.6 billion in 2011 in taxes on the repatriated assets, which are subject to a one-off 10% levy.

However, extraordinary events could always boost transfers abroad. There was a minor peak after the nationalization of private pension fund assets at the beginning of 2011, and a much bigger one at the beginning of this year when Hungary was in the epicenter of a financial storm. After adding up the estimated transfers of the biggest Hungarian companies, the grey and black economy as well as small- and medium-size enterprises, we believe that total transfers made in the first two months of 2012 exceeded HUF 150 billion.

Including SMEs in our calculations for the first time indicates that the upper middle class started taking its money abroad. According to our estimates, the average amount transferred by these people is around HUF 1.5 million per year per person, compared to the average HUF 27.5 million by the elite of around 10,000 wealthy Hungarians. While the recent changes in the tax system could have theoretically strengthened the low end of the private banking segment, experiences in how the government has handled private assets urged clients with savings of HUF 20, 50 or 100 million to open accounts in Austria, Slovakia and Slovenia. The situation is much better now than ten months ago, but it is important for both the country and the government to keep up re-established confidence to avoid what happened at the beginning of 2012. **GL**

CURRICULUM VITAE

István Karagich started his carrier in banking as a foreign exchange dealer in K&H Bank in 1990. Between 1993 and 1996, he worked as a money market dealer in BNP-KH Dresdner Bank. Before becoming the financial director of BloChamps Capital Financial Consulting in 2001, he headed the foreign exchange desks of various leading Hungarian brokerage firms. From 2003 to 2006 he acted as the strategic director of the publisher of business daily Napi Gazdaság, as well. Karagich has been the CEO of BloChamps since June 2010. The company is the organizer of the most comprehensive forum of the domestic private banking sector, the Hungarian Private Banking Conference. Karagich has passed the stock exchange professional exams of both the Budapest Stock Exchange and the Budapest Commodity Exchange, and was a member of the Hungarian Forex Association.

BACKGROUND

The Hungarian private banking market, which continuously expanded up to 2010, had become saturated by 2011-12. The recent extraordinary economic developments accelerated market concentration, which is expected to continue during the next couple of years. In early 2012, the upper middle class joined the political and business elite in taking their money abroad. Now they have only a bit more than two months left to repatriate their assets from offshore accounts, as the National Economy Ministry has no plans to extend its amnesty beyond the December 31 deadline. Legislation passed in 2010 offered private individuals the option to legalize their wealth or income held abroad at a preferential 10% tax and without any possible criminal consequences.