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► To cite this version:

Jonathan Beaverstock, Sarah Hall, Thomas Wainwright. Servicing the super-rich: new financial elites and the rise of the private wealth management ecology. *Regional Studies*, 2011, pp.1. 10.1080/00343404.2011.587795 . hal-00724181

HAL Id: hal-00724181

<https://hal.science/hal-00724181>

Submitted on 19 Aug 2012

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Servicing the super-rich: new financial elites and the rise of the private wealth management ecology

Journal:	<i>Regional Studies</i>
Manuscript ID:	CRES-2010-0040.R2
Manuscript Type:	Main Section
JEL codes:	D14 - Personal Finance < D1 - Household Behavior and Family Economics < D - Microeconomics, G24 - Investment Banking Venture Capital Brokerage < G2 - Financial Institutions and Services < G - Financial Economics, J33 - Compensation Packages Payment Methods < J3 - Wages, Compensation, and Labor Costs < J - Labor and Demographic Economics, R10 - General < R1 - General Regional Economics < R - Urban, Rural, and Regional Economics
Keywords:	Financialization, Financial elites, wealth management, private banking, City of London

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Manuscripts

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3 Servicing the super-rich: new financial elites and the rise of the private wealth
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5 management retail ecology
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15 (Received January 2010; in revised form May 2011)
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1
2
3 Abstract
4

5 The ways in which individuals' everyday lives have become increasingly tied into the
6 international financial system has become a widely studied dimension of research on
7 financialization. However, the ways in which financial elites consume financial
8 services has received far less attention. In response, we combine research on financial
9 elites and retail financial ecologies to understand the private wealth management
10 industry that has developed to service these financial elites. Drawing on original
11 research on private wealth management firms, we argue that examining the
12 development and nature of this new financial ecology is important in understandings
13 of financialization and its uneven geography.
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29 Keywords
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31 Financialization, financial elites, wealth management, private banking, City of
32 London
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39 JEL Codes: D14, G24, J33, R10
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Introduction

The ways in which individuals' everyday lives have become increasingly tied into the international financial system has become one of the most widely studied dimensions of academic research on financialization. For example, MARTIN (2002) examines how households are faced with making decisions about financial risks and rewards that were previously the preserve of financial professionals in terms of what he labels the 'financialization of daily life'. Meanwhile, LANGLEY (2006a; 2006b; 2007) adopts a neo-Foucauldian perspective to examine how new financial technologies associated with financialization, coupled with neo-liberal state policies, have produced new financial subjectivities, arguing that through these technologies, more financially literate individuals, particularly in Anglo-American economies, are increasingly being urged by the State and private enterprise to link their personal finances with the international financial system (see, LEYSHON, *et al* 1998). The growth of financial products such as Individual Savings Accounts (ISAs), different types of mortgage finance and unit trust portfolios, and the increasing use of the stock market in providing pension provision are indicative of such developments (see, CLARK, *et al* 2009). Furthermore, work on financial inclusion and exclusion has demonstrated the consequences of this changing relationship between individuals and the international financial system by highlighting the differential ability of individuals to enter financial services networks (see, LEYSHON and THRIFT, 1996).

However, whilst this research has highlighted how the changing nature of retail financial services has differentially impacted on individual's everyday lives, only certain types of individuals have been studied. In particular, whilst much has been

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2
3 made of the financial exclusion of lower socio-economic groups, the ways in which
4
5 higher socio-economic groups are tied into the international financial system through
6
7 their financial consumption practices have been virtually entirely neglected. In
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9 response, in this paper we examine the changing relationship between new forms of
10
11 financial elites and retail financial services. We define new financial elites as
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13 investment bankers, corporate lawyers, senior employees in finance-related advanced
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15 producer and professional service firms, and private equity and hedge fund partners
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17 who have played a significant role in shaping processes of financialization
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19 (FOLKMAN, *et al* 2007). As a result of this work, they have enjoyed significant
20
21 personal remuneration, linking their salary structures and bonuses to the performance
22
23 of their employing firms (see, FROUD and WILLIAMS, 2007). Early on in the
24
25 financial crisis, widely dated back to late Summer 2007, the future of these financial
26
27 elites and their retail financial consumption patterns looked increasingly uncertain as
28
29 significant redundancies were made, particularly in investment banks, and their
30
31 remuneration packages became the subject of political, media and popular debate
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33 (AUGAR, 2009; FRENCH *et al*, 2009). Subsequently however, these elites have
34
35 demonstrated considerable ability at maintaining and reinventing their elite and
36
37 powerful position, working hard to ensure that the international financial system
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39 returns to ‘business as usual’ as soon as possible (HALL, 2009; FRENCH and
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41 LEYSHON, 2010). As such, understanding their retail financial consumption
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43 practices remains an important, yet neglected aspect of financialization.
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55 In response, in this paper, we report on original empirical research in order to
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57 document the growth of new forms of retail financial services that have developed to
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59 service and shape the demands and financial desires of these new financial elites in
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3 London. London's elite retail financial services provide a valuable case study since it
4 represents one of the preeminent clusters of such firms (INTERNATIONAL
5 FINANCIAL SERVICES LONDON [IFSL], 2009) and, by virtue of the transnational
6 nature of its contemporary financial labour market, investors with a multitude of
7 expertise and competencies, and of many nationalities, have the potential to service a
8 global client base with a 'home bias' in London's global financial markets. The
9 importance of 'home bias', the behaviour of intermediaries to allocate investment to
10 domestic rather than foreign markets (see, DUPUY *et al*, 2010; GROTE, 2007)
11 cannot be underestimated in contributing to London's preeminent position in the
12 global private wealth management industry. Indeed, as with other financial centres,
13 such intermediaries can draw upon the critical mass and agglomeration advantages of
14 London's financial community, in the form of access to expert labour (like investment
15 banks, corporate lawyers, accountants), inter-personal networks and regulators, in
16 order to use these locally-based geographical assets to further inform 'home bias' in
17 investment behaviour (also see, WÓJCIK, 2007; 2009; WÓJCIK and BURGER,
18 2010).

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43 Our arguments bring two literatures that have largely developed in parallel to one
44 another into dialogue. First, work on the changing nature of the global 'super-rich'
45 has documented the changing sources of wealth held by these economic elites
46 (BEAVERSTOCK, *et al* 2004). This literature stresses the shift away from a reliance
47 on inherited and establishment forms of familial wealth to 'new' forms of wealth
48 associated with changing executive remuneration patterns in all corporate sectors of
49 economy, but especially banking, finance and professional services. However, whilst
50 this work has acknowledged the role of financial services in *creating* this 'super-rich'
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3 transnational class, it has paid much less attention to how such individuals *consume*
4 retail financial services.
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10 We address this lacuna by developing work on financial consumers in different socio-
11 economic contexts (BURTON, 2008; LANGLEY, 2009; MARRON, 2007) in order to
12 examine how different technologies of classification (based on investable assets and
13 geography) are used to help shape customer demand amongst new financial elites. We
14 document how these processes have led a range of different financial service
15 providers including, high street banks, investment banks, insurance companies,
16 professional services and asset managers to develop retail financial services aimed at
17 new financial elites. We label this network of financial services providers *a private*
18 *wealth management retail financial ecology*. In so doing, we extend extant work on
19 retail financial services that has examined the geographically variegated nature of
20 financial services provision aimed at different socio-economic groups (LEYSHON, *et*
21 *al* 2004). This literature has compared relatively vibrant middle class suburban
22 ecologies populated by financially literate individuals and 'relic' retail financial
23 ecologies characterised by service withdrawal, typically found in poor inner cities and
24 peripheral local authority housing estates. However, retail financial services aimed at
25 high income earners have been entirely neglected to date. Moreover, by focusing on
26 the technologies that are used to stratify and manage customers within the private
27 wealth management ecology, we demonstrate how the geographical variation of
28 different ecologies is reproduced through the governance techniques of financial
29 service providers themselves. Understanding the growth of wealth management
30 ecologies in this way is valuable in developing understandings of the multi-faceted
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3 nature of financialization and everyday life, and its uneven socio-geographic
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5 consequences.
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10 We develop this argument over five further sections. In the next section we explore
11 how work on financial elites, retail financial ecologies and financial consumption
12 practices can be combined to develop understandings of the ways in which these
13 individuals are tied into retail financial services provision. Next we identify the
14 growth of the private wealth management industry, focusing on the technologies
15 developed to segment this industry both by income and geography. Then, in sections
16 four and five, we document the geographical and organisational variation in high net
17 worth (HNW) retail financial ecologies by presenting original empirical research into
18 private wealth management ecologies in the UK. Finally, we conclude by considering
19 the implications of this research for work on the geographies of financialization,
20 financial elites and retail finance.
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39 Financial elites, the rise of 'new' money and ecologies of retail finance
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43 The nature of financial elites in the UK has changed markedly in recent years. Prior
44 to the deregulatory changes collectively known as 'Big Bang' in 1986, these elites
45 were predominately formed through 'old boys networks' forged through schooling at
46 a small number of public, fee paying schools such as Eton and Harrow, and
47 universities, notably Cambridge and Oxford. These networks were, historically at
48 least, a central way of cementing trust-based relationships within financial services
49 (CAIN AND HOPKINS, 2002; MICHIE, 1998). Meanwhile, beyond finance, elite
50 networks were also forged through familial connections such that in the case of the
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3 UK, substantial wealth was derived through the inheritance of assets by the younger
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5 members of industrial families or through inheriting the wealth of the landed gentry,
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7 synonymous with the label of 'old' money (see, HASSELER, 1999; LUNDBERG,
8
9 1998). However, more recently financial elites are formed less by virtue of their
10
11 educational and social background, and increasingly through their working practices.
12
13 Most notably, as individuals working in finance and related advanced producer
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15 services have developed new financialised products in the 2000s, they have benefited
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17 personally in terms of a significant bonus culture and enhanced basic remuneration
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19 (JONES, 2003). As the think tank IFSL (2009, 3) has argued,
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27 “The main source of growth in private wealth originates from those involved
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29 in building successful businesses ... senior executives in large companies,
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31 who have substantial earnings supplemented by stock options and other
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33 bonuses; entrepreneurs that have become millionaires from successful
34
35 flotations and IPOs; and other individuals that have received the proceeds
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37 from selling to larger international groups”.
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44 Whilst the exact number of such financial elites and their associated investable assets
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46 are hard to estimate, not least because of the changing membership of this group in
47
48 the run up to, and following the financial crisis, the MERRILL
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50 LYNCH/CAPGEMINI (MLCG) (2008) *World Wealth Report* argued that the HNW
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52 population (which comprises these financial elites) grew +6.0% from 2006, totalling
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54 10.1 million with investable assets of more than one US\$ million.
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3 This shift in the derivation of wealth to so-called 'new' sources of money related to
4 work and bonuses in the financial services sector has been widely commented on by
5 social commentators (IRVIN, 2008; SMITH, 2001) and academics through work on
6 the 'super-rich' (BEAVERSTOCK, *et al* 2004). For example, MLCG (2002) stated
7 that as early as 2001, 63 per cent of European wealth was derived from non-
8 inheritance sources, compared to 79 percent of North American wealth. This trend
9 away from inherited sources of wealth has continued throughout the 2000s (Table 1)

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22 [Insert table 1]
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27 In addition to wealth generated through financial and related advanced producer
28 services, the wealth of global 'super-rich' is derived from what is known as a
29 'liquidity event' (SMITH, 2001) where entrepreneurs, or the owners of a family
30 business, sell all - or part - of their business through an IPO, increasing their wealth,
31 almost literally overnight. The rise of these 'new' forms of wealth has grown steadily,
32 and while these developments are more pronounced in the US, this trend is also
33 present in the UK with 'self-made multi-millionaires and millionaires' (see THE
34 SUNDAY TIMES RICH LIST, various years). Indeed, academic work on the global
35 'super-rich' has explored the changing geographical locations of their main residence.
36 In this respect, at a global level the dominance of Europe and North America has
37 increasingly been challenged by the growth of new financial elites found in emerging
38 markets, notably the Middle East and South East Asia, reflecting a wider shift in
39 financial power from west to east in the wake of the financial crisis (see AALBERS,
40 2009; FORBES, 2009; The SUNDAY TIMES RICH LIST; MLCG *World Wealth*
41 *Reports*). Meanwhile, research has also pointed to the continued concentration of new

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3 financial elites in particular sub-national regions such as London and the South East
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5 in the case of the UK, where the banking, finance and professional services that are
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7 important in creating new financial elites are clustered (see, BEAVERSTOCK, 1996).
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12 However, the emergence of this ‘new’ money does not spell the end of inherited
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14 wealth in the UK. The wealth of landowners in the UK is far from being insignificant
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16 (IRVIN, 2008), as the case of the landed wealth of the Duke of Westminster, for
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18 example, demonstrates. That said, the emergence of these new financial elites raises
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20 new questions surrounding their different retail finance needs, arising from their
21
22 sudden accumulation of wealth. In order to understand how retail financial services
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24 have responded to, and sought to manage, this demand, we turn to recent work on
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26 financial consumption practices and retail financial services.
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31 32 33 Ecologies of retail financial services in private wealth management

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35 Retail financial services offered to the global ‘super-rich’ have changed markedly in
36
37 the last thirty years. Historically, the UK financial services for the super-rich were
38
39 offered almost exclusively by private banks located in the City of London, like Coutts
40
41 & Co., Lombard Odier and Grindleys that were established to service the needs of
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43 individuals who had accumulated their personal wealth through ‘old’ money sources
44
45 such as inheritance, property, land ownership and manufacturing and extractive
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47 dynasties (HASELER, 1999; IRVIN, 2008) (Table 2). This began to change in the
48
49 1980s when many high-street retail banks began to offer private banking and premier
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51 accounts to a burgeoning ‘new service and middle class’. However, the most
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53 significant changes followed the deregulation of financial markets from the mid-
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55 1980s onwards in the City of London that led to the rapid growth of a ‘pure’ private
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3 wealth management industry. This growth involved a range of multinational
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5 corporations, small and medium-sized financial and professional service providers, as
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7 well as established private banks (e.g. Wachovia) and the private banking arms of
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9 many global banks, most notably by competitors from the US like Bankers Trust,
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11 Chase Manhattan, Citicorp and Merrill Lynch) (BICKER, 1996; FRANK, 2007).
12
13 Moreover, such institutions increasingly began to manage such investable assets from
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15 the 'offshore' jurisdictions of Switzerland, Luxembourg, the Channel Islands, Isle of
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17 Mann, Hong Kong and the Caribbean (e.g. the Cayman Islands) (MAUDE and
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19 MOLYNEUX, 1996).
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27 [Insert table 2]
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32 This growth reflects the ways in which financial services firms saw the new
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34 regulatory environment as an opportunity to cultivate HNW financial subjects as
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36 'active investors' (LANGLEY, 2006a) from whom they could make significant
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38 profits. As a result, the development of the private wealth management ecology
39
40 echoes the growth of retail financial services more generally in which different
41
42 technologies are developed by financial service providers in order to reproduce and
43
44 govern their desired (namely profitable) financial subjects or customers (see
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46 MARTIN, 2002; LANGLEY, 2009). For example, MARRON (2007) documents
47
48 how risk management technologies, particularly credit scoring techniques, were
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50 developed by lenders in order to foster and manage consumer credit markets in the
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52 US from the 1920s onwards. Summarising the ways in which technologies such as
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54 risk management technologies facilitate both the growth of retail finance and the
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3 concomitant reproduction of *particular* financial subjects as customers, LANGLEY
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5 (2009: 1410) argues that,
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10 “The government of contemporary mass financial markets can [...] be seen to
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12 feature the moral, political and technological assembly of subjects who not
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14 only meet their outstanding obligations, but who entrepreneurially manage and
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16 manipulate those obligations to maximise their freedom and security.”
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22 Given the profitability that retail financial firms saw from transforming new financial
23
24 elites into wealth management customers, their services moved away from the
25
26 ‘traditional’, established private banking business model that revolved around deposit
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28 taking and payments, limited asset management and tax advice, and brokerage,
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30 offered by a, “single designated relationship manager”. Rather, the newly emerging
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32 wealth management industry can be defined by its financialised business model in
33
34 which it provides financial advice, not only to protect investments, but to accumulate,
35
36 grow and transfer wealth between generations. Indeed, it has developed in order to
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38 service a higher volume customer base who, following processes of neo-liberalisation
39
40 and financialization, are encouraged to both take and manage risks by tying their
41
42 investments more closely into the international financial system in order to secure
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44 higher rates of return. As a result, an industry once dominated by private banks and
45
46 ‘family-connected’ stockbrokers is now a significant global industry spanning
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48 banking, financial services, insurance, real estate and traditional professional services
49
50 (accounting, legal), with many, if not all, of the global financial and professional
51
52 service firms highly active in this market both ‘onshore’ and ‘offshore’ (MAUDE,
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54 2006, 1-2; BICKER, 1996).
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6 In terms of the nature of the financial services developed to service these individuals,
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8 MAUDE (2006, 1) suggests that:
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12 “There is no generally accepted standard definition of wealth management –
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14 both in terms of the products and services provided and the constitution of the
15
16 client base served – but a basic definition would be financial services provided
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18 to wealthy clients, mainly individuals and their families.”
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24 That said, the services offered to the HNW market and mass affluent (MA) range
25
26 from asset protection, through tax and estate planning to services related to trusts,
27
28 insurance and private annuities (MAYER and LEVY, 2004). Whilst it is impossible
29
30 to quantify the actual number of players in private wealth management in the UK, one
31
32 can distinguish between the main types of players involved in the market (MAUDE,
33
34 2006):
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- 37
38 • Private banks who target HNW individuals (HNWIs) and are perhaps the most
39
40 significant players in the market;
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44 • Trust banks (US private banks) who mainly target so called Ultra-HNWIs
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46 (definition discussed below);
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50 • Universal and retail banks who target the MA and HNWIs from their existing
51
52 clientele and portfolio of business;
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- 55
56 • Investment banks who target Ultra-HNWIs;
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60 • Family offices who serve the wealthiest and top-tier billionaires in the US
(c4,000 families) and Europe (c500 families);
- Financial advisors serving both HNWIs and the MA;

- 1
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- 3
- 4 • Stockbrokers;
- 5
- 6 • Asset managers;
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- 8 • Product specialists (e.g. hedge fund providers);
- 9
- 10
- 11 • Insurance and other professional services who target HNWIs and the MA.
- 12

13 Banks (as listed above) are the most significant players in this market for private
14 wealth management, who still retain their private banking function (Table 3).
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20 [Insert table 3]
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25 In this paper, we conceptualise this emerging private wealth management industry as
26 an ecology, thus making a significant contribution to the recent work in other areas of
27 retail financial service provision (see, LEYSHON, *et al* 2004). The metaphor of
28 ecologies has been developed in order to overcome the neglected spatiality (in both
29 production and outcomes) of financial services associated with the use of network
30 metaphors. In particular, ecological metaphors emphasise the ways in which,
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41 “...certain arrangements emerge that are reproduceable over time. These
42 processes unfold across space and evolve in relation to geographical
43 difference so that distinctive ecologies of financial knowledge and practice
44 emerge in different places.”(LEYSHON, *et al* 2004, 627)
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53 However, whilst work on ecologies is instructive in its geographical focus, to date, it
54 has not considered in detail how different industry technologies, such as credit
55 scoring, shape these ecologies. In response, we focus on two technologies that have
56 played an important role in shaping the development of the wealth management
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3 ecology (investable asset classification and geographical differentiation) in order to
4
5 understand not only the geographically variegated nature of wealth management
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7 ecologies but also *how* this variegation emerges from the use of such technologies.
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10 Using this approach, in what follows we explore the development of one case study
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12 private wealth management ecology found in the UK, centred on London and the
13
14 South East of England. This case study is valuable because, in addition to being one
15
16 of the most important such onshore clusters globally for wealth management, where
17
18 intermediaries have the opportunity to benefit from close-geographic ‘home bias’ in
19
20 investment behaviour in a global financial marketplace (as outlined by DUPUY et al,
21
22 2010; Wójcik, 2007; 2009), alongside New York, Singapore and Hong Kong (IFSL,
23
24 2009), it is also intrinsically international in nature, given the international financial
25
26 elite labour markets that it services.
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34 Private wealth management market technologies and the nature of the high net worth
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36 financial elite
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41 The development of private wealth management ecologies has relied on two related
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43 ‘technologies’: first technologies of classification based on different levels of wealth
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45 amongst financial elites; and second, technologies of classification based on the
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47 geographical concentration of the potential client based. Beginning with different
48
49 levels of wealth, the key sources of intelligence and information in creating this
50
51 technology of wealth classification was the publication of the FORBES list of
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53 wealthiest US individuals and THE SUNDAY TIMES RICH LIST (from 1982 and
54
55 1988, respectively). These publications provided a significant platform for the re-
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57 framing of the exclusive traditional market for ‘rich’ to a so called, high-net worth
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3 market, systematically reclassifying wealth into well-defined bands of liquid assets
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5 with the objective of being able to target specific financial products to particular
6
7 wealth bands. In so doing, this technology echoes the ways in which firms in mass-
8
9 market retail financial ecologies categorise their customers according to credit risk
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11 (MARTIN, 2002; MARRON, 2007). One of the first acceptable definitions of high
12
13 net worth individuals was publicised by MLCG in 1996, and little has changed in
14
15 their original definition to the present day:
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- 18
19 • “HNWIs are defined as those having investable assets of US\$1million or
20
21 more, excluding primary residence, collectables, consumables, and
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23 consumable durables;
24
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- 26
27 • Ultra-HNWIs are defined as those having investable assets of US\$30million
28
29 or more, excluding primary residence, collectables, consumables, and
30
31 consumer durables;
32
33
- 34
35 • Mid-tier millionaires are HNWI having US\$5million to US\$30million”
36
37 (MLCG, 2009, 2).
38
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40
41 Building upon this wealth classification, many private wealth management providers
42
43 themselves have refined their own definitions of the wealthy for internal purposes.
44
45 For example, PRICEWATERHOUSECOOPERS (2009) have defined their own
46
47 wealth pyramid, defined in US\$, in five descending bands:
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- 50
51 • Ultra-HNWIs worth >\$50million
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55 • Very-HNWIs worth between \$5million - \$50million
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57
- 58
59 • HNWI worth between \$1million and \$5million
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- Wealthy worth between \$500,000 - \$1million

- Affluent worth between \$100,000 - \$500,000

Two common denominators categorise these definitions of private wealth. First, wealth is defined by liquid, investable assets and not necessarily by earnings. This reflects the ways in which wealth management providers conceptualise their customers as potential revenue streams associated with their differential ability to invest, rather than their credit risk as typifies other retail financial ecologies. Second, exceeding the ceiling of US\$1 million distinguishes the HNWI from the rest of society, but there is debate as to what level of assets should be benchmarked with the scalars of 'ultra' or 'very high' NWI. However, in addition to targeting their services to particular market segments based around different incomes (a process we illustrate empirically for the case of the UK below), financial services firms operating in the wealth management industry also target their services geographically.

Geographical 'technologies' and high net worth individuals

The use of geography as a 'technology' to shape the nature of the private wealth management industry echoes work on retail financial services ecologies more widely that have pointed to significant geographical variation in the nature of financial services provision (LEYSHON *et al*, 2004). This technology is used at global, regional and sub-national levels to assess the relative potential to develop wealth management products and tailor them to the different investable asset classes found in different locations. It also allows products to be changed as different geographical markets experience periods of economic growth and retrenchment at different times, something that has become particularly important in the wake of the global financial crisis. At a global level, North America and Europe have consistently accounted for

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3 the highest absolute and relative (% share) of the number of HNWIs, and value of
4 private wealth worldwide (by an average relative margin of about two-thirds of each
5 total) since the inception of the MLCG Global Wealth Surveys. For example, in 2008
6 North America and Europe accounted for the highest shares of both the total number
7 of HNWIs and UHNWIs (62%), and the distribution of private wealth (53%) (MLCG,
8 2009). Meanwhile data FORBES billionaire list reveals that the USA had the highest
9 share of billionaires and millionaires in 2008 (460 and 4.884million, representing
10 41% and 46% of the total share respectively) (ISFL, 2008). At the world city scale,
11 New York is home to the most billionaires (55) on the Forbes list, followed by
12 London (28) and Moscow (27) (FORBES, 2009).

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29 However, the global financial crisis has impacted on this well-established pattern of
30 geographical segmentation. All regions experienced significant losses as a result of
31 the global financial crisis with respect to both reductions in the number of HNWIs
32 and value of private wealth, with North America feeling the highest contraction
33 during this period of -19.0% and -22.8%, respectively (Table 4) (MLCG, 2008, 2009).

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43 [Insert table 4]

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48 These changes build on wider trends since the dot.com bust in 2001, that have
49 resulted in significant growth in the number of HNWIs and value of private wealth in
50 Latin America, Europe (eastern), Russia, the Asian-Pacific (particularly Singapore,
51 China and India) and the Middle east (particularly the UAE) (Table 5). For example,
52 in 2008, China's HNW population, calculated at 364,000, exceeded the UK for the
53 first time (0.362m) and was ranked in 4th place behind the USA (1st at 2.640m), Japan

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3 (2nd at 1.366m) and Germany (3rd at 0.81m) (MLCG, 2009). Between 2006 and 2008,
4
5 India (+27%), China (+20.3%), Brazil (+19.1%) and South Korea (+18.9%) had the
6
7 highest relative growth in the HNWI population at the state level (MLCG, 2008).
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12 [Insert table 5]
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17 Given this global pattern and the leading role of London within the international
18
19 financial system, it is not surprising that the UK has become an international centre
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21 for both HNWIs and an associated wealth management industry. However, and
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23 echoing the importance of financial services and related professional services in
24
25 creating HNWIs, the geographical distribution of such individuals and their financial
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27 ecologies are not even across the UK. For example, a UK regional analysis of the
28
29 distribution of THE SUNDAY TIMES RICH LIST's (from 2002-2009 inclusive)
30
31 shows that London and the south-east of England has averaged 51% of the top 1,000
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33 HNWIs, who were born, live or have their interests centred in these regions.
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41 Taken together, this data on the geographical and income based segmentation of
42
43 HNWIs in the UK suggests that their associated wealth management industry will be
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45 concentrated in London and the South East. In what follows we specify the nature of
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47 the multiple wealth management ecologies that have developed to service them.
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3 A survey of private wealth management firms and their ecology of financial provision
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5 in a UK context
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10 Following the rise of 'new' money forms of wealth in the UK and the associated
11 wealth management industry, the financial services ecologies available to services
12 HNWIs have diversified significantly, seizing on the growing number of potentially
13 profitable new financial elites. In the following, we present a unique analysis of the
14 UK and London's private wealth management industry, noting the segmentation of
15 the financial product portfolio and nature of the HNW sector. For clarification, we
16 focus on the emerging organization architecture of this financial ecology, rather than
17 the investment behaviour, whether 'home' or 'international', of the intermediaries
18 who manage the wealth of these high net worth individuals. Therefore, we are unable
19 to draw substantive conclusions regarding the 'home bias' of the investment portfolio
20 and management of these bespoke financial products. But, first, it is important to
21 briefly introduce the methodology.
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41 Methodology

42 The methodology was a desk-base study that undertook an in-depth content analysis
43 of 400 individual firm websites to construct a database of private wealth management
44 providers, documenting the types of financial products which were offered to the
45 HNW client groups. To the best of our knowledge, this is the first such original
46 compilation and analysis of retail private wealth providers in the financial literatures
47 that span business studies, financial geography and the sociology of finance. In order
48 to compile the database, six major types of service providers were categorised, as
49 identified from the wealth management literatures: banking (including retail, private
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3 and the WMAs of investment banks); asset management; insurance; accounting;
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5 legal; and, high-street and internet based specialists. For each type of category, lists
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7 of the predominant firms were obtained from various industry trade bodies and
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9 specialist intelligence sources, including: The British Bankers Association;
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11 Investment Managers Association; Association of British Insurers; The Legal 500;
12
13 and Accountancy Age. In order capture data in a systematic way from each firm
14
15 website, it was necessary to develop a series of thematic categories (cells of
16
17 information) which would allow for the recording of specific findings into generic
18
19 information. The database included ten substantive individual categories (cells) of
20
21 information: the wealth management provider (name of firm); the category of
22
23 provider (accounting firm, bank, asset management etc); any affiliations the provider
24
25 has with other financial firms; the target market (e.g. HNWI, VHNWI, UHNWI); the
26
27 UK location of the firm; international offices; the firm's unique selling point to
28
29 clients; the products on offer; and, firm HQ. As for location, 286 of these 400 firms
30
31 were headquartered in London (72%), with a further 43 in the rest of the south-east of
32
33 England (11%), followed by 13 in Edinburgh (3%).
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43 Segmentation and wealth management ecologies

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45 Figure 1 shows the number of companies within the 400 firm database operating in
46
47 the UK offering different kinds of private wealth management services to different
48
49 segments of the HNW market, including the MA.
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55 [insert Figure 1]
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3 This reveals the collective importance of the high/ultra high net worth and mass
4 affluent/ultra high net worth client groups – groups that we have labelled the super-
5 rich financial elites. Within these ecologies, the types of financial services offered are
6 highly varied. Out of the 140 firms active in this HNWI-UHNWI ecology, services
7 were dominated by accountancy firms (23%), banking (23%: private banks at 13%;
8 and the WMAs of investment banks at 10%), legal firms (17%) and asset managers
9 (16%). Given that the types of services offered within these varying wealth
10 management ecologies is extremely diverse, ranging from financial estate planning to
11 art storage, for the purposes of this paper, we concentrate on the services offered by
12 the most important types of providers: accountancy firms; the two most important
13 different types of banks (private and WMAs of investment banks) and legal services.
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32 Beginning with accountancy, the most frequently offered services by accountancy
33 firms involved in wealth management in the UK were tax advice (20%), financial
34 planning (15%), trust and/or estate management (11%) and help completing tax
35 returns (10%) (Figure 2). All of the leading UK, including global, accounting firms
36 offered wealth management financial products to individual clients. For example,
37 KPMG have a dedicated UK partnership team, Private Client KPMG, focused on
38 personal taxation, “[W]e help individuals, trusts, and family companies with creative
39 and constructive tax advice. Whether it's your tax return, running your business or
40 passing on wealth we can help. We provide clear advice, tangible results and a
41 transparent approach to fees” (<http://rd.kpmg.co.uk/WhatWeDo/14508.htm>, accessed
42 110810). The key element of these products is ensuring that clients are ‘tax efficient’
43 in their personal and business activities. Servicing expatriates and non-domiciled
44 residents are a particularly important clientele for accounting firms. For example,
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3 Rawlinson & Hunter, highlights how international clients are exposed to complicated,
4 cross-jurisdiction tax laws that can erode their wealth and offer their services to
5 minimise the tax exposure of clients to particular state taxes: “Whether you are
6 moving into or out of the UK or any of the other jurisdictions in which we operate, we
7 can advise you as to how to achieve your relocation in a tax efficient manner ... Our
8 unrivalled experience of trusts and international tax planning ensures that we are
9 ideally placed to advise you on your relocation.” ([http://www.rawlinson-](http://www.rawlinson-hunter.com/)
10 [hunter.com/](http://www.rawlinson-hunter.com/)accessed 110810). Accountancy firms also provide services to large,
11 family businesses that can account for a substantial proportion of an individual’s
12 wealth. For example, regionally based Duncan and Toplis, and Hazelwood’s provide
13 practical accountancy services to facilitate the efficient running of a business, but to
14 also maximise a company’s financial performance. Accountancy advice is also
15 important to manage the inheritance of an individual’s estate. For example, the
16 inheritance of a family business can be organised to minimise inheritance tax, through
17 tax planning and trusts, to protect the ownership of the company for the family
18 members.

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42 [Insert Figure 2]

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46 Meanwhile legal firms concentrated their activity within the H&UHNWI ecologies
47 with the two most frequently advertised services being the establishment of trusts
48 (20%) and services related to the management of trusts and estates (16%) (Figure 3).
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3 of 'old' money (see LANGLEY, 2006; on the shift from passive savers to active
4 investors associated with financialization). Offering advice on the tax implications of
5 trusts represents a central activity for legal firms in this respect. For example, the
6 legal firm May, May and Merrimans, advertises that it, "offers and implements advice
7 on wills and lifetime gifts or settlements and on minimising capital taxation".
8 Equally, Taylor & Wessing note how capital gains tax on investments can be
9 minimised once a client's assets are moved to a trust (www.taylorwessing.com).
10 Importantly, firms, such as Bircham Dyson Bell, use their expertise to preserve
11 intergenerational family wealth through estate planning and prenuptial agreements to
12 ensure that family wealth is not 'lost' outside of a family during a divorce (see:
13 www.bdb-law.co.uk).

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32 [Insert Figure 3]

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36 The ways in which banks contribute to shaping wealth management ecologies is more
37 varied because of the range of different types of banks: private; and the WMAs of
38 investment banks. For example, well-established private banks like Adam &
39 Company plc and Coutts & Co, focus on H&UHNW clients, accounting for 13% of
40 services offered to these client groups in our research. This is achieved through
41 products such as current accounts an investment management (accounting for 13% of
42 advertised products), financial planning (10%) and offshore services (8%) for
43 expatriate and non-domiciled clients with interest in the UK (figure 4). These banks
44 face competition from the wealth management divisions of investment banks like
45 Barclays Wealth Management, Citi Private Bank, J.P.Morgan Private Bank and
46 Morgan Stanley Private Wealth that also target the H&UHNWIs who account for
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3 88% of the services offered. The most frequently offered services in this respect
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5 amongst the banks we researched were investment management (16%), financial
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7 planning (15%) and current accounts (15%) (Figure 5). This competition between
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9 private banks and investment banks points to the relationship between different types
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11 of financial ecologies servicing financial elites with private banks historically
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13 servicing 'old' money clients and investment banks focusing on 'new' money.
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15 Below, we examine the interaction between these two types of super-rich ecologies to
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17 reveals the ways in which financial ecologies intersect and develop together in
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19 relational ways.
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27 [Insert Figures 4 and 5]
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32 'Old' and 'New' money product segmentation in private wealth management
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36 Findings derived from the database illustrated that only 9.1% of the wealth
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38 management companies provided services and products to clients that were classified
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40 as seeking *traditional* values, which we argue to be 'old' money clients. It is notable
41
42 that nine private banks were identified as offering traditional value services (Bank J
43
44 Safra, Butterfield Bank, Coutts, Duncan Lawrie, Weatherby's Bank, C Hoare & Co,
45
46 Brown Shipley, Adam & Company and R Raphael & Sons) compared to one WMA
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48 of an investment bank (Kauthing Singer and Friedlander). Interestingly, 14 of the 15
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50 WMAs (including for example: Credit Suisse Private Banking; Barclays Wealth;
51
52 HSBC Private Bank; Investec Private Bank; BNY Mellon Wealth Management; J P
53
54 Morgan Private Bank and Kleinwort Benson Private Bank) sought to use investable
55
56 asset classification technologies in order to offer bespoke products to a clientele
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3 which identified with professional management values, thus, targeting their services
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5 towards so called 'new' money clients'. These findings indicate that private banks are
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7 still more likely to offer their services to 'old' money clients, by leveraging their
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9 historic brands, than the newer WMAs of investment banks, who rely on offering
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11 professional management to clients who have obtained their wealth through a
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13 liquidity event, or some other means of rapid wealth creation not linked to inheritance
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15 or the land and gentry. This however, is not to say that private banks, turn away new
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17 wealth, while WMAs ignore 'old' wealth.
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25 Importantly, WMAs of investment banks were created in some part to offer bespoke
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27 services, through their own business model, to their own employees, financial
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29 entrepreneurs, like hedge fund managers, and employees of other financial service
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31 industries, whose remuneration packages (and number) increased astronomically from
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33 the late 1980s onwards, in the context of relatively low personal taxation regimes in
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35 both the UK and USA. The diversification of investment banking into wealth
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37 management was also driven by the necessity to seek new income streams to counter
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39 the dependency and volatility of market trading revenue (MAUDE, 2006). To put this
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41 potential financial elite wealth market into an empirical context for the UK, at the
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43 height of the market pre-financial crisis at year end 2007, the CENTRE FOR
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45 ECONOMICS AND BUSINESS RESEARCH (CEBR, 2009a; 2009b) estimated that
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47 £10.2 billion was paid out in bonuses to approximately 354,000 City type jobs, which
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49 is a staggering increase of 162% from 2001, when a £3.9 billion bonus pot was paid
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51 out to an estimated 312,000 City type jobs.
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3 Our findings indicated that while both private banks and WMAs offered financial
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5 planning and investment management advice to clients, the WMAs offered more
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7 explicit advice on purchasing art and jewellery and insurance for high net assets (for
8
9 example, yachts, private jets), as well as providing legal and immigration advice
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11 (Figure 6). In terms of private banking, Coutts & Co and Weatherbys bank are
12
13 interesting examples to highlight. Both have a heritage to draw upon, but unlike
14
15 Weatherbys, Coutts has stratified its clientele into specific groups, based on their
16
17 particular needs and source of the wealth. Coutts draws on its rich 300 year history to
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19 reinforce its brand and experience in serving clients, offering services and products to
20
21 both ‘old’ and ‘new’ money clients. These include wealth management teams to serve
22
23 ‘private office’ and ‘landowner’ clients representing ‘old’ money, and new diversified
24
25 groups such as sportspeople and entertainers. The bank believes it has an edge by,
26
27 “having experience of looking after clients with similar lifestyles.” (www.coutts.com)
28
29 For clients who may have obtained new wealth as an executive their, “...dedicated
30
31 client group looks after the wealth of corporate directors and executives working in
32
33 the financial markets” (www.coutts.com). Coutts aims specific products at these
34
35 investors too, “... competitive and flexible borrowing will probably be a requirement
36
37 at some stage of your career – perhaps when you become a partner in a professional
38
39 firm” (www.coutts.com). Coutts classifies Americans moving to Britain as a
40
41 particular group providing them with advice on financial planning and restructuring
42
43 their US and UK assets. In contrast to Coutts, Weatherbys bank, a one office firm, and
44
45 founded in 1770 initially to support the British race horning industry, based in
46
47 Wellingborough, England, is firmly aligned to the ‘land and gentry’ and traditional
48
49 values. It purveys itself as, “a modern bank, refreshingly traditional”, which focuses
50
51 on offering its clientele a one-to-one personal, tailored service focused on almost all
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3 segments of private banking (current accounts, online-banking, savings and deposits,
4
5 FOREX, lending, planning and pensions). An important mission of Weatherbys
6
7 bank's wealth management planning is: "We work on the basis that most people want
8
9 strategies that 'keep their wealth' rather than 'make them wealthy'" (see:
10
11 www.weatherbysbank.com). Interestingly, the case of Coutts demonstrates how
12
13 private banks are having to change their traditional services in order to compete with
14
15 the more recently emerging wealth management industry, but Weatherbys highlights
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17 the requirement for some niche players to retain a focus on their traditional values and
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19 the requirement for some niche players to retain a focus on their traditional values and
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21 clientele.
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27 [Insert Figure 6]
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32 Meanwhile, in terms of the WMAs of investment banks, JP Morgan which has an
33
34 office in London and appears to have developed its target market from a US
35
36 perspective, focussing on the wealth of entrepreneurs in common with other wealth
37
38 management departments. JP Morgan describes its business outlook as, "the
39
40 overriding objective of our investment practice is to help you achieve success"
41
42 (www.jpmorgan.com/). Indeed, JP Morgan claims to be an advisor to 40% of the
43
44 individuals on the Forbes Billionaire List and the Forbes 400 wealthiest Americans
45
46 and targets its products to 'new' forms of wealth including business owners, corporate
47
48 executives and entrepreneurs: "If you hold a significant equity stake in your company,
49
50 an IPO, merger or corporate sale can unlock substantial personal wealth... We can
51
52 help you prepare for a sale by valuing your interest in the business, weighing the pros
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54 and cons of various kinds of liquidity events" (www.jpmorgan.com/).
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3 The WMAs are different to traditional private banks, which appear to sell their parent
4 company's products, providing clients with the ability to experience a 'liquidity
5 event' and to 'join' the wealthy. As WMAs are much newer in the market (tens of
6 years as opposed to hundreds), branding is seen to be critical to their success
7 explaining why the newer WMAs focus on their global coverage and banking
8 expertise, while UK private banks focus on their heritage
9 (PRICEWATERHOUSECOOPERS, 2008). WMAs have developed to take advantage
10 of the profits to be made from the assets of HNWIs whose investments are on the
11 scales of the large, institutional investors that and they appear more focussed on
12 selling their own products especially as the WMAs appear to have been created
13 around the existing corporate architecture, such as Citibank's wealth management
14 arms.
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34 Conclusions

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38 This paper has extended debates about financial elites and their role in processes of
39 financialization by considering how such individuals not only shape such processes
40 through their work in financial firms and related advanced producer services, but are
41 also central, as consumers, to the development of new forms of retail financial
42 services based around 'wealth management'. Using research on financial elites,
43 financial services consumption and financial ecologies more generally together with
44 original empirical research into the services provided by this industry, four important
45 findings have emerged. First, the nature of financial elites in the UK, in common
46 with developments in the US, has changed markedly in recent years shifting from a
47 dominance of 'old' forms of money based around family assets to 'new' forms of
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3 money associated with work in financial services and related producer services in
4
5 which there is significant personal remuneration and a strong bonus culture. Indeed,
6
7 these remuneration practices have proved to be remarkably resilient in the wake of the
8
9 financial crisis. This distinction is important because this more recent form of 'new'
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11 money has been framed as being potentially highly profitable to a new set of retail
12
13 financial service providers if it is managed and investment correctly within 'wealth
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15 management'. In this financial ecology, established providers in the form of
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17 longstanding private banks have faced increasing competition from new forms of
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19 financial services providers, most notably the wealth management divisions of
20
21 investment banks that are in effect offering financial services to their own employees.
22
23 The rise of this ecology and its associated technologies of investable asset
24
25 classification and geographical differentiation not only has consequences for the
26
27 future development of private banks but also for other financial ecologies that have
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29 been more commonly studied in geography and the broader social sciences as high
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31 street banks increasingly target the financial elites ecology at the expense of more
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33 'ordinary' ecologies that are seen as less profitable.
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44 Second, the private wealth management ecology is not homogeneous, but is
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46 segmented both in terms of different types of financial elites and geographically. In
47
48 terms of the former, our research revealed how the wealth management industry itself
49
50 has developed a range of technologies in order to classify individuals within the
51
52 category of financial elite in order to target different services to different groups.
53
54 Given the important role played by consultants and the media in shaping this process,
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56 it echoes THRIFT's (2005) work on soft capitalism in which knowledge produced by
57
58 consultants and the media (such as THE SUNDAY TIMES RICH LIST) becomes
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3 vital in underpinning different forms of financial services delivery. Meanwhile,
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5 geographically, our research revealed the changing international makeup of financial
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7 elites as they increasingly populate emerging markets in Asia and the Middle East,
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9 particularly in the wake of the financial crisis.
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15 Third, and continuing the geographical outcomes of our research, more specifically,
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17 our findings highlight the continued dominance of London and the south-east of
18
19 England as global clusters for the private wealth management industry, echoing
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21 earlier work on the effects of financial deregulation on the expansion of the City in
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23 the 1980s (LEYSHON AND THRIFT, 1997). Seventy-two per cent (286) of the
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25 private wealth management firms in our 400 firm database were head-quartered in
26
27 London in banking (private, wholesale and retail), asset management, insurance and
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29 professional services ('magic circle' law firms and the 'Big Six' of the so accounting
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31 firms), but less-so in provincial centres like Edinburgh and Leeds. Indeed, our
32
33 research reinforces London's reputation as being one of the world's leading centres
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35 for wealth and asset management ecologies, benefitting from its highly-likely
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37 preponderance of 'home bias' in investor behaviour in domestic markets, ranked
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39 alongside New York, Singapore and Hong Kong (IFSL, 2009).
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48 Fourth, and conceptually, the paper has demonstrated the value of bringing into
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50 dialogue work on financial elites, financialization and retail finance. In so doing, our,
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52 research identifies and specifies neglected financial ecologies that have developed to
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54 meet the demand of financial elites who have, in extant literature, been primarily
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56 understood as architects of financialization, rather than financialized consumers in
57
58 their own right. Whilst the resulting wealth management ecologies have grown
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3 significantly since the mid 1980s, the recent and ongoing global financial crisis
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5 clearly raises a number of important questions concerning its future development. At
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8 one level, trends that have seen increasing concentration of financial elites in
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10 emerging markets such as South East Asia are likely to increase as established
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12 financial centres such as London seek to recover from the crisis. In the case of the
13
14 UK, these developments are particularly hard to predict because of the as yet
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16 unknown impact of the so-called bonus super tax announced in 2009. There are
17
18 mixed signals emerging about the extent to which this might encourage financial
19
20 elites to relocate overseas, potentially to offshore centres that are known for their
21
22 lower tax regimes. However, in order to understand the intersection between
23
24 financial elites, financialization and retail finance that in many ways underpins such
25
26 developments, our research suggests that there are valuable insights to be gleaned by
27
28 considering the consumption habits of financial elites in relation to retail financial
29
30 ecologies. This paper has sought to initiate such a research agenda through the case
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32 of the UK.
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41 Acknowledgements

42
43 We would like to thank the Financial Services Research Forum and the University of
44
45 Nottingham for funding this research from the project, 'Scoping the private wealth
46
47 management of the high net worth and mass affluent markets in the U.K.'s financial
48
49 services industry'. We also would like to express our thanks to the referees whose
50
51 comments have encouraged us to tighten the clarity of our conceptual arguments and
52
53 bring more empirical depth to the reportage of the findings.
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Table 1: The HNWI allocation of financial assets, by percentage share of wealth,
2004-- 2008

Category	2004	2005	2006	2007	2008	Mean (2004-08)
Alternative Investments	19%	20%	10%	9%	7%	13.0%
Real Estate	16%	16%	24%	14%	18%	17.6%
Cash Deposits	13%	13%	14%	17%	21%	15.6%
Fixed Income	24%	21%	21%	27%	29%	24.4%
Equities	28%	30%	31%	33%	25%	29.4%
Total Wealth (US\$ trillion)	30.7	33.4	37.2	40.7	34.7	34.7

Source: MLCG (2005-2009 inclusive)

Table 2: Selected London located private banks (as of 1993)

Bank	Established	Min. Investment	Head Office
ANZ Grindleys	1828	£50K	London
Bank Julius Baer & Co	1890	£250K	Zurich
Bank Sarin & Co.	1900	£250-£500K	Basle
Bankers Trust	1978 ¹	N.A.	London (Europe)
Barclays Private Bank	1992	£250K	London
Chase Manhattan	1968 ¹	\$1m	Geneva (Europe)
Citibank	1902 ²	\$1m	Zurich (Europe)
Coutts & Co.	1692	£50K	Zurich
Credit Suisse	N.A.	N.A.	Geneva
J.P.Morgan	N.A.	\$2m	Paris
Kleinwort Benson	1792	£200K	London
Lombard, Odier	1798	None	Geneva
Merrill Lynch	N.A.	N.A.	London
Pictet	1805	Fr1m	Geneva
Swiss Bank Group	1993	N.A.	Basle
Warburg	N.A.	N.A.	London
UBS	1865	\$1m	Zurich

Notes: 1. Establishment of private banking services; 2. London office opened.

Source: BICKER (1996)

Table 3: The world's largest private banks, 2007 (by Global Assets under Management)

Bank	US\$ billion	% share
UBS	1,896	15.1
Citigroup	1,784	14.2
Merrill Lynch	1,309	10.4
Credit Suisse	745	5.9
J P Morgan	545	4.3
Morgan Stanley	522	4.1
HSBC Group	494	3.9
Deutsche Bank	286	2.3
Wachovia Corporation	285	2.3
Other banks	4,720	37.5
Totals	12,586	100.0

Source: IFSL (2008, quoted from SCORPIO PARTNERSHIP)

Table 4: The changing geographical coverage of HNWI and private wealth, 2007-2008

Region	Number of HNWI			Value of Wealth		
	No (m)	Share (%)	Annual % Change	US \$ tr	Share (%)	Annual % Change
North America	2.7	31.4%	-19.0%	9.1	27.4%	-22.8%
Europe	2.6	30.2%	-14.4%	8.3	25.3%	-21.9%
Asia Pacific	2.4	28.0%	-14.2%	7.4	22.6%	-22.3%
Latin America	0.4	4.7%	-0.7%	5.8	17.7%	-6.0%
Middle East	0.4	4.7%	-5.9%	1.4	4.3%	-16.2%
Africa	0.1	1.2%	-8.3%	1.4	4.3%	-16.2%

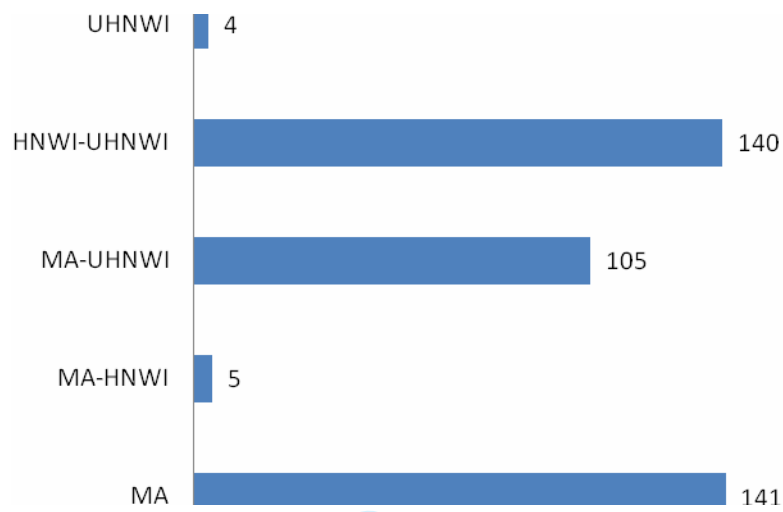
Source: MLCG (2008, 2009)

Table 5: The changing geographical coverage of HNWI and private wealth, 2002-2007

Region	Number of HNWIs (million)			Value of Wealth (US \$ trillion)		
	2002	2007	% Change	2002	2007	% Change
North America	2.2	3.3	+45	7.4	11.7	+58
Europe	2.6	3.1	+50	8.8	10.6	+20
Asia Pacific	1.8	2.8	+56	5.7	9.5	+67
Latin America	0.3	0.4	+33	3.6	6.2	+72
Middle East	0.3	0.4	+33	1.1	1.7	+55
Africa	0.1	0.1	-	0.6	1.0	+67

Source: MLCG (2003, 2008)

Figure 1: Wealth management providers by client category



Key:

UHNWI – Ultra-high net worth individual

HNWI-UHNWI – High net worth individual – Ultra-high net worth individual

MA-UHNWI – Mass affluent – Ultra high net worth individual#

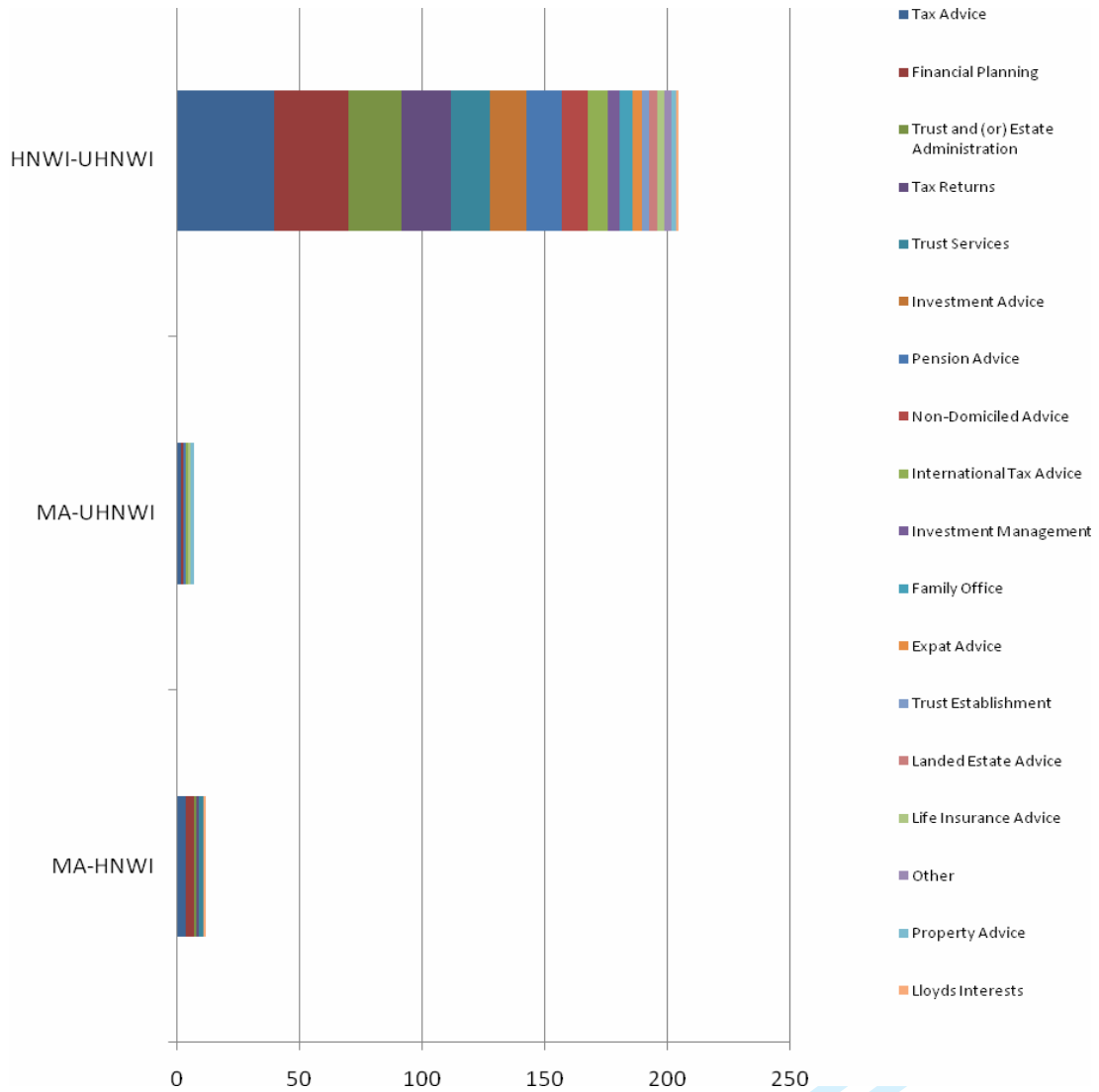
MA – HNWI – Mass affluent to High net worth individual]

MA – Mass affluent

Source: Firm database

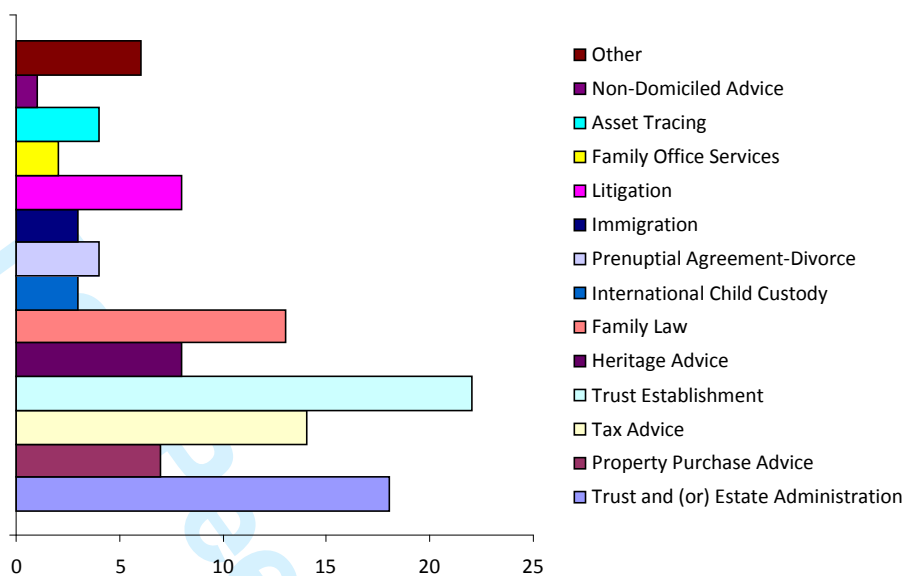
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Figure 2: Products and services offered by accountancy firms



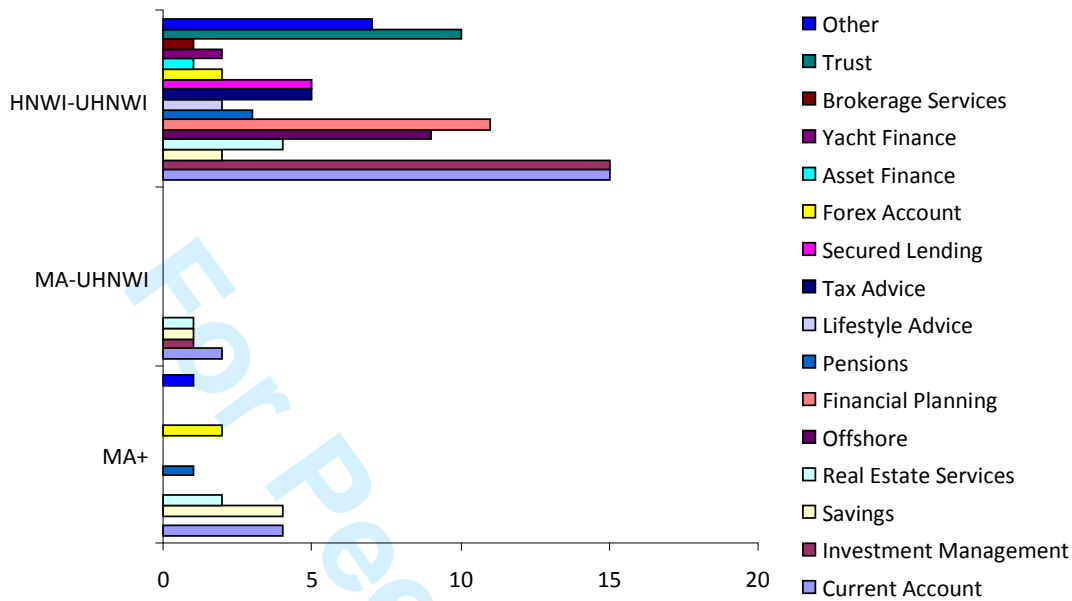
Source: Authors' firm database

Figure 3: Products and services offered by legal firms



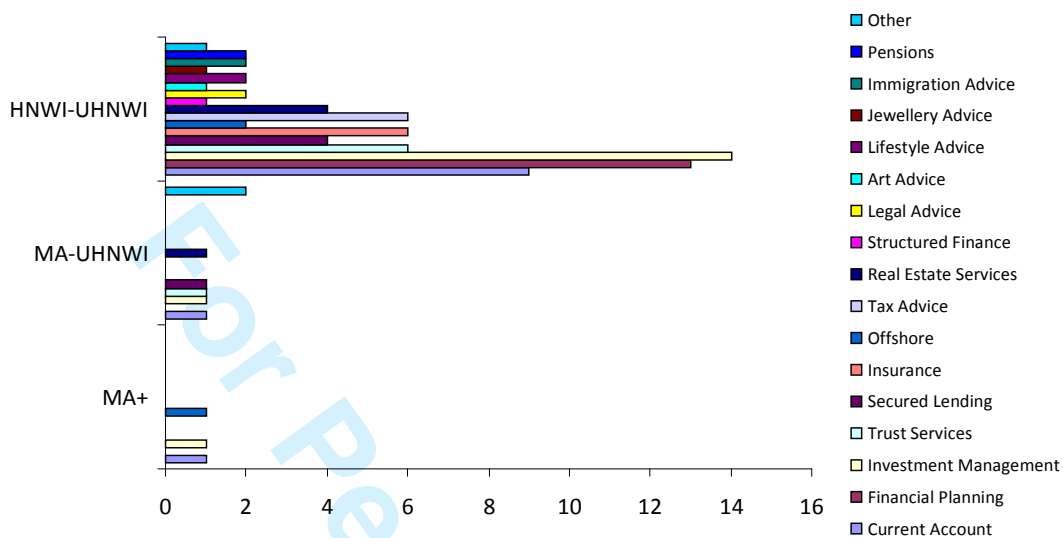
Source: Authors' firm database

Figure 4: Products and services offered by private banks



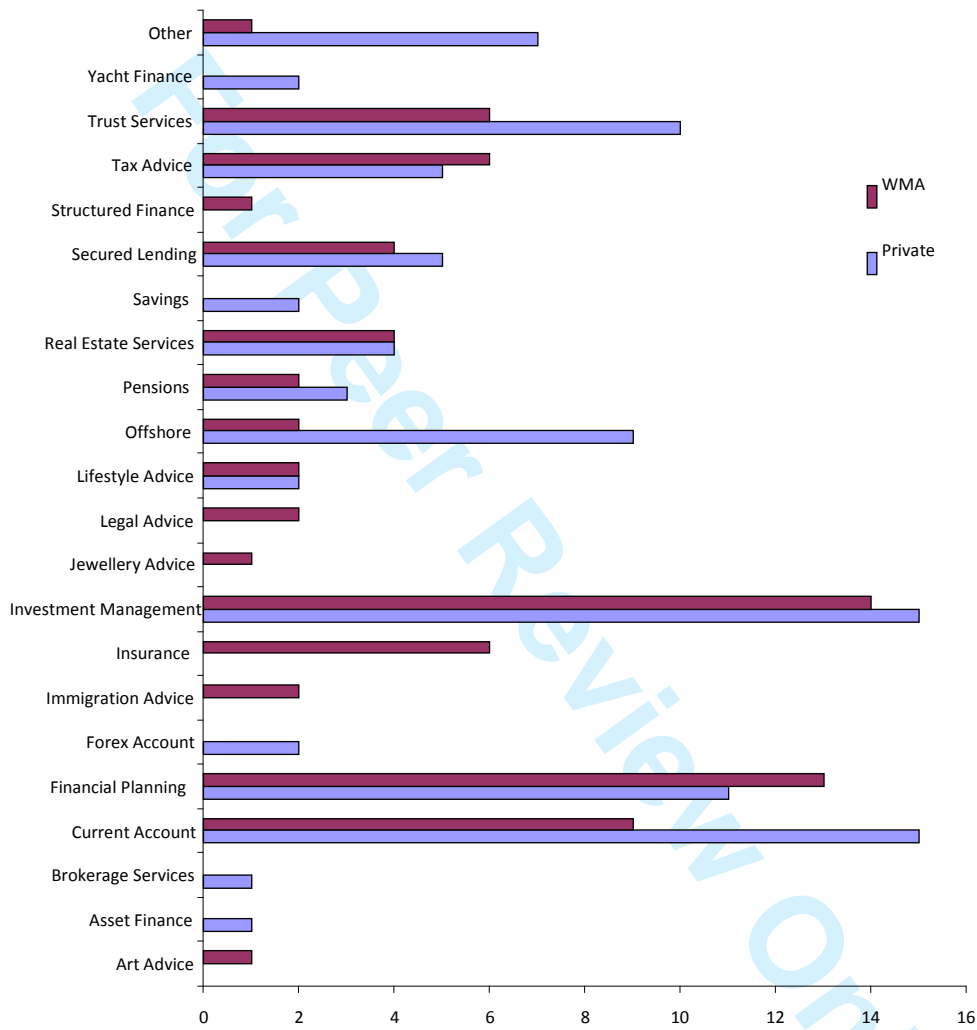
Source: Authors' firm database

Figure 5: Products and services offered by the WMAs of investment banks



Source: Author's firm database

Figure 6: Differences in services supplied by WMAs of investment banks and private banks



Source: Authors' firm database