

Editorial

A viewpoint on the value proposition of private banking

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EDITORIAL NOTE

Individuals, Private banking refers to banking, investment, and other financial services given by banks and financial institutions primarily to High-Net-Worth Individuals (HNWIs), who are described as having a lot of money or a lot of assets. Private banking is a more specialized type of wealth management that caters to the ultra-wealthy. The phrase “private” refers to customer service that is more personalized than that provided by mass-market retail banks, and is usually provided by dedicated bank advisers. It mainly comprised of banking services (deposit taking and payments), discretionary asset management, brokerage, limited tax advising services, and some basic concierge-type services, all of which were provided by a single authenticated relationship manager until recently.

The majority of private banks defines their value offer along one or two categories and covers the basic demands on the remaining dimensions. Parent brand, one-bank strategy, unbiased guidance, excellent research and advisory staff, and unified platform are some of the dimensions of a private bank’s value proposition. To acquire a client’s trust and confidence, several banks use the “parent brand.” As a member of the parent group, these banks have a prominent presence around the world and offer private bank services. Private Banks that take a “One Bank Approach” provide an integrated offering to fulfill their clients’ personal and business needs. Few banks articulate their value proposition along this dimension because private banking entails determining a client’s needs and risk appetite and creating a solution to meet those needs. Most modern private banks use an open product platform and so claim to offer unbiased advice. They feel that there is no financial motivation to push proprietary items, and that the client receives the best of what they have to offer. A few banks

claim to have a “strong advisory staff,” which is reflected in the products they provide to their customers. A few banks also base their value proposition on their unified platform, or their ability to comply with all regulations while providing unrestricted service to their clients.

The globalization of the economy, as well as technical advancements such as the Internet and mobile phones, has forced banks to reinvent their value propositions and seek out new markets. In addition, banks offer a sample of private banking services at a cheaper cost than traditional private banking. These services are referred to as premium banking or priority banking. They’re aimed at customers with a lot of money. Although the accounts do not earn as much money as traditional private banking, they do add up to a significant amount of revenue for the bank due to the large number of customers. Premium banking consumers have access to the same products as private banking customers, with the exception that hedge funds and the ability to handle one’s own company accounts are not available. To put it another way, it’s wealth management on a smaller scale.

Like a commercial bank, a public bank can accept tax revenues and other government income as deposits, issue money in the form of bank credit, and lend at extremely low interest rates. Whereas private banks are obligated by their business model to exploit low interest rates by having to charge higher rates to borrowers, a public bank has no shareholders to pay and can therefore pass the low rates on to borrowers such as government agencies, local enterprises, residents, and students. At the same time, there is a hidden subsidy that functions as a transfer from taxpayers to borrowers because much of a public bank’s funding is coming from state deposits that otherwise would earn more from a private bank.

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