INTRODUCTION

PREPARE FOR THE NORDIC WEALTH MANAGEMENT BOOM

Experts agree that the Nordic region's private banking industry will explode over the next few years. But how long will it take to catch up with Europe, and what models will it follow? Elisa Trovato reports

Nordic private banking is still at the beginning but it is going to boom, predicts Henrik Bak, senior vice president and head of institutional sales at Danske Capital, the asset management arm of Danske bank, the largest bank in Denmark and an important player in the Scandinavian financial markets.

"Wealth management will be a phenomenal business in the whole Nordic area for the next 15 to 20 years," he says. This development will probably trigger an increased interest from foreign firms wanting to enter this part of Europe.

All the four big Scandinavian countries, Sweden, Finland, Norway and Denmark, have been historically characterised by strong economies and higher GDP growth compared with the rest of European countries. However, government intervention financed by a high tax regime, in employment and other social services, explains to a large degree this wealth generation.

With the Nordic baby-boomers now reaching middle age, being approximately 10 years younger than those in countries such as UK or US, plans for retirement have largely increased, prompting a huge number of firms of all sizes to establish wealth management operations, says Mr Bak. This would explain why private banking or wealth management in the Nordic area is still trailing behind Europe.

At Danske Capital, the wealth management group headed by Morten Kyhn Sindby has the broader responsibility of defining the product range for all clients, from the ultra-high net worth to the mass affluent. All the banking activities of the group, which besides Denmark are established in Sweden, Norway, Northern Ireland, the Republic of Ireland, Luxembourg and recently Finland, following the recent acquisition of Sampo bank, source their products from this range.

At the Danish firm, the trend has increasingly been towards employing third-party products, following the decision four years ago to embark on a new strategy aimed at focusing on its core competence, while outsourcing all the rest. Aided by a fund rating and selection unit, the firm now enjoys the services of a select group of external managers, including Wellington and Chicago Equity Partners, which manage small and mid caps in the US, Aberdeen Asset Management running the global emerging markets fund, Schroders covering the China equity market and Daiwa and JP Morgan investing in the Japanese equity market.

Bak: private banking or wealth management in the Nordic area is still catching up with Europe

These managers, together with other speciality equity firms, manage around 25 per cent of Danske Capital's total equity assets. Mr Bak says the percentage of equity assets outsourced would be much higher if they hypothetically decided to "go for alpha" in the US, where 50 per cent of the fund house's total equity assets are invested on an indexed basis.

Fixed income, mostly regional, is one of Danske Bank's areas of expertise and is managed in-house, representing 60 per cent of the total €70bn of assets under management. The only exception is global high yield emerging market debt, run by ING.

Managers are employed on a sub-advisory basis and most of the money invested in third-party products is employed in building blocks used in white-labelled clients' solutions, explains Mr Bak. However, the same funds managed by the same seven to 10 managers are also available for direct distribution in white-labelling. The bank also offers a range of funds run by other managers but "this is limited".

Like in Finland, strict regulation makes the process costly and complicated for foreign firms wanting to distribute their funds in their brand directly off the shelves in Danish bank branches. This has prevented a higher take-up of this business model.

In this regard, perspectives are different in Sweden, and especially Norway, where fund registration is a speedy process. Luxembourg or Norway-registered funds reportedly obtain authorisation for being distributed in Swedish banks in a couple of weeks.

The number of foreign-registered funds available for distribution in Sweden has trebled to 3,000 since 2000, estimates Fredrik Pettersson, economist and head of statistics at the Swedish Investment fund association Fondbolagens Förening. However, many funds were registered in 2001 and the years after, in view of the investment opportunities offered by the Premium Pension System (PPM), which made it compulsory for employees to invest 2.5 per cent of their salary in investment funds. If in the premium pensions system, foreign funds may represent up to 10 per cent of total assets, the percentage of foreign funds sold through bank branches is definitely much lower for a number of reasons, says Mr Pettersson.

SWITCHING FUNDS

First of all, the Swedish investor is not incentivised to switch funds, as the current tax system, supposedly under review by the new government, still taxes 30 per cent on capital gains.

"We believe that a lot of investors have kept their Swedish equity funds since the 1980s," says Mr Pettersson, referring to when the Swedish equity investing and tax-exempt Allemansfond (literally "funds for everyone") concept was devised by the government to encourage savings. Although regulation changed in 1996 and funds no longer enjoy tax exemption and are not so oriented towards the Swedish market, the legacy of the past is that 97 per cent of the Swedish adult population owns funds, which Mr Pettersson says is probably the highest in Europe. However, the figure goes down to 72 per cent when the compulsory PPM system is not taken into account. The other major consequence is that the typical Swedish investor's portfolio is very much biased towards Swedish equities, he says.

> **"WEALTH MANAGEMENT WILL BE A PHENOMENAL BUSINESS IN THE WHOLE NORDIC AREA FOR THE NEXT 15 TO 20 YEARS"**
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"It is very common in Sweden to arrange a monthly transfer to a fund and this is the money investors would steer to a new fund, but they keep the bulk of their money in their old funds," says Mr Pettersson. The switching activity would be much greater if people could invest for the right reasons, to plan their portfolios, he says, as the first rule of investment they follow seems to be that of avoiding paying taxes.

SPANISH MODEL

A model of how open architecture could develop in Sweden is provided by Spain, which in 2003 abolished a similar system. By allowing Spanish investors to benefit from a wide range of funds available without incurring cost when switching funds, the new regime has favoured a huge increase in third-party funds sold through branches, capitalised on by companies such as Allfunds.

Swedish banks have tended so far to distribute their own products through the branches, with some variations. The country's four major banks, SEB, Svenska Handelsbanken, Swedbank and Nordea, are all at different stages with regards to offering third-party products.

SEB wealth management currently employs around 50 managers, having opened up to third-party product providers since 2000. Managers are awarded a sub-advisory mandate or third-party funds are distributed through the branches, typically in white-labelled fashion, says head of global sales and products Pontus Bergekrants.

"Externally managed products are quite a minor part of our total assets under management, but it is a growing part," he says. However, they represent a substantial part of net sales up to 40 or 50 per cent of the total flow, he adds.

Swedbank is also looking to strengthen its pilot test in open architecture, which was started in 2001 but has not met a huge demand from clients so far. "In the past two years we have seen increasing demand, particularly from the private banking division," says head of savings and investments Diviesh Vithlani.

The increasing presence of new managers in the Swedish market and the rising amount of foreign mutual funds listed in the country has contributed to client demand. The success of online fund supermarkets such as Nordnet and Avanza and the provision of third-party funds on a broader scale from insurance brokers compared with a few years ago has also increased the pressure, says Mr Vithlani.

As a consequence, a strategic decision was taken last year to offer an additional 30 funds which, from this month will be provided mainly by six strategic partners: Schroders, JPMorgan, HSBC, Fidelity, BlackRock and Alliance Bernstein. During the rest of 2007 there will be a full-scale launch in the Swedish market, also supported by the partners.

STRATEGIC PARTNERS

"We have a commitment from these six strategic partners," says Mr Vithlani. "If they want to be our strategic partner they have to have local salespeople and some presence in the market in terms of marketing activities."

Distributing off-the-shelf funds is at this stage more convenient than awarding an investment mandate, both in terms of brand and flexibility. "We would like to capitalise on the brand than asset managers have. Secondly, there is the flexibility to take funds out of the offering if they are not performing," says Mr Vithlani.

Robur, the asset manager arm of the bank, is responsible for the fund of fund business, labelled Swedbank Robur, where funds are managed by around 30 different managers. This product, unlike past third-party products, has been very popular lately, says chief executive Mats Lagerqvist. "It is easier for customers to invest in Swedbank Robur funds because they know the brand," he says.

And striking the right chord with retail customers is more important than ever in the Swedish fund market, where net flows in funds are decreasing. In 2006 the net inflows in funds, excluding PPM, were only SKr8bn (€870m), far from the average SKr42bn of the previous four years, according to the national investment fund association. Providing third-party funds could be a way to increase assets and avoid taking the risk that clients will turn to online brokers, says Mr Vithlani.

Patrick Hertsberg, head of asset management at Svenska Handelsbanken Asset Management, believes that "one day in the future our branch offices will also sell other mutual funds". Today, Handelsbanken branches sell only products managed in-house.

Third-party funds are employed in the €5.7bn fund of funds business, with Merrill Lynch, JP Morgan and UBS mainly providing their "best strategies". Merrill Lynch was also awarded a sub-advisory mandate for an Indian fund.

"We look for good reliable long-term asset managers that have a product portfolio complementing our existing one," says Mr Hertsberg. "We are good at managing Nordic and European equities or Nordic fixed income, but when it comes to the Far East and South America, we need better or bigger fund houses that can provide expertise."

Hertsberg: we look for good, reliable long-term asset managers that complement our existing portfolio

On this front, changes are also happening at Nordea, the pan-European fund house which has more than €160bn of assets under management. Eric-Christian Pedersen, head of retail products at Nordea Investment Management in Copenhagen, says the plan is to strengthen the existing fund and manager selection unit of seven people to offer Nordea's clients third-party funds on a broader scale.

"For high net worth clients we have offered access to 30 funds selected from the largest brands. Now we will bring that down to the affluent segment," he says, adding that they will be switching from a "preferred manager approach to a preferred fund approach".

Just because investors have heard about a brand, it does not mean that company will provide only excellent funds, says Mr Pedersen. "What we would like to be able to do is impress our clients by finding managers that they otherwise would have not heard of and better than the ones they see, say, in the newspapers."

In December last year Nordea launched its first funds of funds product made of external funds, the Luxembourg-registered Nordea Choice International, managed in Stockholm. The same underlying funds in this product will also be sold on a single fund basis through Nordea branches, says Mr Pedersen.

"Within the next 12 months we will probably have a range of funds of funds of that type, a European one and an Asian one, so that we can cover the whole spectrum, leveraging on this new team," he predicts.