

International banks eye former soviet countries

MOSCOW, RUSSIA: International banks can cash in on the increasing number of rich individuals in former soviet countries if they take the time to understand local characteristics, finds Datamonitor.

DATAMONITOR

Research* by the independent market analyst has revealed that despite being hit by the global recession there are still 1.4 million affluent individuals in Russia, Kazakhstan and the Ukraine. This figure is set to see rapid growth; in the Ukraine and Russia, Datamonitor predicts this will happen this year and for Kazakhstan, next year. As wealth management remains a new concept in the region, this will offer significant opportunities for international banks.

Michele Gorman, analyst at Datamonitor, said: "The growth in the number of affluent individuals in former soviet counties is significant for international banks for a number of reasons. One key reason is that although some local banks are starting to offer services for the affluent - Russia being the most developed market - wealth management is still a new concept and services remain limited, particularly in Kazakhstan."

Newly rich... safe but sure

The wealthy in this region are first generation that have built their fortunes from scratch, and are very keen to hold onto what they have. Therefore although they may have taken risks to make their money, they hold the majority of their investments in "safe" products, making them particularly risk adverse, especially in the case of the Ukrainians and the Kazaks.

In addition, as the affluent have made much of their fortunes through entrepreneurialism they know a lot about their industry but few know much about financial services. Combined with an inherent mistrust in their own banking system, and a lack of need to keep their money onshore - because they've already built up their businesses - this means investing with international banks is particularly appealing. In addition, the banks are keen to tap the estimated £34 billion (about R374 billion) that these customers hold offshore.

Facing hurdles

However, despite this potential, banks face a number of hurdles. One of these is keeping and attracting relationship managers in the region. Loyalty is particularly important to wealthy individuals in these counties so ensuring the right people are on the ground is essential.

Gorman added: "Understanding the wealthy in former soviet countries will become increasingly important to international

banks as the number of individuals continues to increase over the next few years. This is important in Russia where the onshore wealth management industry is developing with a number of players having entered the market in the last few years.

"To ensure they continue to dominate, international banks will need to need to work hard to make their products more attractive, particularly as we predict that the number of wealthy individuals in Russia will increase by nearly 30% by 2014."

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