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Servicing the Super-Rich: New Financial Elites and the Rise of the Private Wealth Management Retail Ecology

Jonathan V. Beaverstock, Sarah Hall & Thomas Wainwright

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Abstract

Beaverstock J. V., Hall S. and Wainwright T. Servicing the super-rich: new financial elites and the rise of the private wealth management retail ecology, Regional Studies. The ways in which individuals' everyday lives have become increasingly tied into the international financial system has become a widely studied dimension of research on financialization. However, the ways in which financial elites consume financial services has received far less attention. In response, research on financial elites and retail financial ecologies is combined here to understand the private wealth management industry that has developed to service these financial elites. Drawing on original research on private wealth management firms, it is argued that examining the development and nature of this new financial ecology is important in understandings of financialization and its uneven geography.

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Beaverstock J. V., Hall S. et Wainwright T. Fournir des services aux super nantis: les nouvelles élites financières et l'essor de l'écologie de détail quant à la gestion de fortune privée, Regional Studies. Les moyens par lesquels la vie quotidienne se rapporte de plus en plus au système financier international devient un domaine d'étude plus répandu de la recherche sur la financialisation. Cependant, on prête moins d'attention aux moyens par lesquels les élites financières consomment les services financiers. En guise de réponse, on combine ici la recherche à propos des élites financières et des écologies financières de détail afin de comprendre l'industrie de la gestion de fortune privée qui se développe dans le but de fournir des services à ces élites financières. Puisant dans des recherches originales auprès des entreprises de gestion de fortune, on affirme qu'il importe d'examiner le développement et la nature de cette nouvelle écologie financière pour comprendre la financialisation et sa géographie irrégulière.

Financialisation   Elites financières   Gestion de fortune   Banques privées   Ville de Londres

Beaverstock J. V., Hall S. und Wainwright T. Dienstleistungen für Superreiche: neue Finanzeliten und der Aufstieg der Einzelhandels-Ökologie für Privatvermögensverwaltung, Regional Studies. Die zunehmenden Verknüpfungen zwischen dem Alltag von Privatpersonen und dem internationalen Finanzsystem sind in der Forschung über Finanzialisierung ausführlich untersucht worden. Weitaus weniger Beachtung hat hingegen die Frage gefunden, auf welche Weise Finanzeliten finanzielle Dienstleistungen in Anspruch nehmen. Aus diesem Grund wurde in dieser Studie die Forschung über Finanzeliten mit der über die Ökologien der Einzelhandelsfinanzen kombiniert, um die Branche der Privatvermögensverwaltung, die zur Bedienung dieser Finanzeliten entstanden ist, näher zu untersuchen. Ausgehend von Originalstudien über Privatvermögen-Verwaltungsgesellschaften wird argumentiert, dass eine Untersuchung der Entwicklung und Beschaffenheit dieser neuen Finanzökologie wichtig für ein

Article contents   Related research

Finanzialisierung Finanzeliten Vermögensverwaltung Private banking Londoner Bankenviertel

Beaverstock J. V., Hall S. y Wainwright T. Servicios para los super ricos: nuevas elites financieras y el crecimiento de la ecología minorista en la gestión de patrimonio privado, Regional Studies. El creciente vínculo entre la vida diaria de las personas y el sistema financiero internacional es un tema ampliamente analizado en los estudios sobre financialización. Sin embargo, se ha prestado mucha menos atención al modo en que las elites financieras consumen servicios financieros. Por este motivo, en este estudio combinamos la investigación sobre elites financieras con la de ecologías financieras minoristas para entender el sector de la gestión de patrimonio privado que se ha desarrollado para servir a estas elites financieras. Basándonos en la investigación original sobre empresas de gestión de patrimonio privado, sostenemos que es importante examinar el desarrollo y la naturaleza de esta nueva ecología financiera para comprender la financialización y su geografía desigual.

Financialización Elites financieras Gestión de patrimonio Banca privada Distrito financiero de Londres

Keywords:

Financialization | Financial elites | Wealth management | Private banking | City of London

JEL classifications::

D14 | G24 | J33 | R10

INTRODUCTION

The ways in which individuals' everyday lives have become increasingly tied to 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-

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 (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 (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 (Leyshon and Thrift, 1997).

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 made of the financial exclusion of lower socio-economic groups, the ways in which higher socio-economic groups are tied into the international financial system through their financial consumption practices have been virtually entirely neglected. In response, this paper examines the changing relationship between new forms of financial elites and retail financial services. It defines new financial elites as investment bankers, corporate lawyers, senior employees in finance-related advanced producer and professional service firms, and private equity and hedge fund partners who have played a significant role in shaping processes of financialization (Folkman et al., 2007). As a result of this work, they have enjoyed significant personal remuneration, linking their salary structures and bonuses to the performance of their employing firms (Froud and Williams, 2007). Early on in the financial crisis, widely dated back to late summer 2007, the future of these financial elites and their retail financial consumption patterns looked increasingly uncertain as significant redundancies were made, particularly in investment banks, and their remuneration packages became the subject of political, media and popular debate (Augar, 2009; French et al., 2009). Subsequently, however, these elites have demonstrated considerable ability at maintaining and reinventing their elite and powerful position, working hard to ensure that the international financial system returns to ‘business as usual’ as soon as possible (Hall, 2009; French and Leyshon, 2010). As such, understanding their retail financial consumption practices

In response, this paper reports on original empirical research in order to document the growth of new forms of retail financial services that have developed to service and shape the demands and financial desires of these new financial elites in London. London's elite retail financial services provide a valuable case study since it represents one of the preeminent clusters of such firms (International Financial Services London (IFSL), 2009) and, by virtue of the transnational nature of its contemporary financial labour market, investors with a multitude of expertise and competencies, and of many nationalities, have the potential to service a global client base with a 'home bias' in London's global financial markets. The importance of 'home bias' – the behaviour of intermediaries to allocate investment to domestic rather than foreign markets (Dupuy et al., 2010; Grote, 2007) – cannot be underestimated in contributing to London's preeminent position in the global private wealth management industry. Indeed, as with other financial centres, such intermediaries can draw upon the critical mass and agglomeration advantages of London's financial community, in the form of access to expert labour (such as investment banks, corporate lawyers, accountants), interpersonal networks and regulators in order to use these locally based geographical assets to inform further 'home bias' in investment behaviour (also Wójcik, 2007, 2009; Wójcik and Burger, 2010).

The arguments bring two literatures that have largely developed in parallel to one another into dialogue. First, work on the changing nature of the global 'super-rich' has documented the changing sources of wealth held by these economic elites (Beaverstock et al., 2004). This literature stresses the shift away from a reliance on inherited and establishment forms of familial wealth to 'new' forms of wealth associated with changing executive remuneration patterns in all corporate sectors of economy, but especially banking, finance and professional services. However, whilst this work has acknowledged the role of financial services in creating this 'super-rich' transnational class, it has paid much less attention to how such individuals consume retail financial services.

This lacuna is addressed here by developing work on financial consumers in different socio-economic contexts (Burton, 2008; Langley, 2009; Marron, 2007) in order to examine how different technologies of classification (based on investable assets and geography) are used to help shape customer demand amongst new financial elites. This paper documents how these processes have led a range of different financial service providers, including high street banks, investment banks, insurance companies

new financial elites. This network of financial services providers is labelled a private wealth management retail financial ecology. In so doing, the extant work on retail financial services that has examined the geographically variegated nature of financial services provision aimed at different socio-economic groups is extended (Leyshon et al., 2004). This literature has compared relatively vibrant middle-class suburban ecologies populated by financially literate individuals and 'relic' retail financial ecologies characterized by service withdrawal, typically found in poor inner cities and peripheral local authority housing estates. However, retail financial services aimed at high-income earners have been entirely neglected to date. Moreover, by focusing on the technologies that are used to stratify and manage customers within the private wealth management ecology, it is demonstrated how the geographical variation of different ecologies is reproduced through the governance techniques of financial service providers themselves. Understanding the growth of wealth management ecologies in this way is valuable in developing understandings of the multifaceted nature of financialization and everyday life, and its uneven socio-geographic consequences.

This argument is developed over five sections. The next section explores how work on financial elites, retail financial ecologies and financial consumption practices can be combined to develop understandings of the ways in which these individuals are tied into retail financial services provision. Next, the growth of the private wealth management industry is identified, focusing on the technologies developed to segment this industry by both income and geography. The fourth and fifth sections document the geographical and organizational variation in high net-worth (HNW) retail financial ecologies by presenting original empirical research into private wealth management ecologies in the United Kingdom. Finally, the paper concludes by considering the implications of this research for work on the geographies of financialization, financial elites and retail finance.

FINANCIAL ELITES, THE RISE OF 'NEW' MONEY AND ECOLOGIES OF RETAIL FINANCE

The nature of financial elites in the UK has changed markedly in recent years. Prior to the deregulatory changes collectively known as 'Big Bang' in 1986, these elites were predominately formed through 'old boys' networks' forged through schooling at a small

universities, notably Cambridge and Oxford. These networks were, historically at least, a central way of cementing trust-based relationships within financial services (Cain and Hopkins, 2002; Michie, 1998). Meanwhile, beyond finance, elite networks were also forged through familial connections such that in the case of the UK substantial wealth was derived through the inheritance of assets by the younger members of industrial families or through inheriting the wealth of the landed gentry, synonymous with the label of 'old' money (Hassler, 1999; Lundberg, 1988). However, more recently financial elites are formed less by virtue of their educational and social background, and increasingly through their working practices. Most notably, as individuals working in finance and related advanced producer services have developed new financialized products in the 2000s, they have benefited personally in terms of a significant bonus culture and enhanced basic remuneration (Jones, 2003). As the think-tank IFSL (2009) has argued,

> The main source of growth in private wealth originates from those involved in building successful businesses … senior executives in large companies, who have substantial earnings supplemented by stock options and other bonuses; entrepreneurs that have become millionaires from successful flotations and IPOs [initial public offerings]; and other individuals that have received the proceeds from selling to larger international groups.
> (p. 3)

Whilst the exact number of such financial elites and their associated investable assets are hard to estimate, not least because of the changing membership of this group in the run up to, and following, the financial crisis, the Merrill Lynch /Capgemini (MLCG) World Wealth Report 2007 (2008) argued that the HNW population (which comprises these financial elites) grew 6.0% from 2006, totalling 10.1 million with investable assets of more than US$1 million.

This shift in the derivation of wealth to so-called 'new' sources of money related to work and bonuses in the financial services sector has been widely commented on by social commentators (Irvin, 2008; Smith, 2001) and academics through work on the 'super-rich' (Beaverstock et al., 2004). For example, MLCG (2002) stated that as early as 2001, 63% of European wealth was derived from non-inheritance sources, compared with 79% of North American wealth. This trend away from inherited sources of wealth has continued throughout the 2000s (Table 1).

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In addition to wealth generated through financial and related advanced producer services, the wealth of global 'super-rich' is derived from what is known as a 'liquidity event' (Smith, 2001) where entrepreneurs, or the owners of a family business, sell all – or part – of their business through an IPO, increasing their wealth, almost literally overnight. The rise of these 'new' forms of wealth has grown steadily, and while these developments are more pronounced in the United States, this trend is also present in the UK with 'self-made multi-millionaires and millionaires' (The Sunday Times, various years). Indeed, academic work on the global 'super-rich' has explored the changing geographical locations of their main residence. In this respect, at a global level the dominance of Europe and North America has increasingly been challenged by the growth of new financial elites found in emerging markets, notably the Middle East and South East Asia, reflecting a wider shift in financial power from West to East in the wake of the financial crisis (Aalbers, 2009; Forbes, 2009; The Sunday Times, various years; MLCG, various years). Meanwhile, research has also pointed to the continued concentration of new financial elites, in particular sub-national regions such as London and the South East in the case of the UK, where the banking, finance and professional services which are important in creating new financial elites are clustered (Beaverstock, 1996).

However, the emergence of this 'new' money does not spell the end of inherited wealth in the UK. The wealth of landowners in the UK is far from being insignificant (Irvin, 2008), as the case of the landed wealth of the Duke of Westminster (the richest landed gently person in the UK), for example, demonstrates. That said, the emergence of these new financial elites raises new questions surrounding their different retail finance needs, arising from their sudden accumulation of wealth. In order to understand how retail financial services have responded to, and sought to manage, this demand, the paper turns to recent work on financial consumption practices and retail financial services.

ECOLOGIES OF RETAIL FINANCIAL SERVICES IN PRIVATE WEALTH MANAGEMENT

Retail financial services offered to the global ‘super-rich’ have changed markedly in the last thirty years. Historically, the UK financial services for the super-rich were offered almost exclusively by private banks located in the City of London, like Coutts & Co., Lombard Odier and Grindleys which were established to service the needs of individuals who had accumulated their personal wealth through ‘old’ money sources such as inheritance, property, land ownership, and manufacturing and extractive dynasties (Hassler, 1999; Irvin, 2008) (Table 2). This began to change in the 1980s when many high-street retail banks began to offer private banking and premier accounts to a burgeoning ‘new service and middle class’. However, the most significant changes followed the deregulation of financial markets from the mid-1980s onwards in the City of London that led to the rapid growth of a ‘pure’ private wealth management industry. This growth involved a range of multinational corporations, small and medium-sized financial and professional service providers, as well as established private banks (for example, Wachovia) and the private banking arms of many global banks, most notably by competitors from the United States like Bankers Trust, Chase Manhattan, Citicorp and Merrill Lynch (Bicker, 1996; Frank, 2007). Moreover, such institutions increasingly began to manage such investable assets from the ‘offshore’ jurisdictions of Switzerland, Luxembourg, the Channel Islands, the Isle of Mann, Hong Kong and the Caribbean (for example, the Cayman Islands) (Maude and Molyneux, 1996).

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

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This growth reflects the ways in which financial services firms saw the new regulatory environment as an opportunity to cultivate HNW financial subjects as ‘active investors’ (Langley, 2006a) from whom they could make significant profits. As a result, the development of the private wealth management ecology echoes the growth of retail financial services more generally in which different technologies are developed by financial service providers in order to reproduce and govern their desired (namely profitable) financial subjects or customers (Martin, 2002; Langley, 2009). For example, Marron (2007) documents how risk management technologies, particularly credit-scoring techniques, were developed by lenders in order to foster and manage consumer credit markets in the United States from the 1920s onwards. Summarizing

the growth of retail finance and the concomitant reproduction of particular financial subjects as customers, Langley (2009) argues that

> The government of contemporary mass financial markets can … be seen to feature the moral, political and technological assembly of subjects who not only meet their outstanding obligations, but who entrepreneurially manage and manipulate those obligations to maximize their freedom and security. (p. 1410)

Given the profitability that retail financial firms saw from transforming new financial elites into wealth management customers, their services moved away from the 'traditional', established, private banking business model that revolved around deposit taking and payments, limited asset management and tax advice, and brokerage, offered by a 'single designated relationship manager'. Rather, the newly emerging wealth management industry can be defined by its financialized business model in which it provides financial advice not only to protect investments, but also to accumulate, grow and transfer wealth between generations. Indeed, it has developed in order to service a higher-volume customer base who, following processes of neo-liberalization and financialization, are encouraged both to take and manage risks by tying their investments more closely into the international financial system in order to secure higher rates of return. As a result, an industry once dominated by private banks and 'family-connected' stockbrokers is now a significant global industry spanning banking, financial services, insurance, real estate (property) and traditional professional services (accounting, legal), with many, if not all, of the global financial and professional service firms highly active in this market both 'onshore' and 'offshore' (Maude, 2006, pp. 1–2; Bicker, 1996).

In terms of the nature of the financial services developed to service these individuals, Maude (2006) suggests that

> There is no generally accepted standard definition of wealth management – both in terms of the products and services provided and the constitution of the client base served – but a basic definition would be financial services provided to wealthy clients, mainly individuals and their families. (p. 1)

That said, the services offered to the HNW market and mass affluent (MA) range from

insurance and private annuities (Mayer and Levy, 2004). Whilst it is impossible to quantify the actual number of players in private wealth management in the UK, one can distinguish between the main types of players involved in the market (Maude, 2006):

- Private banks that target HNW individuals (HNWIs) and are perhaps the most significant players in the market.
- Trust banks (US private banks) that mainly target so-called ultra-HNWIs (UHNWIs; the definition of which is discussed below).
- Universal and retail banks that target the MA and HNWIs from their existing clientele and portfolio of business.
- Investment banks that target UHNWIs.
- Family offices that serve the wealthiest and top-tier billionaires in the US (about 4000 families) and Europe (about 500 families).
- Financial advisors serving both HNWIs and the MA.
- Stockbrokers.
- Asset managers.
- Product specialists (for example, hedge fund providers).
- Insurance and other professional services who target HNWIs and the MA.

Banks (as listed above) are the most significant players in this market for private wealth management, which still retain their private banking function (Table 3).

Table 3. The world's largest private banks, 2007 (by global assets under management)

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This paper conceptualizes this emerging private wealth management industry as an ecology, thus making a significant contribution to the recent work in other areas of retail financial service provision (Leyshon et al., 2004). The metaphor of ecologies has been developed in order to overcome the neglected spatiality (in both production and outcomes) of financial services associated with the use of network metaphors. In particular, ecological metaphors emphasize the ways in which

> certain arrangements emerge that are reproducible over time. These processes unfold across space and evolve in relation to geographical

> difference so that distinctive ecologies of financial knowledge and practice emerge in different places.
> (Leyshon et al., 2004, p. 627)

However, whilst work on ecologies is instructive in its geographical focus, to date it has not considered in detail how different industry technologies, such as credit scoring, shape these ecologies. In response, this paper focuses on two technologies that have played an important role in shaping the development of the wealth management ecology (investable asset classification and geographical differentiation) in order to understand not only the geographically variegated nature of wealth management ecologies, but also how this variegation emerges from the use of such technologies. Using this approach, what follows explores the development of one case study private wealth management ecology found in the UK centred on London and the South East of England. This case study is valuable because in addition to being one of the most important such onshore clusters globally for wealth management, where intermediaries have the opportunity to benefit from close geographic 'home bias' in investment behaviour in a global financial marketplace (as outlined by Dupuy et al., 2010; Wójcik, 2007, 2009), alongside New York, Singapore and Hong Kong (IFSL, 2009), it is also intrinsically international in nature given the international financial elite labour markets that it services.

PRIVATE WEALTH MANAGEMENT MARKET TECHNOLOGIES AND THE NATURE OF THE HIGH NET-WORTH FINANCIAL ELITE

The development of private wealth management ecologies has relied on two related 'technologies': first, technologies of classification based on different levels of wealth amongst financial elites; and second, technologies of classification based on the geographical concentration of the potential client based. Beginning with different levels of wealth, the key sources of intelligence and information in creating this technology of wealth classification was the publication of the Forbes list of wealthiest US individuals and The Sunday Times Rich List (from 1982 and 1988, respectively). These publications provided a significant platform for the reframing of the exclusive traditional market for 'rich' to a so-called, HNW market, systematically reclassifying wealth into well-defined bands of liquid assets with the objective of being able to target specific financial

which firms in mass-market retail financial ecologies categorize their customers according to credit risk (Martin, 2002; Marron, 2007). One of the first acceptable definitions of HNWIs was publicized by MLCG in the mid-1990s, and little has changed in their original definition to the present day:

> HNWIs are defined as those having investable assets of US$1 million or more, excluding primary residence, collectables, consumables, and consumable durables;
>
> Ultra-HNWIs are defined as those having investable assets of US$30 million or more, excluding primary residence, collectables, consumables, and consumer durables;
>
> Mid-tier millionaires are HNWIs having US$5 million to US$30 million. (MLCG, 2009, p. 2)

Building upon this wealth classification, many private wealth management providers themselves have refined their own definitions of the wealthy for internal purposes. For example, PricewaterhouseCoopers (2009) have defined their own wealth pyramid, defined in US dollars, in five descending bands:

- UHNWIs worth more than US$50 million.
- Very HNWIs (VHNWIs) worth between US$5 million and US$50 million.
- HNWIs worth between US$1 million and US$5 million.
- Wealthy worth between US$500 000 and US$1 million.
- Affluent worth between US$100 000 and US$500 000.

Two common denominators categorize 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 conceptualize 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’ net worth individuals. However, in addition to targeting their services to particular market segments based around different incomes (a process illustrated 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 the highest absolute and relative (percentage share) of the number of HNWIs, and the value of private wealth worldwide (by an average relative margin of about two-thirds of each total) since the inception of the MLCG Global Wealth Surveys. For example, in 2008 North America and Europe accounted for the highest shares of both the total number of HNWIs and UHNWIs (62%), and the distribution of private wealth (53%) (MLCG, 2009). Meanwhile, data from Forbes' billionaire list reveals that the United States had the highest share of billionaires and millionaires in 2008 (460 billionaires and 4.884 millionaires, representing 41% and 46% of the total share respectively) (IFSL, 2008). At the world city scale, New York is home to the most billionaires (fifty-five) on the Forbes list, followed by London (twenty-eight) and Moscow (twenty-seven) (Forbes, 2009).

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

Table 4. Changing geographical coverage of high net-worth individual (HNWI) and private wealth, 2007–2008

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These changes build on wider trends since the dot.com bust in 2001 that have resulted in significant growth in the number of HNWIs and value of private wealth in Latin America, Europe (Eastern), Russia, Asia-Pacific (particularly Singapore, China and India) and the Middle East (particularly the United Arab Emirates (UAE)) (Table 5). For example, in 2008 China's HNWI population, calculated at 364 000, exceeded the UK for the first time (362 000) and was ranked in fourth place behind the United States (first at 2.64 million), Japan (second at 1.366 million) and Germany (third at 810 000) (MLCG, 2009). Between 2006 and 2008, India (+27%), China (+20.3%), Brazil (+19.1%) and South Korea (+18.9%) had the highest relative growth in the HNWI population at the state level (MLCG, 2008).

Table 5. Changing geographical coverage of high net-worth individual (HNWI) and private wealth, 2002–2007

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Given this global pattern and the leading role of London within the international financial system, it is not surprising that the UK has become an international centre for both HNWIs and an associated wealth management industry. However, and echoing the importance of financial services and related professional services in creating HNWIs, the geographical distribution of such individuals and their financial ecologies are not even across the UK. For example, a UK regional analysis of the distribution of The Sunday Times Rich Lists (2002–2009) shows that London and the South East has averaged 51% of the top 1000 HNWIs who were born, live or have their interests centred in these regions.

Taken together, these data on the geographical and income-based segmentation of HNWIs in the UK suggest that their associated wealth management industry will be concentrated in London and the South East. What follows specifies the nature of the multiple wealth management ecologies that have developed to service them.

A SURVEY OF PRIVATE WEALTH MANAGEMENT FIRMS AND THEIR ECOLOGY OF FINANCIAL PROVISION IN A UK CONTEXT

Following the rise of ‘new’ money forms of wealth in the UK and the associated wealth management industry, the financial services ecologies available to services HNWIs have diversified significantly, seizing on the growing number of potentially profitable new financial elites. The following section presents a unique analysis of the UK and London's private wealth management industry, noting the segmentation of the financial product portfolio and nature of the HNW sector. For clarification, it focuses on the emerging organization architecture of this financial ecology, rather than on the investment behaviour, whether ‘home’ or ‘international’, of the intermediaries who manage the wealth of these HNWIs. Therefore, the authors cannot draw substantive conclusions regarding the ‘home bias’ of the investment portfolio and management of these bespoke financial products. But, first, it is important briefly to introduce the methodology.

Methodology

The methodology was a desk-based study that undertook an in-depth content analysis of 400 individual firm websites to construct a database of private wealth management providers, documenting the types of financial products which were offered to the HNW client groups. To the best of the authors' knowledge this is the first such original compilation and analysis of retail private wealth providers in the financial literature that spans business studies, financial geography and the sociology of finance. In order to compile the database, six major types of service providers were categorized, as identified from the wealth management literature: banking (including retail, private and the wealth management arms (WMAs) of investment banks); asset management; insurance; accounting; legal; and high-street and internet-based specialists. For each type of category, lists of the predominant firms were obtained from various industry trade bodies and specialist intelligence sources, including: The British Bankers Association, the Investment Managers Association, the Association of British Insurers, The Legal 500, and Accountancy Age. In order capture data in a systematic way from each firm website, it was necessary to develop a series of thematic categories (cells of information) which would allow for the recording of specific findings into generic information. The database included ten substantive individual categories (cells) of information: the wealth management provider (name of firm); the category of provider (accounting firm, bank, asset management, etc.); any affiliations the provider has with other financial firms; the target market (for example, HNWI, VHNWI and UHNWI); the UK location of the firm; the location of international offices; the firm's unique selling point

to clients; the products on offer; and the location of the firm headquarters. As for location, 286 of these 400 firms were headquartered in London (72%), with a further forty-three in the rest of the South East of England (11%), followed by thirteen in Edinburgh (3%).

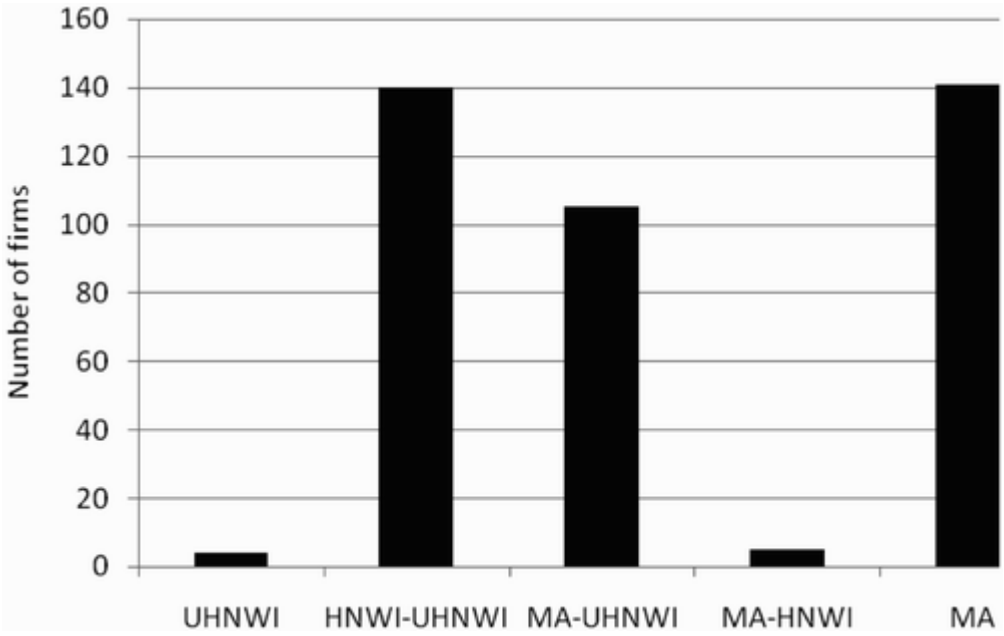
Segmentation and wealth management ecologies

Fig. 1 shows the number of companies within the 400 firm database operating in the UK offering different kinds of private wealth management services to different segments of the HNW market, including the MA.

Fig. 1 Wealth management providers by client category

Note: HNWI-UHNWI, high net-worth individual to ultra-high net-worth individual; MA-HNWI, mass affluent to high net-worth individual; MA, mass affluent; MA-UHNWI, mass affluent to ultra-high net-worth individual; UHNWI, ultra-high net-worth individual

Source: Firm database



Display full size

This reveals the collective importance of the high/ultra-HNW and MA/ultra-HNW client groups – groups that have been labelled the ‘super-rich financial elites’. Within these ecologies, the types of financial services offered are highly varied. Out of the 140 firms active in this HNWI-UHNWI ecology, services were dominated by accountancy firms (23%), banking (23%: private banks, 13%; and WMAs of investment banks, 10%), legal

these varying wealth management ecologies are extremely diverse, ranging from financial estate planning to art storage, for present purposes this paper concentrates on the services offered by the most important types of providers: accountancy firms; the two most important different types of banks: private and WMAs of investment banks; and legal services.

Beginning with accountancy, the most frequently offered services by accountancy firms involved in wealth management in the UK were tax advice (21%), financial planning (15%), trust and/or estate management (9%), and help completing tax returns (8%) (Fig. 2). All of the leading UK, including global, accounting firms offered wealth management financial products to individual clients. For example, KPMG have a dedicated UK partnership team, Private Client KPMG, focused on personal taxation:

> [W]e help individuals, trusts, and family companies with creative and constructive tax advice. Whether it's your tax return, running your business or passing on wealth we can help. We provide clear advice, tangible results and a transparent approach to fees.1

The key element of these products is ensuring that clients are ‘tax efficient’ in their personal and business activities. Servicing expatriates and non-domiciled residents are a particularly important clientele for accounting firms. For example, Rawlinson & Hunter highlight how international clients are exposed to complicated, cross-jurisdiction tax laws that can erode their wealth and they offer their services to minimize the tax exposure of clients to particular state taxes:

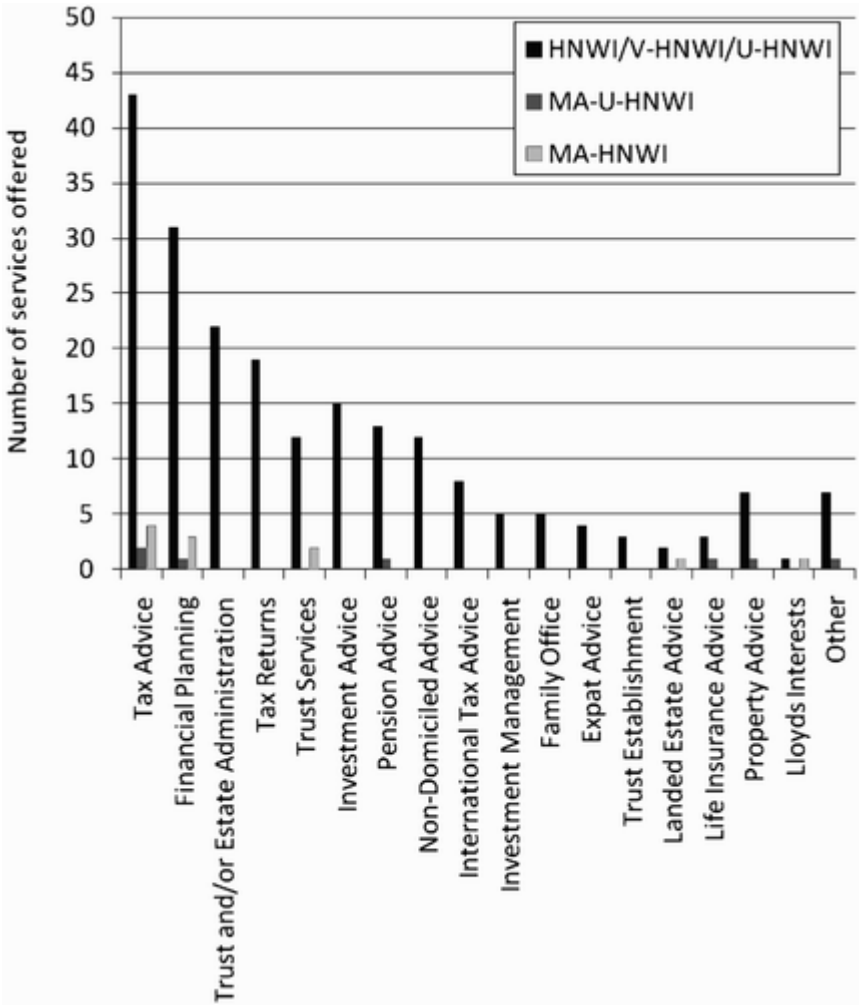
> Whether you are moving into or out of the UK or any of the other jurisdictions in which we operate, we can advise you as to how to achieve your relocation in a tax efficient manner. … The unrivalled experience of trusts and international tax planning ensures that we are ideally placed to advise you on your relocation.2

Accountancy firms also provide services to large, family businesses that can account for a substantial proportion of an individual's wealth. For example, regionally based Duncan & Toplis, and Hazelwood's provide practical accountancy services to facilitate the efficient running of a business, but also to maximize a company's financial performance. Accountancy advice is also important to manage the inheritance of an individual's estate. For example, the inheritance of a family business can be organized

to minimize inheritance tax, through tax planning and trusts, to protect the ownership of the company for the family members.

Fig. 2 Products and services offered by accountancy firms

Source: Authors' firm database



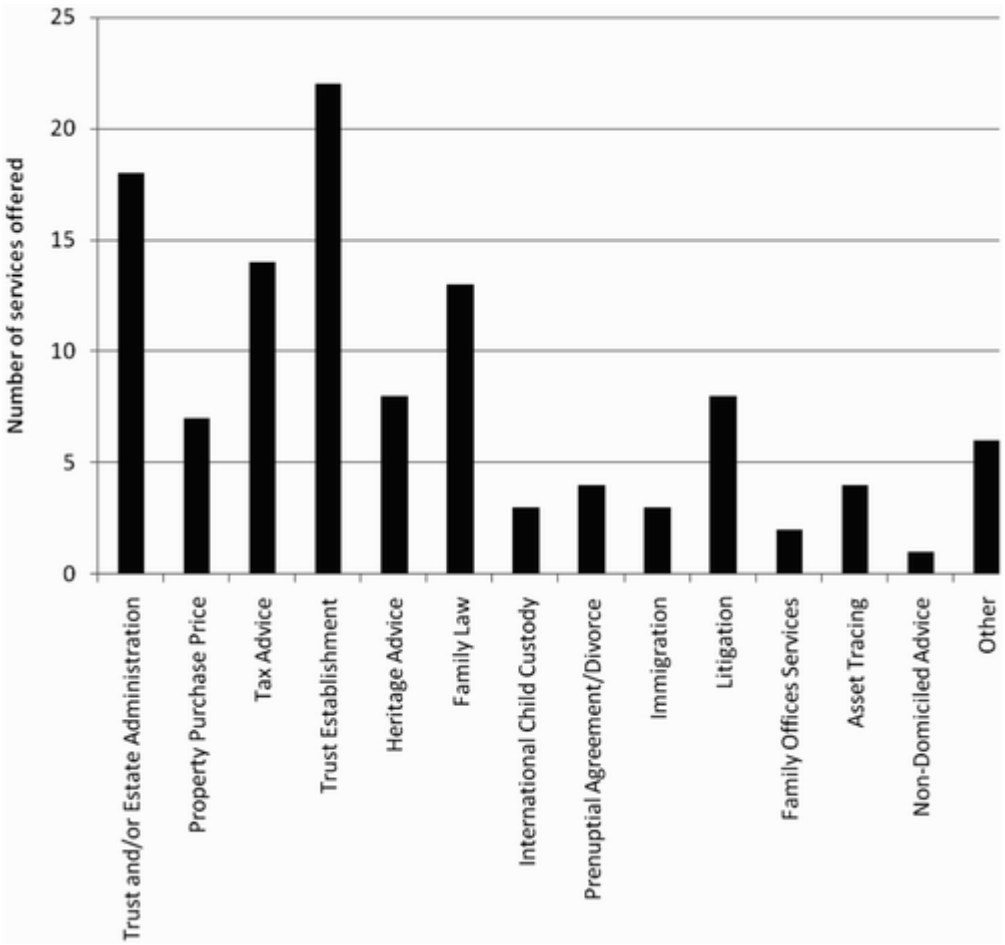
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Meanwhile legal firms concentrated their activity within the HNWI and UHNWI ecologies with the two most frequently advertised services being the establishment of trusts (19%) and services related to the management of trusts and estates (16%) (Fig. 3). These activities are indicative of the financialized nature of wealth management services in that they are focused on the active maintenance of the investable assets of HNWIs such that they can pass it on to their family rather than simply positioning individuals as passive savers in private banks as was more typical in the management of 'old' money (on the shift from passive savers to active investors associated with financialization, see Langley, 2006a). Offering advice on the tax implications of trusts

May, May & Merrimans advertises that it ‘offers and implements advice on wills and lifetime gifts or settlements and on minimising capital taxation’. Equally, Taylor & Wessing note how capital gains tax on investments can be minimized once a client's assets are moved to a trust.[3] Importantly, firms such as Bircham Dyson Bell use their expertise to preserve intergenerational family wealth through estate planning and prenuptial agreements to ensure that family wealth is not ‘lost’ outside of a family during a divorce.[4]

Fig. 3 Products and services offered by legal firms

Source: Authors' firm database



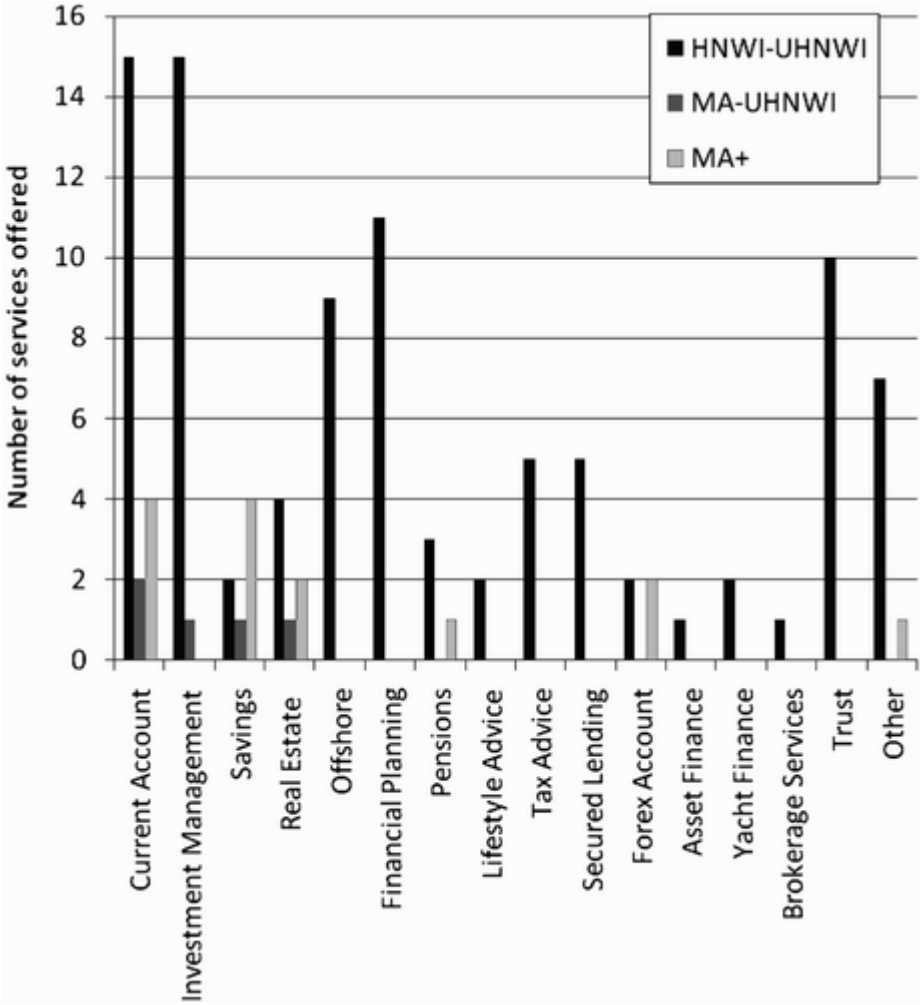
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The ways in which banks contribute to shaping wealth management ecologies is more varied because of the range of different types of banks: private and the WMAs of investment banks. For example, well-established private banks such as Adam & Co. plc and Coutts & Co. focus on HNW and UHNW clients, accounting for 13% of services offered to these client groups in the research. This is achieved through products such

products), financial planning (10%), and offshore services (8%) for expatriate and non-domiciled clients with interest in the UK (Fig. 4). These banks face competition from the wealth management divisions of investment banks such as Barclays Wealth Management, Citi Private Bank, J.P. Morgan Private Bank and Morgan Stanley Private Wealth that also target the HNWI and UHNWIs who account for 87% of the services offered. The most frequently offered services in this respect amongst the banks researched were investment management (19%), financial planning (13%) and current accounts (15%) (Fig. 5). This competition between private banks and investment banks points to the relationship between different types of financial ecologies servicing financial elites with private banks historically servicing ‘old’ money clients and investment banks focusing on ‘new’ money. The interaction between these two types of super-rich ecologies is examined below to reveal the ways in which financial ecologies intersect and develop together in relational ways.

Fig. 4 Products and services offered by private banks

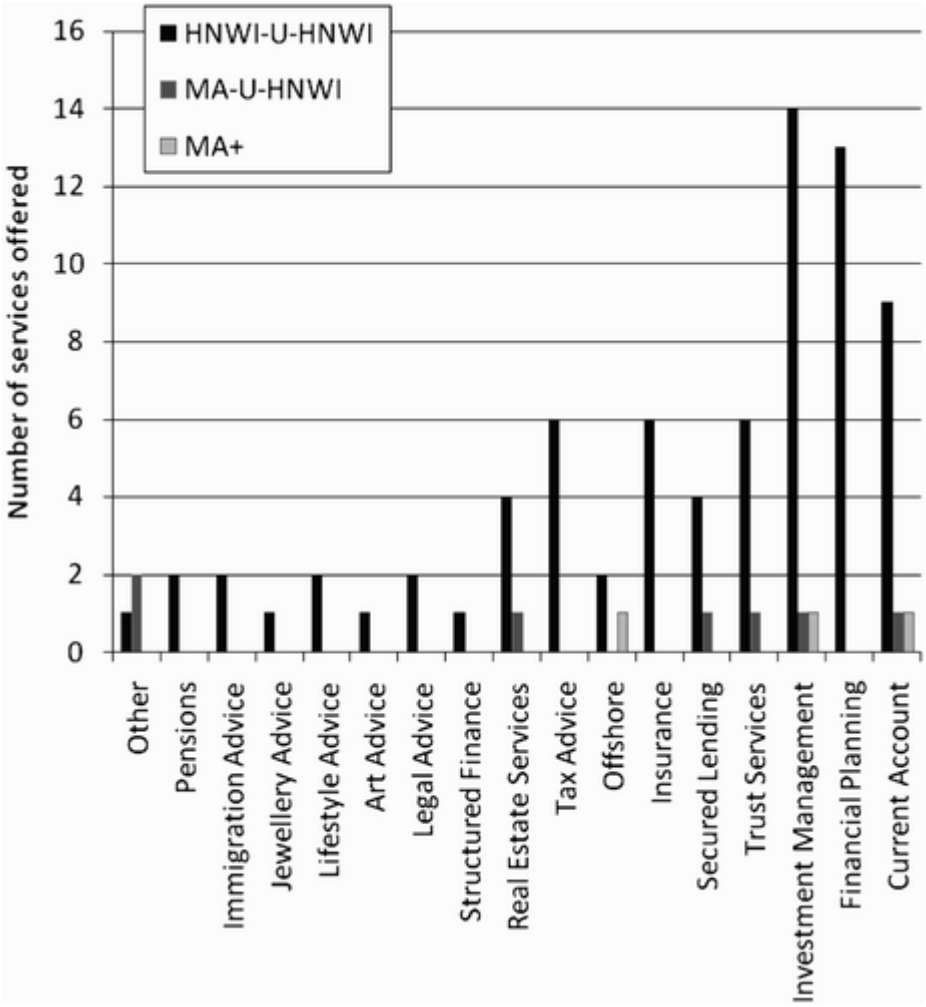
Source: Authors' firm database



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Fig. 5 Products and services offered by the wealth management arms (WMAs) of investment banks

Source: Author's firm database



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'OLD' AND 'NEW' MONEY PRODUCT SEGMENTATION IN PRIVATE WEALTH MANAGEMENT

Findings derived from the database illustrated that only 9.1% of the wealth management companies provided services and products to clients that were classified as seeking traditional values, which it is argued here are to be 'old' money clients. It is notable that nine private banks were identified as offering traditional value services (Bank J. Safra, Butterfield Bank, Coutts, Duncan Lawrie, Weatherby's Bank, C. Hoare & Co., Brown Shipley, Adam & Co., and R. Raphael & Sons) compared with one WMA of an

WMAs (including, for example: Credit Swisse Private Banking; Barclays Wealth; HSBC Private Bank; Investec Private Bank; BNY Mellon Wealth Management; J.P. Morgan Private Bank and Kleinwort Benson Private Bank) sought to use investable asset classification technologies in order to offer bespoke products to a clientele which identified with professional management values, thus targeting their services towards so-called 'new' money clients. These findings indicate that private banks are still more likely to offer their services to 'old' money clients, by leveraging their historic brands, than the newer WMAs of investment banks, which rely on offering professional management to clients who have obtained their wealth through a liquidity event, or some other means of rapid wealth creation not linked to inheritance or the landed gentry. This, however, is not to say that private banks turn away new wealth while WMAs ignore 'old' wealth.

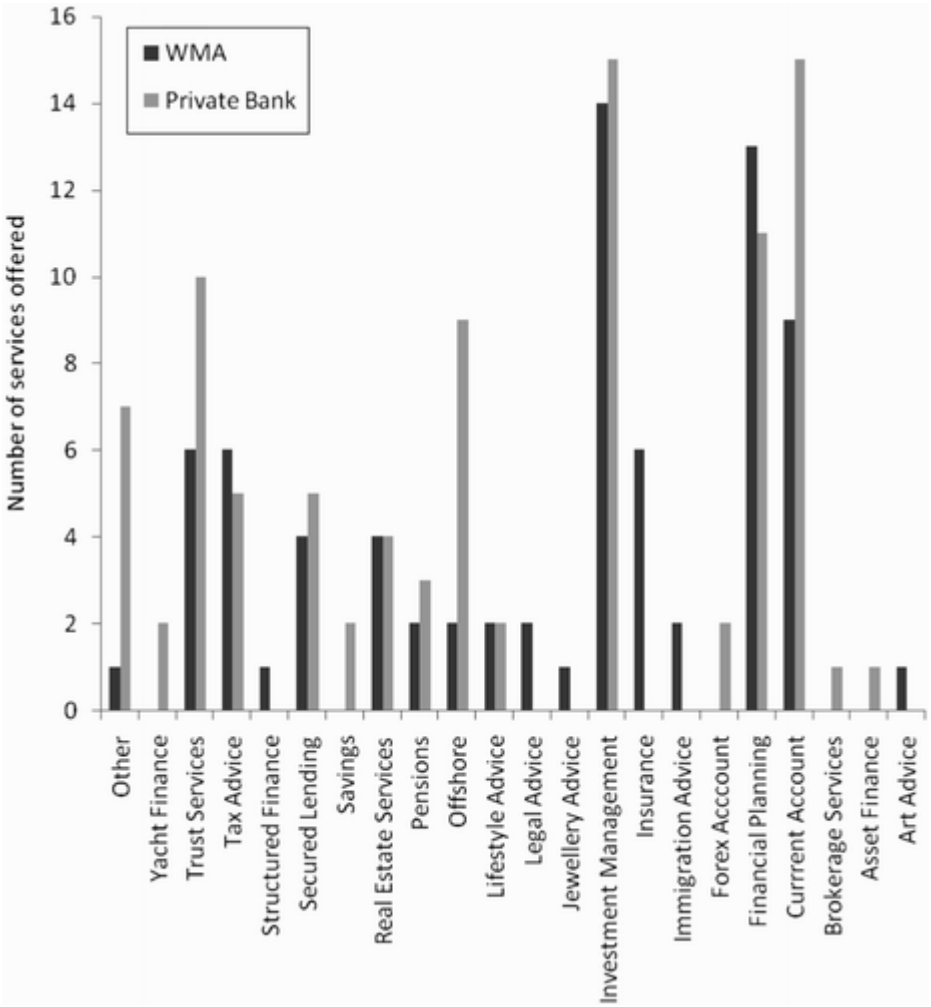
Importantly, WMAs of investment banks were created in some part to offer bespoke services, through their own business model, to their own employees, financial entrepreneurs, such as hedge fund managers, and employees of other financial service industries, whose remuneration packages (and number) increased astronomically from the late 1980s onwards in the context of relatively low personal taxation regimes in both the United Kingdom and United States. The diversification of investment banking into wealth management was also driven by the necessity to seek new income streams to counter the dependency and volatility of market trading revenue (Maude, 2006). To put this potential financial elite wealth market into an empirical context for the UK, at the height of the market pre-financial crisis at year end 2007 the Centre for Economics and Business Research (CEBR) (2009a, 2009b) estimated that £10.2 billion was paid out in bonuses to approximately 354 000 City-type jobs, which is a staggering increase of 162% from 2001, when a £3.9 billion bonus pot was paid out to an estimated 312 000 City-type jobs.

The findings indicated that while both private banks and WMAs offered financial planning and investment management advice to clients, the WMAs offered more explicit advice on purchasing art and jewellery and insurance for high-net assets (for example, yachts and private jets), as well as providing legal and immigration advice (Fig. 6). In terms of private banking, Coutts & Co. and Weatherbys bank are interesting examples to highlight. Both have a heritage to draw upon, but unlike Weatherbys, Coutts has stratified its clientele into specific groups, based on their particular needs and source of the wealth. Coutts draws on its rich 300 year history to reinforce its

‘new’ money clients. These include wealth management teams to serve ‘private office’ and ‘landowner’ clients representing ‘old’ money, and new diversified groups such as sports people and entertainers. The bank believes it has an edge by ‘having experience of looking after clients with similar lifestyles. For clients who may have obtained new wealth as an executive, their ‘dedicated client group looks after the wealth of corporate directors and executives working in the financial markets’. Coutts aims specific products at these investors too, ‘competitive and flexible borrowing will probably be a requirement at some stage of your career – perhaps when you become a partner in a professional firm’.5 Coutts classifies Americans moving to Britain as a particular group providing them with advice on financial planning and restructuring their US and UK assets.

Fig. 6 Differences in services supplied by the wealth management arms (WMAs) of investment banks and private banks

Source: Authors' firm database



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In contrast to Coutts, Weatherbys bank, a one-office firm, and founded in 1770 initially to support the British race horsing industry, based in Wellingborough, England, is firmly aligned to the ‘land and gentry’ and traditional values. It purveys itself as ‘a modern bank, refreshingly traditional’, which focuses on offering its clientele a one-to-one personal, tailored service focused on almost all segments of private banking (current accounts, online banking, savings and deposits, FOREX, lending, planning and pensions). An important mission of Weatherbys' wealth management planning is:

> We work on the basis that most people want strategies that ‘keep their wealth’ rather than ‘make them wealthy’.6

Interestingly, the case of Coutts demonstrates how private banks are having to change their traditional services in order to compete with the more recently emerging wealth management industry, but Weatherbys highlights the requirement for some niche players to retain a focus on their traditional values and clientele.

Meanwhile, in terms of the WMAs of investment banks, J.P. Morgan, which has an office in London, appears to have developed its target market from a US perspective, focusing on the wealth of entrepreneurs in common with other wealth management departments. J.P. Morgan describes its business outlook as ‘the overriding objective of the investment practice is to help you achieve success’. Indeed, J.P. Morgan claims to be an advisor to 40% of the individuals on the Forbes Billionaire List and the Forbes 400 wealthiest Americans and targets its products to ‘new’ forms of wealth including business owners, corporate executives and entrepreneurs:

> If you hold a significant equity stake in your company, an IPO, merger or corporate sale can unlock substantial personal wealth. … We can help you prepare for a sale by valuing your interest in the business, weighing the pros and cons of various kinds of liquidity events.7

The WMAs are different to traditional private banks, which appear to sell their parent company's products, providing clients with the ability to experience a ‘liquidity event’ and to ‘join’ the wealthy. As WMAs are much newer in the market (tens of years as opposed to hundreds), branding is seen to be critical to their success explaining why the newer WMAs focus on their global coverage and banking expertise, while UK private banks focus on their heritage (PricewaterhouseCoopers, 2009). WMAs have developed to take advantage of the profits to be made from the assets of HNWIs whose investments

selling their own products, especially as the WMAs appear to have been created around the existing corporate architecture, such as Citibank's WMAs.

CONCLUSIONS

This paper has extended debates about financial elites and their role in processes of financialization by considering how such individuals not only shape such processes through their work in financial firms and related advanced producer services, but also are central, as consumers, to the development of new forms of retail financial services based around ‘wealth management’. Using research on financial elites, financial services consumption and financial ecologies more generally together with original empirical research into the services provided by this industry, four important findings have emerged. First, the nature of financial elites in the United Kingdom, in common with developments in the United States, has changed markedly in recent years shifting from a dominance of ‘old’ forms of money based around family assets to ‘new’ forms of money associated with work in financial services and related producer services in which there is significant personal remuneration and a strong bonus culture. Indeed, these remuneration practices have proved to be remarkably resilient in the wake of the financial crisis. This distinction is important because this more recent form of ‘new’ money has been framed as being potentially highly profitable to a new set of retail financial service providers if it is managed and investment correctly within ‘wealth management’. In this financial ecology, established providers in the form of longstanding private banks have faced increasing competition from new forms of financial services providers, most notably the wealth management divisions of investment banks that are in effect offering financial services to their own employees. The rise of this ecology and its associated technologies of investable asset classification and geographical differentiation has consequences not only for the future development of private banks, but also for other financial ecologies that have been more commonly studied in geography and the broader social sciences as high street banks increasingly target the financial elites ecology at the expense of more ‘ordinary’ ecologies that are seen as less profitable.

Second, the private wealth management ecology is not homogeneous, but is segmented both in terms of different types of financial elites and geographically. In

has developed a range of technologies in order to classify individuals within the category of financial elite in order to target different services to different groups. Given the important role played by consultants and the media in shaping this process, it echoes Thrift's (2005) work on soft capitalism in which knowledge produced by consultants and the media (such as The Sunday Times Rich List) becomes vital in underpinning different forms of financial services delivery. Meanwhile, geographically, the research revealed the changing international makeup of financial elites as they increasingly populate emerging markets in Asia and the Middle East, particularly in the wake of the financial crisis.

Third, and continuing the geographical outcomes of the research, more specifically the findings highlight the continued dominance of London and the South East of England as global clusters for the private wealth management industry, echoing earlier work on the effects of financial deregulation on the expansion of the City in the 1980s (Leyshon and Thrift, 1997). Seventy-two per cent (n = 286) of the private wealth management firms in the 400 firm database were headquartered in London in banking (private, wholesale and retail), asset management, insurance and professional services ('magic circle' law firms and the so-called 'Big Six' accounting firms), but less so in provincial centres like Edinburgh and Leeds. Indeed, the research reinforces London's reputation as being one of the world's leading centres for wealth and asset management ecologies, benefitting from its highly likely preponderance of 'home bias' in investor behaviour in domestic markets, ranked alongside New York, Singapore and Hong Kong (IFSL, 2009).

Fourth, and conceptually, this paper has demonstrated the value of bringing into dialogue work on financial elites, financialization and retail finance. In so doing, the research identifies and specifies neglected financial ecologies that have developed to meet the demand of financial elites who have, in extant the literature, been primarily understood as architects of financialization, rather than financialized consumers in their own right. Whilst the resulting wealth management ecologies have grown significantly since the mid-1980s, the recent and ongoing global financial crisis clearly raises a number of important questions concerning its future development. At one level, trends that have seen increasing concentration of financial elites in emerging markets such as South East Asia are likely to increase as established financial centres such as London seek to recover from the crisis. In the case of the UK, these developments are particularly hard to predict because of the as-yet unknown impact of the so-called

extent to which this might encourage financial elites to relocate overseas, potentially to offshore centres that are known for their lower tax regimes. However, in order to understand the intersection between financial elites, financialization and retail finance that in many ways underpins such developments, the research suggests that there are valuable insights to be gleaned by considering the consumption habits of financial elites in relation to retail financial ecologies. This paper has sought to initiate such a research agenda through the case of the UK.

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See http://rd.kpmg.co.uk/WhatWeDo/14508.htm (accessed on 11 August 2010).

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