CHAPTER 25.

PERSPECTIVES OF DEVELOPMENT OF PRIVATE BANKING IN TRANSITION COUNTRIES AND EUROPEAN UNION[1]

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Abstract

Private banking is related to the individual wealth growth, although the financial crisis has slowed down the growth of GDP in many countries, we cannot ignore the fact that private banking has realized a significant income in the period of financial crises. The globalization process, mergers and acquisitions that follow the financial sector, bring this type of banking services to countries in transition. The goal of this paper is to present a processes growth in private banking sector, in the world and in those parts of Europe where only traditional banking services was used. Started from the analysis of wealth growth, regulatory changes and changes in the desire of wealthy clients in a manner of services and prices, the authors of this study indicate that private banking has the potential for growth also in transition countries because of potential growth of individual wealth.

Keywords: *wealth, growth, banking, services, financial sector*

INTRODUCTION

Private banking has a long history that goes back all the way up to the se XVII century, which is also the case with some private British banks. Yet the term wealth management (wealth management), has been used only in the last 15 years in a dictionary of financial industry. In recent years of XX century this terms has evolved as a response to the coming wave of wealthy clients with sophisticated desires. This clients want to actively participate in a managing of their wealth,

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despite the fact that they entrusted their wealth to Private banking sector which had to expand its portfolio of services through a variety of retail services and brokerage services. The private banking sector had to adopt much more to its clients because of provider a services that go beyond of services for mass retail banking. Wealth management has different meanings on different continents so in Europe it represents a traditional Private banking while in USA this term identifies more with investment consulting and brokerage transactions.[4] Wealth management services are divided in two main segments:

- Service unit- it doesn't represent only a balance sheet asset of wealth individuals, but also considers to a liability. Private banking deals with collecting, enlarging, maintenance and wealth transfer.
- Client unit- consider a clients with more than $1.000.000 of available funds in active capital ready for investment. There are several types of private banking but the most common are offshore and onshore private banking. The fundamental difference in private banking is between onshore and offshore. Onshore provides services of private banking in client's country- resident, where they onshore accounts. Offshore services clients who have offshore accounts, out of their home countries for reasons such as flexibility, legal regulations, tax incentives, confidentiality of financial statements, lack of adequate financial products on onshore market, low level of trust in domestic financial markets and need for geographic diversification as an answer on political and economic differences.

Banks involved in offshore banking are primarily strong and well-known brands, with great confidence and experience and high level of professionalism. On the other hand, Onshore banks are more focus on a network of local branches and direct relationships with customers, the so-called "user friendliness" of the bank.

Today there is a trend, which prefers onshore component. This trend is mainly present in Western Europe which brings into a numerous tax breaks to the countries. This trend is still not so popular in Eastern Europe, Latin America, Africa and the Middle East. In these countries the offshore component is still very strong. The level of wealth which is located in offshore banks monitors the level of growth for newly acquired wealth. The main offshore centers today are:

- Switzerland
- United Kingdom (Channel Islands, Jersey Islands, Gernzi and Man Island)

[4] Maude D., page 2

- Hong Kong
- Singapore
- Luxembourg
- Gibraltar
- Monaco
- Cayman Islands
- Bahamas
- Seychelles
- Panama
- The U.S. State of Delaware
- And many other centers such as New York, Miami

There are various types of offshore centers. PB in these offshore centers such as New York, London and Miami, offer a wide range of services registered in their name, while on the other side in Cayman Islands all transactions and accounts are registered on the offshore company name by booking centers.[5]

WHO ARE THE RICH PEOPLE AND HOW BIG IS THEIR WEALTH?

We separate wealth clients from mass market by the amount of liquid assets available for investment. Values that we use for easer separation are following: annual income, liquid financial resources, free resources for investment and net income of the client. The division within the group of wealthy individuals is primarily by the amount of their wealth. There is no official information on the state level about number of wealthy individuals. During the 90's of last century, a lots of PB have lowered their criteria for entry into the "exclusive society" and in the meantime, because of inflation, we are forced to conclude, basis on the various research and evaluation, what is the number of wealthy individuals in each countries or region and is it cost- effective entry into the before mentioned markets. Research on micro level is particularly controversial, primarily because wealthy individuals hide their amounts in their bank accounts, and they very often keep their funds on offshore accounts to avoid paying of various taxes. Also it is very difficult, especially for entrepreneurs and small businesses to separate personal and corporate wealth.

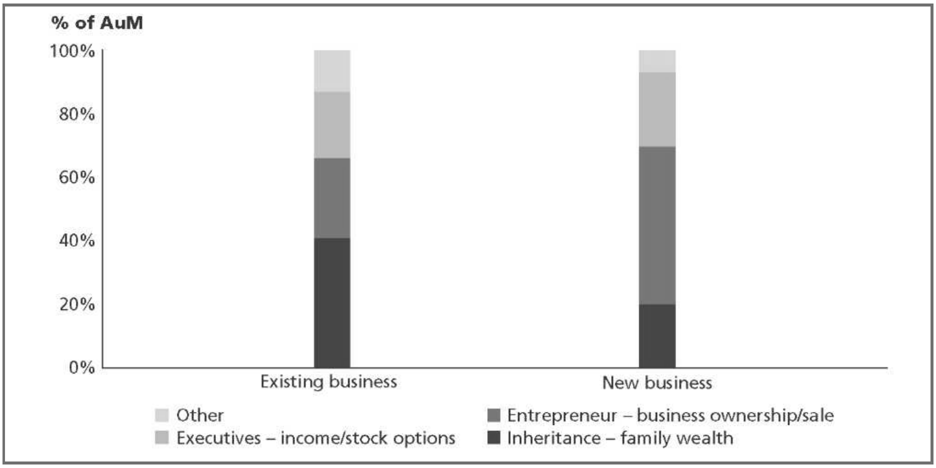
The conclusion is that it is not easy to estimate individual wealth, and therefore we can impose a variety of strategies and assessment. One of them is Capgemini/MerrilLyncgassessment, which estimates that on the end of 2009. The wealthy individuals worth $30, 8 trillion. According to another estimate called

[5] Maude D., page 8

Boston Consulting Group (BCG) the wealthy individuals worded$24, 5 trillion, and according to UBS's assessment it was $35, 4 trillion.[6]

The structure of owner's assets who use the services of private banking is changing with changes in conditions in global financial market. The structure of the wealth owners in 2008. Consisted of those who have inherited wealth- 38%, entrepreneurs- owners of companies 24%, wealthy managers- Directors 22% and others 18%. After the financial crises, this structure was changed in 2010, and the largest share in the wealth structure has entrepreneurs 44%, wealthy managers 25%, inheritor of wealth 18% and others 13%

Graph 1. Structure of the wealth origin in the period 2008-2010.



Source: www.mmc.com

Most of the estimates are based on a methodology that consists of two steps:

- First estimate the amount of total wealth- which is assessed based on annual statistical data, both states and private institutions, and that is mostly parameters like GDP, the carrying amounts of assets, market prices of production factors as well as securities.
- The assessment of how is that wealth distributed in a total population- this assessment is determined on a following way. In countries that have statistical data, data's from previous years have been used; a country that has no statistical data uses the statistic from the countries with similar characteristics. Data's of wealth distribution can be calculated based on "Gini coefficient" which measures the difference of income distribution between households and individuals in a

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relation with perfectly equal distribution. Values are range from 0 for perfectly pungent distribution and above. for example, in a country like Japan, where the "Gini coefficient" is 0.25 (distribution tends to the uniformly), and Brazil (which is the other extreme, this is the country with the largest estates stratification) the coefficient is 0.6.

In each of those two strategies for wealth assessment, we come to a single conclusion, that the market of wealthy individuals is large. This market represents a quarter of the world's financial stock which are consist of all deposits in banks, public and private reserves and funds, and it is dominated by rich people from Europe and USA. The wealth of rich individuals is larger than annual GDP of countries G8 group, and even 2.5 times larger than United States GDP. The average amount of wealth, from 8.3 million of wealthy people in the world, is $3.7 million. According to some estimates, over a third of wealth is deposited in offshore accounts. As we have mentioned most of rich people are in Europe and USA, so geographical factor also determines location for offshore in the region or on its fringes. The most popular offshore destination for Europeans are Switzerland, Luxembourg and the Channel Islands (USA), while for Americans that is Miami, federal state of Delaware State and destinations in Latin America, such as Caribbean Islands. As for the rest of the world, primarily for wealthy Asians, there are Hong Kong and Singapore. Switzerland however, imposed as a global offshore destination with more than a third of the total funds deposited.[7]

Individual wealth has recorded a constant growth since 1986, with brief unstable episodes. The average annual growth of wealth is 8.4%. The highest growth was recorded in late 90's, associated with strong growth of world value stock while the episodes of recession and instability in this market was recorded in the period 2000-2002. The market recovered in 2003. when the growth continued until today. The highest growth was recorded in the Asian continent, followed by European and American continent. Lately, the highest increase was observed in the Middle East. Global generators[8] are:

- Economic growth- in the long term, it has the greatest impact on wealth creation.
- The price of financial assets (securities)- the largest increase of wealth in 90's in USA, took place because of stock market value growth.

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[7] EMEA Banking Practice, *European Private Banking Survey 2011*, McKinsey & Company, July 2011, page 8

[8] Maude D., page 25

- Allocation of resources- there is a GAP between rich and poor people. In the USA, for example, 1% of the reaches individuals control 33% of total wealth, while 50% of the poorest population controls only 3%.
- Demographic factors- the target group are the clients between 40 and 65 years, which together with the Private Banker or alone, control their wealth (I generation of wealthy people), while successors (II and II generation) generally entrust their wealth to the banks. Today, younger than 40 years (I generation of wealth people).

There are generators that are specific for certain regions, such as:

- North America
- Western Europe
- Central and Eastern Europe
- Asia-Pacific
- Latin America
- Middle East
- Africa

North America- well known generator of growth such as high rates of economic growth and productivity, contributed with strong development of financial markets in USA, where North American investors hold more than half of its financial resources. Most of the wealth is stored on onshore accounts, due to a favorable tax system. The State is systematically, in the last few decades, supported development of entrepreneurship, and in the 90's the market of IPO has seen a boom and created a great number of millionaires and a billionaire (example Google's IPO 2005, when it was created 5 billionaires and 1000 millionaires)

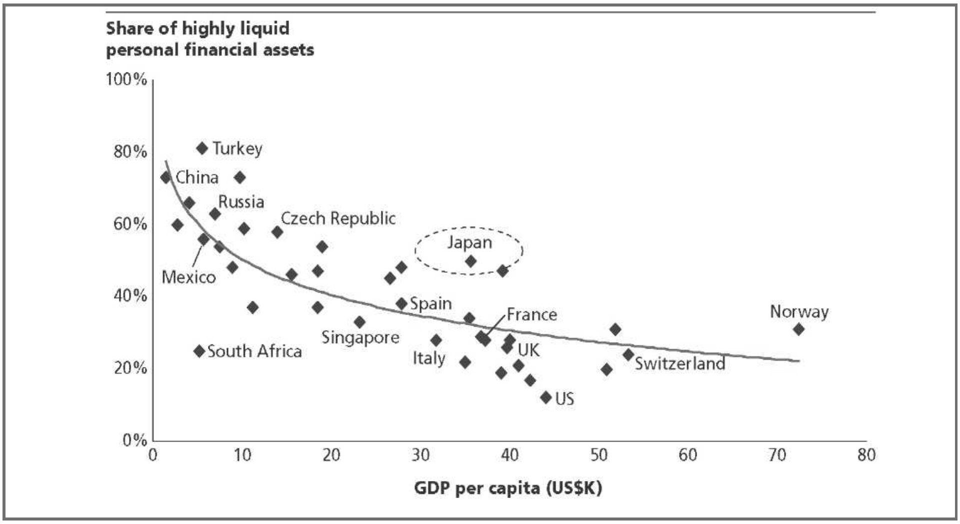
Western Europe- in this region there is a long history if inherited wealth, which is more common source of wealth than in USA. A great number of private companies, which are owned by wealthy families for decades, primarily in Germany and Italy, represent a huge market for PB. This phenomenon greatly contributes to the overall economic and financial situation in the region. A great part of this wealth is stored in offshore accounts as a result of fairly high tax burden in the most of European countries. It is generally known that the rich individuals and families always managed their wealth to private bankers and therefore they are known as conservative investors.[9]

Central and Eastern Europe- this regions are made of countries with transition character, which is from beginning of the post-communist era in the early 90's

[9] Maude D., page 29

recorded a steady economic growth and development with specific crises, which are in most countries overcome with help of foreign investment. Parallel to this, they created wealthy individuals with the growth of standards in that countries and their accession to the European Union. Countries that had most benefit from integration into the EU are Chez Republic, Hungary and Poland. On the other hand, there is a Russian, which by its vastness and especially a number of wealthy individuals who have made fortunes in the last 10 to 15 yearshas a big influence on Private Banking market. According to the research by the Polish magazine "VPROST", the 100 richest people of Central and Eastern Europe, the Russian took 18. of the top 20 places and there are 50 of them from the total of 100. Sources of their wealth can be found in the privatization of the rich oil sources and natural gas and other fossil for which world stock markets record a constant prices growth. With all this factors they have fast enrichment and corruption and chaos in legislation, especially in the first years of transition to capitalism and market economy from a socialist economy obsolete. Unlike Western Europe and United States in this region there is a lot of rich people under the 50. These data indicate the potential for private banking in the region. On the following graphs we can see that there is a potential for private banking in this part of Europe, especially in the Chez Republic, Russia and Turkey, which placed their resources in traditional cash asset, deposits and time deposits

Graph 2. Participation of the most liquid financial assets of individual countries in gross domestic product in 2009. year.



Source: www.mmc.com

Asian – Pacific region very strong economic development, more precisely in the last 25 years, which is recorded due to young population, cheap labor force, strong inflow of foreign investments and boost in real estate industry. This region is dominated by China (according to the newest data: the second world's in the number of billionaires) and its numerous emigrations in different parts of the world. For instance: Thailand where Chinese account for 10% of total population, and possess around 80% of the wealth. Also, these countries such as Singapore, Korea, Japan, Hong – Kong and Taiwan which together constitute the Chinese wealth. These countries represent the triggers with the highest economic growth (they are called: "Asian tigers"). India after China, is the second largest economic power in the region, 150.000 of 20 million Indian citizens who are not living in India are dollar millionaires. [10]

Latin America – territory of middle and south America, in the last decade has considerable growth of individual wealth, while on the other side, this region has the highest cleavages in terms of wealth distribution and economic classes. Mexico, Brazil and more specifically Argentina had its financial crisis in the last decade. Private Banking clients in Latin America prefer to invest its wealth on offshore accounts or to invest mainly in stable European or American markets. Reason for this is primarily the unstable political and economic situation in their home countries or in the region. Main offshore destinations are Caribbean, USA and Switzerland. The highest figure of wealthy individuals, Brazil is on the first place. [11]

Middle East – region where oil is the main generator of incomes. Wealth in the region, national and individual, comes from the "black gold" and it is owned by the small number of families, mainly royal families. Besides the fact that most of the countries have developed its economies and the main source of its incomes come from export of gas and oil, there are 5 types of wealth in the Middle East. Those are: classic inheritance, the first generation of the oil possession, early family business (in relation to the oil), female inheritance and funds supported by Islamic financial institutions. Most of these funds are invested in the offshore accounts (petrodollars) which reflects distrusts in local economic and political situation or undeveloped local financial market and institutions. In the last decades, countries in this region have marked a significant economic boom in infrastructure and tourism with important investments in these sectors.

Africa – markets which are led by oil productions, certain industrial raw materials and jewelry. Main markets are the Republic of South Africa, Egypt, Nigeria, and

[10] www.booz.com
[11] www.booz.com

some countries such as Botswana where the growing middle class presents the main target group.[12]

DEVELOPMENT OF PRIVATE BANKING AND ITS PRODUCTS IN THE MODERN WORLD

Scope of products and services of private banking in the previous years, has been increasing. The most important growth is in using structural products and alternative investments such as hedge funds, private equity and real estate's investments. In addition, there is an increase of scope in advisory industry. The goal is to diversify the portfolio of services and products which will meet requirements of clients, which are today more sophisticated in terms of products and more price sensitive than in the past.

Reasons for demand of new products from the wealthy clients' side, we explain by volatility growth on the capital markets and increased economical unpredictability in the world. In the last 10 years, there are changing trends in the field of private banking growth, but all trends were positive. During the fall of trends of capital markets between 2000 and 2002, most of the private banking clients were witnesses of decrease in the value of its assets and posted losses on the stock market, which led to growth in demand for services and products which would maintain the value of the assets invested. Morgan Stanley's research shows that after the crisis, polarization in assets management occurred. By this, we mean differentiation of alpha and beta investment products:

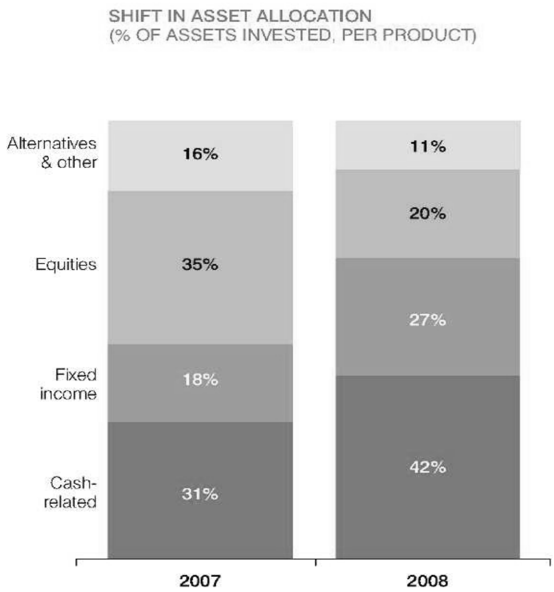
- Alpha products and services – with active investments strategy and important risk diversification with high return; alternative and innovative products and services.
- Beta products and services – passive investment strategy from the side of important assets management companies such as: *BGI, Northern Trust, Vanguard, Pimco...*

Market research from 2006, showed that European private banks had 15% of its invested assets in structural products and alternative investments. At the end of 2006, wealthy individuals and companies had 12% of its assets invested in alternative financial products, while 3% in 2000 provides information on attractiveness of the mentioned products. Also, there is a growth in pension funds and insurance companies' services which are tailored for wealthy individuals and big companies, which is a clear indicator for wealth maintenance. With increase of sophisticated clients in terms of products demand, private bankers start to apply

[12] Maude D., page 33

holistic (wider) view on services of investment advisory. The necessity of scope enlargement of products and services, encouraged private banks to apply so called "open architecture" approach, where the source of the best banking products are in: private banks, other institutions within banking corporations, financial conglomerates and even from other companies (which are out of banking corporations).

Graph 3. The structure of wealth investments in Europa until 2007-2008



Source: www.booz.com

The structure of wealth investments has been changed due to the financial crisis influence. Hence, due to the loss of incomes on the assets, on the graph above there is an increase of the percentage of cash-related instruments in 2008, this percentage goes from 31% in 2007 to 42% in 2008. The percentage of securities with fixed incomes rose from 18% in 2007 to 37% in 2008. The percentage of securities of equities has decreased considerably from 35% in 2007 to 20% in 2008 due to the insecurity of significant volatility on the financial markets.

With the increased demand of private banking products, some private banks (EFG) take the position that system of segmentation of wealthy clients has been solved which brings to the appearance of so called : "demarcation line". More precisely, this means that this lines is disappearing increasingly where all private banks offer almost the same level of services and products for all types of clients, and the only remaining segment are ultra-wealthy clients (with more than 50 million USD on assets to be invested). If we take marketing point of view, this phenomenon could be described as the fall of barriers between marketing segments, which could be called “democratization”. For example, a while ago, hedge funds were available only to ultra-wealthy clients, while today, almost everyone has access to their services. Private banking has also tried to promote “family office style” of investment management, which applies holistic approach to the wide scope of offered services.

Within new products and services which were developed in terms of private banking in last couple of years, we can differentiate the following services:

- Advisory services process
- Products with the purpose of index tracking (for those who are tracking and investing in stock market indices)
- Structural products
- Alternative investments
- Real Estate
- Loan services
- Other products and services

Advisory services process remains as the core as for private banking, also for assets management. Basic approach, described and illustrated below could be applied in four steps:

1. Determination of clients profile – all relevant information about client are collected in order to evaluate the risk aversion of the client and its needs and preferences, in accordance with investment mandate of the bankers.
2. Suggestion of investment strategy – on the basis of the clients’ needs and preferences, and the risk aversion of the client. The result is investment suggestion on the clients point of view of the risks.
3. Contract conclusion and implementation – after having defined the strategy, there is a portfolio construction in cooperation with clients and execution of relevant transactions. There is a possibility of usage software for portfolio control.
4. Monitoring – overview of business results with client and the analysis of financial sheets

Products with the purpose of index tracking are designed to follow performances of certain markets. They could be followed in a passive and active way. Mainly, they are observed on the long term. There are more types of instruments which follow indices with numerous banks, and it includes: fast trackers (they offer higher income in relation to regular trackers), inversion tracker (opposite trend in relation to price trends), bonus trackers , (with bonus performances and incomes) and discount trackers (the profit is in discounted value).

Structural products are today widespread in the offer of private banks, in order to decrease the risk on the invested assets. They could be used for securing liquidity and for tax solution purposes. Although, there is no consensus for product classification, we could divided into two groups:

Products protecting one security or its derivate from different market trends. Using call or put options, securities are protected from price movements and from the loss if the purchase or sale of certain security were planned. The risk protection of price fluctuation does not have to be complete. It could only fluctuate in the range from 80% to 100%. Different structure and name of products for capital protection can vary and could lead to clients confusion.

Hedge funds are different type of the investment fund, today assets of hedge is estimated to be more than 500$ billion. As investment funds, they accumulate funds from huge number of people and on behalf of them, hedge funds invest them. However, there are certain differences from traditional investment funds. Hedge funds have minimal requirement for investments from $100.000 to 20$ million. The usual minimum of individual investment is $1 million, hence considering the volume of investments, they seem to be appropriate for private banking clients. Federal law from USA, limits hedge funds not to have more than 99 investors (members). They need to have at least $200.000 not including real estate properties in its ownership. Most out of 4.000 hedge funds is located out of USA, in order to avoid tax limits. [13]

Comparing to classic investment funds, hedge funds require that investor invests its funds on the long term, mostly several years. Hedge funds charge high commissions to the investors. Annual commission is 1 %, while the commission on the profit reaches 20% and even more. The term “hedge fund” itself is confusing to a certain point, which mainly relates to risk avoidance. However, hedge funds do apply at all risk averse policy, on the contrary they take huge risks. The famous example of *Long Term Capital Management* with high class managers, 25 employees with PhDs, 2 Nobel Prize winners, 1 previous FED vice-president, and also one of the most successful traders on Wall Street, explains that hedged funds are not without risks. After FED intervention, which prevented the fund to go bankruptcy (in the following years, the fund went into administration),

[13] Mishkin F., page 295

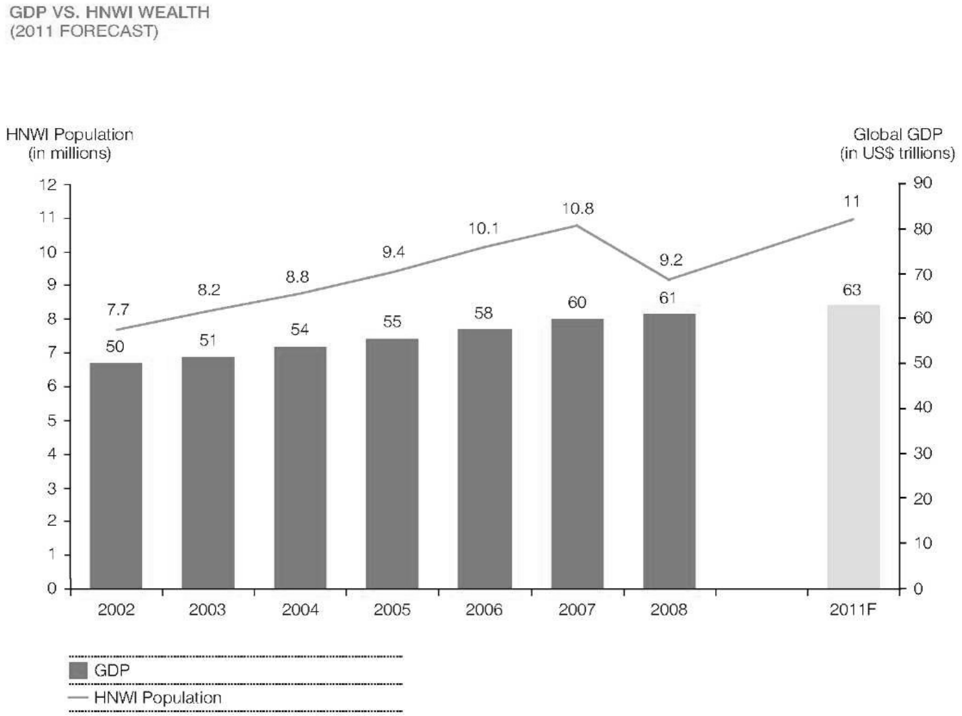
and in the same way stopped enormous shock in the financial system, most of the politicians in USA requested additional laws on hedge funds. Although, most of the funds do its operations off-shore, on locations such as Cayman Islands and being out of the USA jurisdiction, it would be difficult to impose regulations on them. The only thing that USA governmental bodies and governmental bodies from other countries could do is to advise private banks and investment banks to pay attention while financing hedge funds. At the moment, businesses that private banks execute on behalf of clients, are the contacts with secure and stable hedge funds and its managers in order to avoid investment risk.

Globally in the last couple of years, private banking did significant changes, while new challenges are expected with the world's financial crisis. Banks need to accelerate its potentials in order to use the growth of wealthy individuals. With the goal to increase profit based on the assets management of the existing clients and with the purpose to attract new clients, private banks must focus on further amelioration of clients relation and increase of clients loyalty. Private banks must pay more attention on clients monitoring and its satisfaction on the services performed, effectiveness of services, projected of new services and products, and improvement of distribution channels.

IMPACT OF FINANCIAL CRISIS ON PRIVATE BANKING AND ITS TRENDS

Private banking, as one of the most attractive segments of financial sectors, from the historic point of view, has always had positive profitable margin of 35 basis points on the invested assets, and sometimes more than 35% of gains and lucrative rates of return (between 2003 and 2007, the assets were growing an average 10%). After the financial crisis, 2009 has been a hard year for this sector, because incomes were low and profitability margins were low too. The reason for income decrease is the fact that most banks had to adapt to the new circumstances, more precisely in terms of products with lower margins of return, decrease of salaries costs, and selling operations in unprofitable markets. Applying these measures, banks managed to realize the positive result. Besides, the number of the wealthy individuals is increasing three times more comparing the growth of GDP, which is also one of the reasons for quick recovery of the private banking. In 2010, private banking industry records significant recovery reaching the level prior the crisis in 2008. On the following graph, we could notice the constant growth of wealth in the observed period of time, while slower growth was in 2008 due to the financial crisis. On the other side, GDP had a constant growth up to 2008. From 2008, GDP decreased by 10%.

Graph 4. Trends of GDP and HNWI Wealth until 2002 – 2011

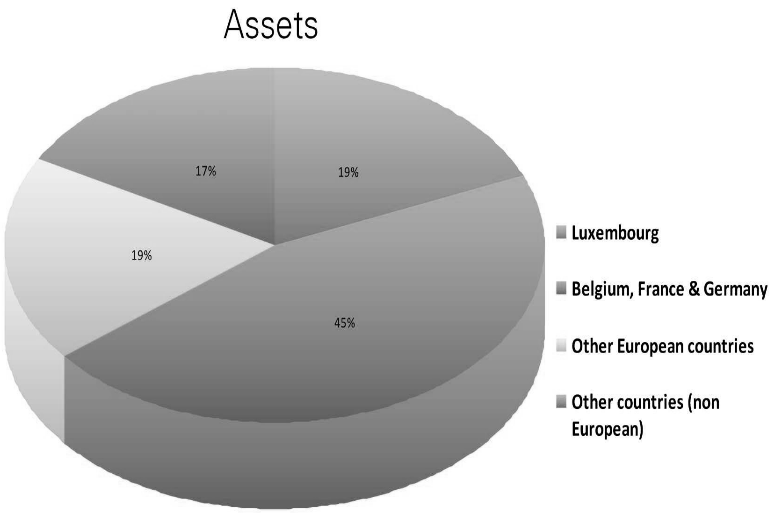


Source: www.booz.com

Onshore margins, in the meantime have fallen to just 11 basis points. However, offshore revenues remain more than 5 basis points higher in comparison with their competitors. One explanation of slightly bigger drop in margins profitability is because of reducing higher mass spread of customer base and because it has slightly higher margin of profitability. On the other hand, offshore products will be structured in a way to offer greater competitiveness compared to other products in order to attract wealthier clients - creating different options or other products that will be less relevant for a broader customer base. In Luxembourg, where customers from Western Europe account for 80% of managed assets, 5% of net outflows in 2009 were the worst result over the past 5 years. However, the results in 2010 are showing that the Banks are successfully structuring their solutions for the investment corresponding to the extremely wealthy investors while share of less wealthy investors are declining (37% in 2009 to 33% in 2010).

In addition, some private European banks also use Luxembourg as a link in order to service non –Luxembourg onshore investors across Europe.[14]

Graph 5. Structure of rich peoples financial investments in European countries in 2010



Source:www.ey.com

Based on Ernest Young's statistical data from 2010, we can see that the assets of the rich are 45% concentrated in private banks in Belgium, France and Germany, 19% in private banks in Luxembourg, 19% in the European Union and 17% in countries outside the European Union.

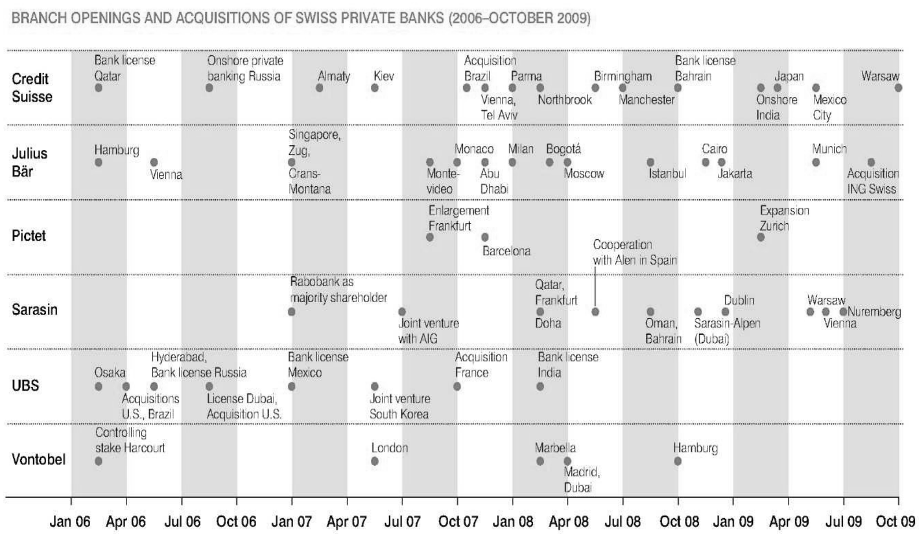
To ensure further growth of the private banking, whole sector is affected by changes in regulation. In recent years, European and local regulators have focused on consumer protection, mainly to reduce the risk of unjustified and illegal trading conditions and as well to increase transparency. Accordingly, the regulation of products (in relation to their complexity) and the potential ban of some products may put pressure and the impact on profitability in private banking industry. Some countries have already adopted the radical regulatory issues that will affect the behavior of fund portfolio managers, distributors, IT service providers and associations in this industry. In line with the Retail Distribution

[14] EMEA Banking Practice, *European Private Banking Survey 2011*, McKinsey & Company, July 2011, page *3*

Review, for example, supervisory body such as the British Financial Services Authority (FSA) plans to implement new regulations on packaged products of private banking, which are related to investment to the end of 2012. Re-watching MiFID is also concerned to redefine some already well-established rules of the game at the European level. Commission for the retrocession of products is very careful, especially in some jurisdictions of its mandate.[15]

After the 2008 global economic crisis, in addition to cutting back costs and quick adaptation, the banks engaged in private banking business have taken several important steps to strengthen their position and expand their operations in order to return to the profit margins which they had in 2007. First of all there have been many mergers and acquisitions between strong banks, which have thus strengthened the capital, expanded network of services, which represents a good basis for increasing profits. On the following graph we can see an example of the Swiss banks which spread their activities of private banking through acquisitions and which entered on those Eastern European markets where there is strong potential for achieving profits.

Graph 5.Opening of Swiss private banks branches through acquisition in the period of 2006-2009

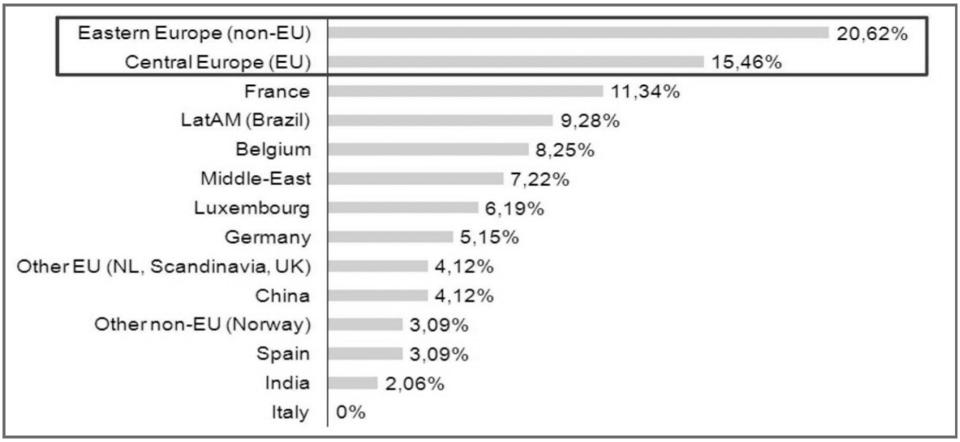


Source: www.booz.com

[15] Wyman O*, .The Future of Private Banking: A Wealth of Opportunity?, MMC, London*

Since there is a basis for expansion of business, Swiss Bank and Bank of Luxembourg, that have adapted quickly to new market conditions, have made that their target audience in the world should be exactly Eastern and Central Europe, which is indicated by the following data in Graph 6.

Graph 6. Plan for expansion of the Luxembourg banks activities in terms of private banking business for the next 10 years



Source: www.ey.com

It may be noted that the largest European centers of offshore banking will direct their business even with 20.62% in Eastern Europe, which mainly refers to the growth of rich people in Russia, and 15.46% in Central Europe, which together represents 36.08% of total business.

Banks need to rapidly develop their potentials in order to benefit from increasing number of wealthy individuals. The main source of profit growth is expected to be in the mid-market segment of wealthy individuals, the developed markets of Western Europe and North America and emerging markets such as Asia, the Middle East and Eastern Europe. Large number of private banks is rapidly developing potentials into three, according to them major new markets. These are China, India and Russia. There is an evident trend of onshore banking growth in relation to offshore.[16]

In South Eastern Europe, Croatia and Slovenia in the short term are very interesting destinations for private banking. But the problem for Croatia, Slovenia and Serbia is that they are not large enough to attract international private banking players. Major banks which are able to offer this type of banking are local,

[16] Maude D., page 258

because these states are too small for large foreign banks to enter in the market entirely. In Slovenia there are now 20 banks for about two million people. In Croatia, for 4.4 million inhabitants there are 32 banks operating.

In Serbia private banking as a term, and as a business, is almost completely abstract category. Many who say they know what private banking is, in fact confuse this term with similar terms, while the activity is identified as services provided only for VIP customers, which is just one feature of private banking, and not its description as a whole. Astonishing fact is that even the employees in the banking sector, does not know anything more about this banking activity. Customers who have crossed the barrier to enter in PB market, by size of their liquid assets to invest, have long been oriented to the private banks in Switzerland. Serbia still doesn't have sufficiently developed financial market with appropriate depth and width, although an enormous improvement has been made regarding to the previous situation, the legislation was still being built. In the initial stage of private banking development in Serbia, the most important is the education of private bankers and clear definition of what level of reputation risk the bank is ready to expose and clear definition of policy-customer business as well. It is necessary to determine with which type of customers in general bank want to do business and which private bank it wants to be. In Serbia barriers to entry into the category of private banking services amounts to €200,000 of assets for investment and a target group of clients are individuals with a minimum monthly salary of € 5,000. Potential clients in the Serbian market are successful managers, athletes, media personalities, former shareholders of companies. From products and services that may be of interest for the Serbian market, we can separate the deposit business, brokerage services, portfolio advisory services and tax advisory services (Tax Consultancy).

CONCLUSIONS

Private banks, which tend to remain leaders or to expand their activity must take five steps:

Mergers and acquisitions. Many banks retail banks are way ahead of private banks in multichannel integration, enabling customers to make an appointment with a counselor from another channel, or to inform a counselor if the client appears online.

The use of internet services. Even if many private banking clients continue to turn to their private bankers for advice and for purchasing products, even then there will be a growing number of clients looking for information via internet (comparison of products, for example). Many private banks have not yet decided how to shape this way of searching and how meet the customer's needs who are better informed.

Direct contact with service users. While 10 years ago, the video – interaction between banker's counselor and client on one hand and product specialists on the other was a challenge, today is totally feasible. We expect a large introduction of new solutions in the future. A certain number of banks are trying to increase physical interaction with the client through the example of using the tablets to enable customers to choose a particular offer. In the past 2 years, changes in regulatory requirements and the needs of investors demanded from private banks to begin to enrich their offer in terms of advice and focus on the client. In previous studies of managers dealing with clients relations, 53% said that they expect from the industry to move towards more modified solutions for clients needs in the next three years.

Offer, in the form of advice. Private banks have a need to develop their advisory role and to re-define their own rules of investing. Changes in regulations in the financial and economic environment, as well as in consumer confidence are raising the level of demand for structuring and more transparent advices and are creating the possibility for banks to respond to their requests. There is a double challenge: first, many offers as well as ways of investment must be strengthened or redesigned. Second, they must be delivered to the clients in accordance with the existing offer.

Redesigning offer of consulting services can occur in several domains:
- growing demand for sustainability, better compliance, lower costs and the transparency of risk will require a deeper commitment to sales, as well as more dynamic exchange of information's between clients over time. The new regulation redefined the complexity of products and introduced a control to whom these products can be sold - a new development that will create an additional burden for bankers and their system.
- Economic and financial environment - the financial crisis as well as the constant volatility are dramatically increased need for better information's on risk and tailored solutions for a better products that will be more suitable to clients.

Therefore, private banks must improve their counseling services if they want to justify the increase of cost asset management as well as to invest more in better reporting, informing clients, compliance and risk of investments.

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