FUTURE STUDIES RESEARCH JOURNAL: TRENDS AND STRATEGIES
e-ISSN: 2175-5825

PROSPECTIVE SCENARIOS FOR OFFSHORE PRIVATE BANKING FIRMS SERVING BRAZILIANS IN 2040

Received: 21/11/2021

Accepted: 13/04/2022

[1]**Daniel Pedrosa Sousa**
[2]**Gilberto Sarfati**

ABSTRACT

Objective: This article aims to explore potential future scenarios for the offshore Private Banking industry serving Brazilian individuals, considering the increasing competition.

Methods: The research employs the Prospective Scenarios approach, including a Delphi panel with industry's experts in two rounds of interviews.

Results: The results indicated a consensus among the participants regarding two driving forces for the offshore Private Banking Industry: Regulation and Educational Challenges. The work builds four prospective scenarios for 2040: The Sky is the limit; Swimming against the Tide; The Dark Ages; and Too Much Openness Misses the Optimal Point.

Conclusions: The research concludes that Private Banking firms should closely monitor the main regulations that can impact their business. In addition, offshore Private Banking firms should invest in educating potential investors in Brazil, especially the rising affluent segment and the millennials demographic group, leveraging all the technological resources at their disposal. Both scholars and practitioners might also replicate the methodology used of prospective scenarios using Delphi (Lima, 2014; Skulmoski, Hartman & Krahn, 2007) method to other sectors.

Keywords: Prospective scenarios. Private Banking. Offshore finance. Investor´s education. Financial regulation.

FUTURE STUDIES RESEARCH JOURNAL
Scientifc Editor: Renata Giovinazzo Spers
Evaluation: Double Blind Review, pelo SEER/OJS
Doi: https://doi.org/10.24023/FutureJournal/2175-5825/2022.v14i1.632

[1] Escola de Administração de Empresas de São Paulo da Fundação Getulio Vargas- FGV/EAESP, São Paulo, (Brasil). E-mail: danielpas08@gmail.com Orcid id: https://orcid.org/0000-0003-4559-187
[2] Escola de Administração de Empresas de São Paulo da Fundação Getulio Vargas- FGV/EAESP, São Paulo, (Brasil). E-mail: gilberto.sarfati@fgv.br Orcid id: https://orcid.org/0000-0003-0772-5197

CENÁRIOS PROSPECTIVOS PARA FIRMAS DE PRIVATE BANKING OFFSHORE ATENDENDO BRASILEIROS EM 2040

RESUMO

Objetivo: Este artigo tem como objetivo central explorar potenciais cenários futuros para a indústria de Private Banking offshore, considerando a crescente competição.

Método: A pesquisa utiliza o método de cenários prospectivos junto a um painel Delphi com especialistas da indústria em duas rodadas de entrevistas.

Resultados: Os resultados indicaram um consenso entre os participantes a respeito de duas forças motrizes para o setor de Private Banking offshore: regulação e desafio educacional. O trabalho construiu quatro cenários prospectivos para 2040: O céu é o limite; Nadando contra a maré; A Idade das Trevas; e Muita Abertura Perde-se o Ponto ideal.

Conclusão: A pesquisa conclui que as empresas de Private Banking devem monitorar as regulamentações que podem impactar seus negócios. Além disso, devem investir na educação de potenciais investidores no Brasil, especialmente o crescente segmento afluente e o grupo demográfico dos millenials, tirando proveito dos recursos tecnológicos à disposição. Tanto acadêmicos quanto profissionais podem replicar a metodologia usada de cenários prospectivos usando o método Delphi para analisar outros setores.

Palavras-chave: Cenários prospectivos. Private Banking. Finanças Offshore. Educação de investidores. Regulação financeira.

1. INTRODUCTION

Data from the Central Bank of Brazil (2019a) shows that offshore assets owned by Brazilians reached over US$ 900 billion by the end of 2018. Management of these offshore assets by the banking industry has long been dominated by traditional international firms (the main investment banks). However, recently Brazilian banks and independent firms entered this market. Offshore assets owned by Brazilian have been increasing, with the competition getting fiercer in the past few years.

Another aspect that enhanced the internationalization of Brazilian Financial Services Firms was the evolution of technology in the past decade, especially connectivity, algorithm and trading platforms. These tools facilitate cross-border access to the US and other main international markets in a powerful way, while at the same time reduced the costs of investing and trading in developed markets (Angel, Harris & Spatt, 2011).

Given the constant changing environment for the industry, this research's objective is to discuss prospective scenarios (Schwartz, 1996; Van der Heidjen, 2005) for the offshore Private Banking firms offering services to Brazilian citizens. Gonzalez-Carrasco, Colomo-Palacios, Lopez-Cuadrado, Garcı and Ruiz-Mezcua (2012) define Private Banking as a business that offers tailor-made financial products to high income individuals on a long-term basis. These products include traditional banking services as well as other services such as financial planning and alternative investments.

The article starts with the revision of the offshore Private Banking industry academic literature, followed by the methodology of Scenarios planning, the Delphi method. Then the research proceeds with four scenarios driven by the two main forces identified in the research: regulation and educational challenge. Finally, the article highlights the contribution of the research as a pioneering work analyzing future possibilities for offshore industry and as an application of the potential methodology of prospective scenarios.

2. LITERATURE REVIEW

Over the past 30 years, Brazilian banks and broker dealers increased their presence in offshore markets, with the competition getting fiercer against the main international banks. Brazilian banks followed their corporate clients who have been financing themselves internationally and followed domestic investors that were willing to finance Brazilian companies abroad. The Bank of International Settlements (Serena & Moreno, 2016) states that companies based in emerging market economies, such as in Brazil, have remarkably increased their offering of bonds in foreign markets after the financial crisis of 2008-2009. Brazilian public companies have also increased their international equities issuing exposure in the past 15 years, through ADRs (American Depository Receipts), receipts of Non-American companies publicly listed in US exchanges).

Private Banking market has also moved to internationalization. According to Deloitte (2015, p.3), the Private Banking's "frontiers of demand are also being pushed beyond traditional borders, with emerging market players entering developed markets to follow their clients." Private banking industry firms have been under pressure to change their business models, due to competition from international banks, more complex regulations following the financial crisis and a generational change of clients, who urged for easier ways to run their assets based on new technologies.

Regarding the first pressure, the competition for international banks, liberalization movement in developing countries increased strongly since the 1990s, particularly on capital controls, attracting international banks to these countries. According to data from International Monetary Fund (IMF) collected by Stulz (1999), average annual net inflows to emerging markets grew from US$ 8.8 billion (from 1983 to 1989) to US$ 104.9 billion (from 1990 to 1994), of which 43.6% were directed to capital markets – this period marked the emergence of the "equity finance era", as coined by Eichengreen and Fishlow (1998). International financial firms also do business with local rich individuals offering them specialized services and information requirements to do business on the home markets of these foreign banks (De Paula, 2002).

For Brazil, the typical emerging market, and dependent on international investments as a growth motor, it was not different. Banks from Spanish and Portuguese-speaking countries opted, in their strategy of international expansion, for countries with similar language and with the best growth opportunities, as Brazil (Alvarez, Sheng & Vaz, 2015). The entrance of foreign competition increased local banks´ efficiency, as the latter had to face a tougher competition (De Paula, 2002).

Regarding the second pressure aspect, complex regulations following the financial crisis, Geleilate and Forte (2012) concluded that main Brazilian banks intensified their international insertion after the crisis of 2008, particularly in offshore Private Banking.

Regarding the third aspect, demand for easier technological global financial channels, technological advances of the past decade reduced dramatically the cost of selling, trading, and clearing offshore financial products. For instance, Maaz (2018) identifies that investors that use algorithmic High Frequency Trading (HFT) strategies represent 70% of daily market turnover on the US dollar futures contracts negotiated in the São Paulo exchange. Most of HFT investors are foreigners based outside of Brazil, with their trading servers co-located at the exchange Datacenter, executing orders in milliseconds.

Technology not only facilitated entry to different international markets but also changed the way of entry (Potter, 2015) If in the past the only choice for the customer was a single dealing bank, nowadays it is possible to use multi-dealer platforms. As platforms go online, new players enter the market offering offshore investments and other services to customers.

The Central Bank of Brazil (2019a) states on a banking report that the open investment platforms growth in Brazil has been supported by the market share reduction of closed investment platforms (as it was the case in the US post 2008 crisis), the latter usually operated by large financial institutions. Thus, individual investors have been switching from products offered at closed platforms to alternative options offered at open platforms, given the latter's higher profitability, lower or zero fees, more in person service, user friendly interface with more information, more tools available and wider selection of products.

Ernst & Young (2018) notes that recently the private banking industry has faced some important trends, such as a disenchantment of customers in the traditional financial services sector, an increase by firms in planning and investing in interactive client experience, and a changing focus to digital as customers' main preferable channel. The same consulting firm highlights the rise and evolution of the robo-advisors: advanced analytics and artificial intelligence should deliver improved options for the advisor and a greater customer experience. Despite robo-advice efficiency, the human element remains an important factor, and the industry standard seems to be gradually converting into a hybrid (human + robot) approach.

It is also important to analyze the recent rise of cryptocurrencies. Lee, Guo and Wang (2018) explore the diversification role of cryptocurrencies and test if they could represent new investment opportunities. The authors find evidence that cryptocurrencies can become new investment vehicles.

Given the technological advances, and higher competition that came with them, products and margins of the business have been decreasing. In this context, the Brazilian Financial Services Firms started to diversify internationally.

Considering the aspects above, the offshore market tends to grow. According to BCG (2019), over the next five years, cross-border hubs in or near high growth regions will attract an increasing share of personal financial wealth. The combined cross-border assets booked in Singapore and Hong Kong have already caught up with those held in Switzerland (which is still the largest cross-border center in the world), and by 2023 they are likely to exceed USD 3.3 trillion. Buoyed by a more favorable regulatory environment than exists in other cross-border hubs, the US is likely to see strong growth, too, especially from Latin American and Asian investors. Deloitte (2018), which defines International Market Volume (IMV) as assets managed or administered in a location separate from the asset owner's domicile, calculated that in 2017 global gross wealth totaled US$ 323.4 trillion, of which US$175.1 trillion (54 %) was financial wealth, and of this, US $8.6 trillion was placed in one of the worlds` largest wealth management jurisdictions, including Switzerland, UK, USA, Hong Kong, Panama and the Caribbean, Singapore, Luxembourg and Bahrain and others. By the end of 2019, the leading global Private Banking firms were still European and North American financial groups.

BCG (2019) states cross-border and domestic banks should collaborate to augment their private banking services and meet rising demand for advice on cross-border asset allocation. For instance, domestic banks in Southeast Asia, China, and other rapidly growing economies must integrate their cross-border offerings and secure appropriate partners in targeted cross-border hubs. Such partnerships can give domestic banks international expertise and can offer local market knowledge to cross-border focused banks, raising the overall caliber of client service that both partners offer. BCG (2019) defines the affluent segment investors with assets between US$ 250,000 and US$ 1,000,000. This segment shall keep growing in the next few years, with Latin American Affluent Investors growing 7.8% per year on average between 2018-2023. BCG (2019) also defines an HNWI as a person that owns over US$ 1 million in investable wealth (excluding its primary residence) and over US$ 100 million as an Ultra High Net Worth Individual.

In addressing the current size of the offshore market for Brazilians, according to the Central Bank of Brazil (2019b), Brazilians owned over US$ 900 billion in foreign assets by the end of second quarter of 2019 (a historical record). Excluding the Brazilian Central Bank US Dollars reserves, about US$ 388 billion in the same period, Brazilian companies and individuals still owned about US$ 518 billion at the time. From this number, about US$ 365 billion and US$ 45 billion comprised direct offshore capital ownership and offshore portfolio investments, respectively. Despite these impressive numbers, according to CVM (2003), the Brazilian Securities and Exchange Commission`s rule number 400, financial firms are not allowed to offer public securities to Brazilian investors if these securities are not registered with it. Offshore securities are not registered in Brazil. Thus, offshore financial firms can only sell foreign products to Brazilian investors on an unsolicited basis, or through a private placement with no public offering.

There are few studies about future scenarios for internationalization of Private Banking industry of Brazil. Molina (2013) identifies factors that drive internationalization of the Private Banking industry but does not work with scenarios. Lima (2014) proposes to study how commercial banks` competitive landscape will be in the next ten years, but does not focus on offshore markets. His study arrives at the following results: Brazilian Banks tend to grow in the Latin America region, together with an expansion to Africa; domestic banking industry is going to pass through a new process of concentration; new technologies may disrupt the traditional banking business model; smartphones will be the main vehicle for retail banking and payments. Considering the lack of studies with projections of the industry, this study aims to explore potential future scenarios for the offshore Private Banking industry serving Brazilian individuals. The present work uses the qualitative research approach of scenarios.

3. METHODOLOGY

The study uses the qualitative research approach of scenarios. According to Schwartz (1996, p.3), "scenarios are not about predicting the future, rather they are about perceiving futures in the present." The scenario planning was first introduced in a business context by Shell in the 1970s. It was used as a tool to substitute traditional planning based on forecasts. Van der Heijden (2005) says causality, instead of probability, fuels scenario-based planning.

Schwartz (1996) defines the scenarios construction methodology in following the 8 steps below:

1) Identify Focal Issue or Decision
2) Key Forces in the Local Environment
3) Driving Forces
4) Rank by Importance and Uncertainty
5) Selecting Scenario Logics
6) Fleshing Out the Scenarios
7) Implications
8) Selection of Leading Indicators and Signposts

According to Garvin and Levesque (2005), in scenario planning, it is important to have participants in the research that are key stakeholders and potentially unconventional thinkers who may be in different industries not related to the study`s issue. This research aims to uncover driving forces: themes and trends that can impact the key focal issue in many ways. The main driving forces categories are: social dynamics (e.g., changes in demography, lifestyle, population growth, social networking); economics (e.g., changes in global trade, the value of international currencies, and industries); political affairs (e.g., changes in the democratic environments, laws and regulations); and technology (e.g., advances in hardware, software, and connectivity). Driving should be ranked by uncertainty and relevance. The top two driving forces are the critical uncertainties.

For the technique of prospective scenarios, we utilized Delphi panel with industry experts (Lima, 2014; Skulmoski, Hartman & Krahn, 2007). Two rounds of interviews with industry experts were conducted. All the interviewed subjects are senior executives, having been in several positions and managing different businesses within the industry.

The focal question of the study was: What are the drivers for the Brazilian offshore Private Banking firms in the next two decades?

The industry experts interviewed for this work include international lawyers (one lawyer based in Brazil with extensive local regulation knowledge, and another lawyer based in the USA with extensive international regulation knowledge), directors of Brazilian Banks or Broker Dealers with presence offshore, one director of an International Bank with presence in Brazil, one executive of a Foreign Broker Dealer with presence in the US, and an executive of an International Vendor that provide services (mainly technological) to Private Banking firms' operations, as shown below.

Interviewees	**Years of Experience**
International Lawyer based in the US	12
International Lawyer based in Brazil	25
Executive of a major US IT Services provider for financial firms	9
Executive of a local Private Banking firm in Brazil, part of a Global Bank	25
Partner of an independent Wealth Management firm in Europe	26
Portfolio Manager of an offshore hedge fund	22
Sales Executive of an offshore Private Banking Business	27
Specialist in Offshore Funds, senior analyst	18
Manager of a Multi Family Office firm	15
Head of Private Banking Division in Brazil, part of a Brazilian Financial Group	30
Executive at a Broker Dealer in the US, part of a Brazilian Financial Group	40

Chart 1 – Interviewees.
Source: Author, 2020

In the first round of the Delphi panel, the work used an open-ended questionnaire, which was derived from the literature revision, addressed diverse themes and current issues within the industry. From the first round of interviews, the work established issues that defined industry`s Main Forces.

On the second round of interviews, the work used a closed-end Likert Scale questionnaire. The second-round questionnaire asked participants which industry`s forces they believed were more relevant or uncertain, using a Likert Scale Questionnaire. According to Cummins and Gullone (2000), the Likert scale is an attested form of questionnaire.

After selecting the industry`s main forces in the first round of interviews, the second round of interviews focused on reaching a consensus between the research participants. As Glenn and Gordon (2009) say, the Delphi method is used to reach a consensus and build a common possible scenario. Cleary (2000) states that the Delphi process is a method for systematically soliciting and collecting judgments on a particular issue using sequential questionnaires. The second-round questionnaire presented the participants with the industry`s main forces and were asked to agree or disagree with their relevance or uncertainty. The most relevant and uncertain forces selected by the participants in the second round of interviews were used as the Driving Forces for building the scenarios.

The initial contact with the participants was made through the WhatsApp social media tool. Participants were interviewed between November 2019 and February 2020 for the first round. The interviews were done either personally, by phone or email. In the second round of interviews, participants were interviewed between April and July of 2020. One interviewee could not participate in the second round. After the first round, an analysis of the first round was sent to each participant, along with a Likert scale questionnaire link at Survey Monkey for answering the second-round questions.

4. RESULTS AND DISCUSSION

Firstly, we present the industry´s s forces that arose from the key issues mentioned in the first round of interviews. In the second round of interviews, the study builded consensus among participants of the research to reach the two most relevant and uncertain forces, the driving forces. Using these two uncertainties as the axis of a matrix led this work to four plausible scenarios for the Brazilian Offshore Private Banking business by 2040.

1.1. INDUSTRY'S FORCES

Following Schwartz (1996) method, this part of the study focuses on the Private Banking offshore industry's forces that came from key issues identified in the interviews.

Significant forces from 1st round of interviews	
Force	**Environment Force Cluster**
International Crisis	Economic
Interest rates in Brazil	Economic
Educating investors about offshore investments	Sector Dynamics
Competition	Sector Dynamics
Lower Margins	Sector Dynamics
Technology usage	Technology
Market Transparency	Technology
Offshore Investments Regulation	Political
Countries openness for global trading	Geopolitical

Chart 2 – Industry's Forces
Source: Author, 2020.

A challenge mentioned for the industry is a possible global scale **international financial crisis**, with the potential to seriously affect the Private Banking industry. For one interviewee (a Swiss Wealth Manager), regulation at the leading financial centers plays a big part in avoiding excessive risk taking in financial markets and potentially controlling financial assets price bubbles.

The current scenario of all-time **low-interest rates in Brazil** is a tailwind for the offshore Private Banking industry because it is forcing investors to look out for higher-yielding (or at least more risk-adjusted yields) offshore investments. No interviewee responded that the interest rates environment in Brazil is an uncertain challenge. The Selic rate at historical lows in Brazil shall attract more investors to offshore markets, looking for higher yields and diversification. However, after analyzing all the first-round interviews, this study raises a question: Is the domestic macro/interest-rates environment a relevant or uncertain force for the offshore Private Banking industry for the next 20 years?

Regarding the force "**education**", Brazilian investors need to be educated about offshore financial products because many are not familiar about how to invest offshore or are afraid of any potential tax implications or communications problems. The firms that can effectively provide this education should probably not only help to develop the market but also thrive in doing so. However, the industry is still too focused on serving the High Net Worth Individual and should start catering more to a lower tier of investors, the qualified investors. The definition of accredited investors under the United States SEC's Regulation D is analogous in Brazil to the combination of two categories of investors, classified by CVM (2013) as "investidor profissional" (professional investor) and "investidor qualificado" (qualified investor) under Instruction 539, articles 9-A and 9-B. Under Rule 501 of the Securities Act of 1933, an individual is an accredited investor if he or she:

(i) has a net worth (along with his or her spouse) that exceeds US$1,000,000 (excluding the value of his or her primary residence);

Alternatively, (ii) income over $200,000 (or joint income above $300,000 with a spouse) in each of the two most recent years with a reasonable expectation of reaching the same income level in the current year.

This qualified or affluent investor (as defined by BCG (2019)) is already a decent onshore client for Private Banking firms, having access to relatively sophisticated domestic products. One participant (a wealth manager at a large bank) believes that this type of customer, who has been traveling internationally more frequently, is starting to demand more information about the offshore markets.

Still on the educational driving force, among the High and Ultra High Net Worth Individuals segment, the ESG factor seems to be an essential investment aspect of an asset/security for the new generations of heirs. ESG stands for Environment, Social and Governance, and independent rating agencies are ranking many companies issuing securities globally according to their scores in these metrics.

The higher **competition** seems to be inevitable. As the industry grows, more clients are tapping into offshore financial products, while at the same time, more professionals and more firms are entering this market. Also, smaller independent firms are increasing their offerings. The Private Banking industry is changing from a relationship base to a more professional and technological base.

The offshore **Private Banking business margins** have been decreasing in the past few years. However, the business is still very profitable, if not the main profitable business in large financial conglomerates. In terms of industry growth, most interviewees think that the Private Banking offshore industry shall outperform the onshore Private Banking industry in terms of growth, more than doubling in the period. Participants agree that the offshore Private Banking industry should start to cater more to the affluent segment, instead of just the traditional high net worth (or ultra-high net worth) customers, given that it is the entry level to offshore markets.

In terms of **technology usage,** the majority of interviewees (seven out of eleven participants) highlighted that new technological platforms have a positive impact on the business. Millennials and Generation Z individuals are more technologically savvy and tend to prefer to deal with investment platforms and robo-advisors vs. Baby-boomers. On the other hand, some participants believe that high net worth individuals still prefer a personal service by human private bankers and analysts.

Customers are demanding more **transparency**, which the industry is delivering with technological improvements. Customers demand better products, more suited to their investment needs, with higher returns, and at lower costs. Regulators are dictating firms to be more transparent in their transactions and reporting them to customers. This process carries uncertainty for the business future margins and competition.

Tighter **regulations** and controls from International Regulators are a consensus among interviewees. Today major global jurisdictions and offshore financial centers have increased oversight over international financial transactions, developing Anti-Money Laundering policies and procedures to regulate financial firms' operations. According to participants, AML (Anti Money Laundering), KYC (Know your Customer) and trading disclosures regulations shall tighten in the next decades, making it more challenging to move money cross-border. This trend can potentially impact the full development and growth of Private Offshore Banking business in the next decades. In Brazil, the Central Bank introduced the new Open Banking rules, in which the customer owns its financial data. Most participants believe the government will introduce regulation allowing deposits and investments in foreign currencies denominated financial products. Regarding the cryptocurrency question, no interviewee believes that it can become a mainstream financial product. However, some participants (six out of eleven) do believe that with more regulation, cryptocurrencies might become a more reliable financial product.

On the international commerce side, despite all the technological advances, the relationship between nations and their **openness to trade** is a significant geopolitical risk. Within this risk lies much uncertainty, and it is not easy to ascertain where the world economy will be in 20 years from now. A potential reduction in world trade could have a severe impact on global flows of capital, negatively impacting the offshore Private Banking industry, both on its potential growth and product offerings.

By the 2nd round of interviews, the two driving forces ranked as more relevant and uncertain arose, **regulation** and **educational challenge**.

1.2. FLESHING OUT THE SCENARIOS

Considering the two driven forces, regulation and education, it is possible to imagine four scenarios for the industry, each one with its narrative and explanation.

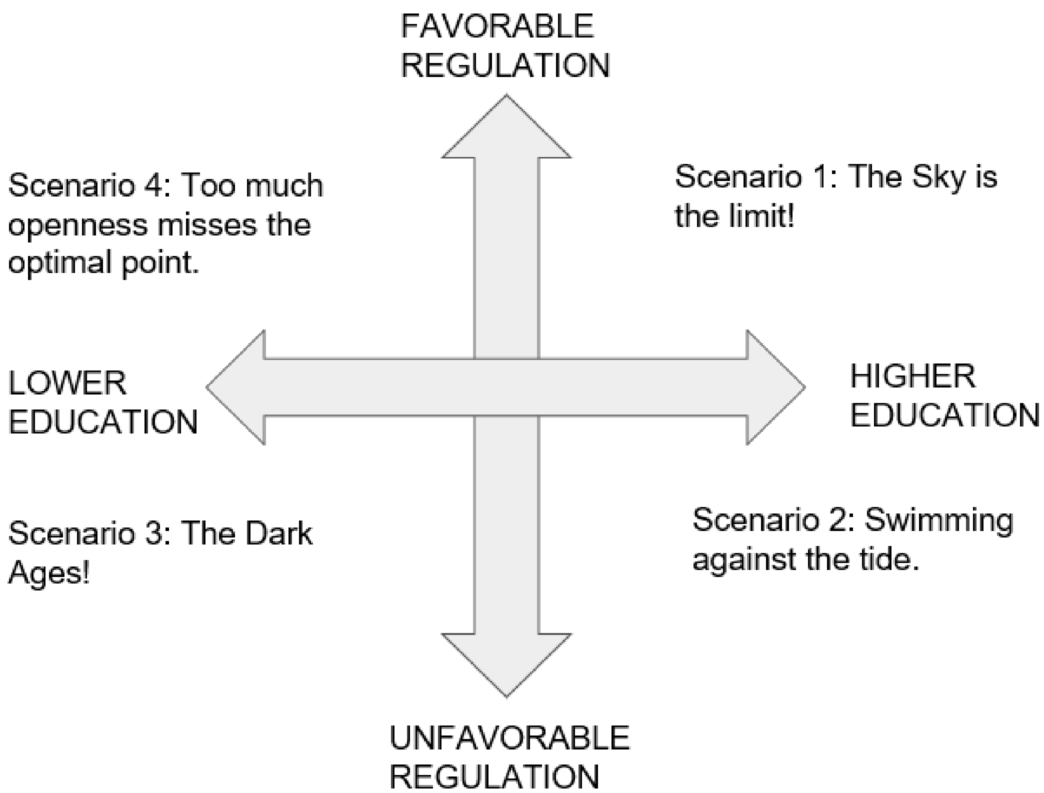

Chart 3 - Scenarios Chart.
Source: Author, 2020.

1.2.1. SCENARIO 1 - THE SKY'S THE LIMIT! THE AGE OF INFORMATION AND OPENNESS.

Narrative:

We are in the year of 2040. I am a Brazilian living in São Paulo city, and I have been investing offshore for two decades now. This has become more common for the Brazilian average investor, as the country's population ages. I have reached over 50% of my total savings invested offshore Brazil.

In the past two decades, after the Central Bank of Brazil and CVM both authorized offshore financial products solicitation in Brazil, the Brazilian investment public has seen multiple offshore Private Banking firms emerge. These firms offer several products in their platforms, from investing in American technology stocks to offshore bonds of Brazilian companies. A Brazilian individual investor can open an account at an offshore broker dealer to buy shares of Apple as easy as it can open an account at a Brazilian broker dealer to buy shares of Apple BDR (Brazilian Depositary Receipts) listed at B3 exchange. Better yet, the customer can open an account at a Brazilian Bank, and buy an offshore bond denominated in foreign currency. Investors can easily control their diverse investment portfolio in several different platforms.

I can open an account quickly and easily at any financial institution, including overseas, using my privately owned financial information. More and more investors are preferring to invest offshore and diversify their holdings away from the Brazilian currency on different foreign exchange denominated securities, mainly in US Dollars.

The offshore Private Banking platforms are highly transparent. In addition, pricing for financial intermediation has been steadily falling given the high competition in the sector. High speed internet and mobile offshore investments applications have also improved substantially in the past decades. Anyone can open an offshore brokerage or advisory account in minutes and even do a trade right after that. This account can be connected to a local retail bank account given open banking facilitation, and the offshore trade and a linked currency transaction are done automatically and debited from the customers' retail bank.

Private Banking firms are offering their products through a user-friendly electronic platform (internet-based websites or mobile phone applications). Anyone can open an account in a few minutes using a smartphone. Platforms explain how to invest offshore, the different types of products, how to buy or sell them, and how they pay dividends or coupons, or compound value through time. Private Banking firms also guide investors in how to file their offshore assets' gains taxes in Brazil.

Some of these firms are offering new commodities products, following investors' demand for ESG compliant investments, such as securitized Carbon Credits. A few Private Banking firms offer cryptocurrencies investments as well, however still on a small scale compared to other securities.

As the economy and the population savings expanded, the affluent investors category has grown in the past 20 years, and they are demanding better service, more transparency and different products options. These investors, mostly generation X, Millennials and Generation Z, are technologically savvy, but also appreciate having human interactions with financial advisors and bankers.

Independent firms' platforms and people staff are more efficient and client centric than large incumbent banks' platforms. They provide a better service in terms of flexibility and catering for their affluent customers changing needs for investments. When the regulation changed, large banks were not prepared to offer a quality offshore product, so there is a lot of competition. At the same time, most independent financial advisors in Brazil started offering offshore products to its customers as a way of diversifying investments.

Also, the fact that regulators opened the market for offshore investments led investors to be able to search for higher yields globally, allowing them to protect their savings from local inflation or currency devaluation. Pension funds and other institutional investors also benefited from that.

Explanation: Favorable Regulation and High Levels of Investors Education.

In this scenario, the key issue Regulation is a positive driving force for the industry. Financial Regulations from Global Regulators and the Developed World Central Banks, who are the main actors of the scenarios, ease off. The Offshore Financial Centers are more connected with the main financial hubs in the rest of the World.

The Central Bank in Brazil should pass regulation that facilitates offshore investments for Brazilian individuals. Domestic banks offer customers current accounts that can hold deposits and investments in foreign currency. This is part of an extensive agenda of reforms that should help improve economic growth in the next two decades, which contribute to the process of wealth creation and accumulation in the Brazilian economy.

Competition and Margins are the two forces more dependent on the Regulation driving force. In this scenario, the Private Banking firm's competition increases also because the industry becomes more modular, and regulations enhance competition. The industry is more transparent, as customers demand more information about offshore financial products. In addition, business margins in general are lower, however volumes increase more than compensating margins reductions.

It is important to mention the role of technology. Technology should keep improving, helping firms to reduce costs and gain scale. Clients should become more technologically savvy on average than previous generations. Despite the technological advances, customers still value human interactions, especially high net worth and beyond clients. So, the industry should find a new equilibrium in terms of machines vs. human labor services.

The Private Banking firms put a lot of focus and effort in educating new clients that start to demand offshore financial products. This is the second driving force of the scenarios, and the one controlled directly by firms. With the use of technology and social media, firms can educate investors and reach the largest possible number of potential customers.

The AAIs (3rd party commission paid independent registered brokers) and local financial advisors, which were responsible for expanding financial investments in Brazil in the 2010 decade, are allowed to work with foreign Private Banking firms to sell offshore financial products to the Brazilian investment public. These AAIs play a big role in educating investors. In addition, offshore Private Banking firms that have local affiliates in Brazil have advantage. The greater the proximity with clients, the easier it becomes for them to educate their customers about the offshore securities and convince them to invest internationally.

Demand for offshore investments shall be pushed as well by a predetermined macroeconomic element, which is the BRL currency devalued status vs. the main global currencies. This will motivate investors to hold investments in US Dollars (or another international hard currency) denominated securities, protecting them against inflation and currency devaluation. In this scenario, Private Banking firms are highly focused in educating its clients about offshore securities, showing them good yielding hard currencies denominated investments opportunities.

1.2.2. SCENARIO 2 - SWIMMING AGAINST THE TIDE

Narrative:

It is 2040, and I have been investing offshore for some time now. I usually wake up in the morning and check my smartphone, looking for the main international companies' news and last quote prices. I see a lot of my friends in São Paulo already investing offshore.

I am a member of a social media dedicated to investing offshore, I share my portfolio ideas with my contacts. In addition, lots of offshore Private Banking firms share information at different media platforms. Despite legacy regulatory restrictions, offshore Private Banking firms have increased their marketing campaigns in the past years.

In Brazil, it is still forbidden for any firm to publicly offer offshore securities (not registered at CVM). However, foreign Private Banking firms can offer their services. So offshore Private Banking firms invested through the years in educating investors, even if not directly selling/soliciting products to the Brazilian investment public. This education effort has met a large demand from affluent investors.

It has become extremely easy to invest offshore with the technological advances of the past couple of decades. Anyone can look for an offshore Private Banking firm on the internet and find an investment platform. I trade my offshore stocks and bonds portfolio on a foreign platform through my smartphone. The platform is user friendly, cheap and gives me tailored advice and a suggested portfolio.

Offering offshore products still restricts mass awareness for the average and affluent investors', and that is a headwind for the Private Banking offshore industry's full development within Brazil. In addition, the process for moving money across borders is still complicated and costly for an average investor. Given the lack of competition, there is still a relatively small number of banks who process international wires, and they charge an expensive fee for it.

Explanation: Unfavorable Regulation and High Education.

In this scenario, financial regulations are unfavorable for the Private Banking industry. There are more restrictions and higher costs in doing business with Offshore Financial Centers.

Because of the Brazilian government and the Central Bank limited actions, the economic activity in Brazil remains subdued in the next couple of decades. The financial sector keeps growing, but the sector is still concentrated in a few very large conglomerates, while at the same time the Private Banking market is relatively closed for international competition.

On the demand side, individual investors' interest for offshore investments keeps growing. The Private Banking firms invest in education of investors, respecting the regulatory limitations. They leverage the technological tools at their disposal to educate investors, including websites online classes, and use social media algorithms to attract potential customers.

The educational prospects are rewarding for Private Banking firms, and the offshore market does deliver decent growth in the next two decades. This growth is reached despite regulatory restrictions.

As the offshore market grows, competition between Private Banking firms should increase mildly, given there will be no regulatory incentives for too many new independent firms to come to the market. Business Margins is another force dependent on the Regulation driving force. This scenario leads to relatively lower margins for the business. However, the fact that some independent firms are focused on educating their clients works as a differential for grabbing market share from large established financial conglomerates.

1.2.3. SCENARIO 3 - THE DARK AGES!

Narrative:

Nothing has really changed in the past 20 years regarding offshore investments. I have been trying to access offshore financial products, with not much success.

The few Private Banking firms in Brazil offer offshore products to high or ultra-high net worth individuals. The minimum deposit for an offshore account is extremely high. So, there is not much information available to the average and affluent investors.

This fact is due to two reasons: (1) there are just a few incumbent firms that only offer products to their large individual clients; (2) the expected regulation by the Central Bank of Brazil in the early 2020s that would have allowed individuals to invest in foreign currency did not pass.

Thus, it has been hard for the average investor to diversify abroad. Most affluent investors are aging, and they are willing to have more diversified investment alternatives, especially to protect their savings from inflation and currency devaluation. Even for the high net worth individual, who can use their smartphone to access offshore accounts, it is hard to get information about products. Despite all technological advances of recent decades, some offshore products' transparency is still very low.

Explanation: Unfavorable Regulation and Low Education.

In this scenario, there are more restrictions and higher costs in doing business between countries, due to stricter financial regulation. In addition to this aspect, there is not enough investment in educating investors.

Economic activity in Brazil remains subdued. The financial service sector keeps growing, but it remains concentrated in a few large players, and the market is relatively closed for international competition.

The Brazilian Government attempts to increase competition in the financial sector fail, and that is reflected in the offshore Private Banking business, which is dominated by a few players affiliated to large financial conglomerates. On the margin side, the Private Banking business has a relatively high margin given the lack of competition.

The Private Banking offshore business grows mildly in 20 years, with a strong repressed demand that is not served by large firms. Despite the (subdued) economic growth, it is hard for affluent investors to get access to offshore products information.

In addition, technological advances become more and more important, due to Millennials and the following generations technological savviness social dynamics and to technological forces. However, these tools are not fully leveraged as a vehicle for offshore investments.

It is important to mention that, in this scenario, there is demand for offshore investment, supported by the BRL currency devalued status vs. the main international currencies - a predetermined macroeconomic element.

Private Banking firms do not have incentives to educate local investors. First, there is a lack of competition by new entrants, which keeps the business margins relatively high, a convenient status for the incumbent firms. Second, domestic interest rates are relatively higher vs. other global markets, which reduces interest for offshore products because most savings tend to stay invested locally. Interest Rates levels are a predetermined macroeconomic element that can affect the demand for offshores investments.

1.2.4. SCENARIO 4 - TOO MUCH OPENNESS MISSES THE OPTIMAL POINT.

Narrative:

The year is 2040, and I have been investing offshore for some time now, but not as much as I would like. Some of my wealthy friends and acquaintances also invest a fraction of their savings offshore.

It has become easier to invest offshore after the Central Bank of Brazil and CVM have passed regulations that facilitate offshore investments by Brazilian individuals. However, it did not necessarily make investing offshore more accessible to the average or even some affluent investors.

The Brazilian economy has been growing, and given the strong increase in demand, most Private Banking firms started raising either their prices or their clients' minimum amount of investments. In addition, BRL currency devaluation vs. main global currencies also works as a barrier for attracting more investors to offshore products.

Thus, most firms do not have much incentive to educate the investment public about offshore financial products, focusing their efforts in serving the more profitable high net worth segment.

Average investors and part of affluent investors are not able to access offshore investments. There are some offshore financial products and derivatives that I would like to have access to, but many Private Banking firms are not willing to offer it to me because my account (or my net worth) is below a certain minimum. So, my offshore portfolio consists of a few US stocks and some limited offshore bonds.

Explanation: Favorable Regulation and Low Education.

Given the sustainable growth of the Private Banking industry in the past few decades, both incumbent large financial conglomerates and newcomers will have a lot of business knocking on their doors. Aging rich and affluent investors urge for investments in strong global currencies. Thus, Private Banking firms do not have much incentive on educating and offering foreign products to individual investors, especially novice offshore investors. In this scenario, the Private Banking industry invests little in educating investors on offshore financial products and there will be a large repressed demand for foreign securities by Brazilian investors.

Financial regulations from Global Regulators, and the Developed World Central Banks, who are the main actors of the scenarios, ease off. The Offshore Financial Centers are highly connected with the main financial hubs in the rest of the world.

The Central Bank in Brazil and CVM, other main actors of the scenarios, pass regulation that facilitates offshore investments for Brazilian individuals. Domestic banks offer customers current accounts able to hold deposits and investments in foreign currency. This is part of an extensive agenda of reforms by the Government to enhance competition in financial services markets.

Regulations, as one of the main driving forces of scenarios, ease-off, impacting Competition and Margins, the two most dependable forces. Regulation motivates new competition in the Private Banking offshore market in the short term, especially coming from new independent players. However, this increase of firms offering offshore financial services match the growing demand of Brazilian individual investors for offshore products. Also, there should be some market consolidation as years go by, with large Private Banking firms either merging or acquiring smaller independent players.

On the margin side, the reforms passed by Government help unleash the strongly repressed demand from individuals to invest offshore, especially by the affluent segment, which in turn attracts more competition to the business. However, as the market consolidates, reducing competition, business margins stabilize.

Scenarios	Name	Main Actors	Driving Forces	Technology impact	Competition	Margins	Leading indicators
1	The Sky is the limit!	Developed World Central Banks	Favorable Regulation	Lower Costs.	Higher.	Lower.	International Regulations easing.
		International Financial Regulators	Strong Education effort by offshore Private Banking firms	Larger scale.			BCB and CVM approval of reforms.
		Central Bank of Brazil		Lower need for human labor.			Offshore assets owned by Brazilians increasing rapidly.
		Private Banking Firms		Improved customer experience.			Social Media monitoring of Private Banking firms educating potential investors.
							AAIs (3rd party commission paid independent registered brokers) promoting offshore financial products.
2	Swimming against the Tide.	Developed World Central Banks	Unfavorable Regulation.	Higher connectivity speeds	Increasing mildly.	Relatively Lower.	International Regulators regulatory not easing.
		International Financial Regulators	Strong Education effort by offshore PB firms.	Better performance of investments and trading electronic platforms			BCB and CVM not approval of reforms.
		Central Bank of Brazil		New balance between human vs. electronic/digital services			Offshore assets owned by Brazilians in slow increase.
		Private Banking Firms					Small number of foreign firms promoting services through Social Media.
3	The Dark Ages.	Developed World Central Banks	Unfavorable Regulation.	Technology not fully utilized as an investment vehicle.	Low.	Relatively high.	Decisions to restrict markets' openness and increase regulations over financial institutions.

		International Financial Regulators	Low Education effort by offshore Private Banking firms.				BCB and CVM not approval of competition measures and offshore securities solicitation in Brazil.
		Central Bank of Brazil					Stable or reducing numbers of offshore assets owned by Brazilians.
		Private Banking Firms					
4	Too much openness misses the optimal point.	Developed World Central Banks	Favorable Regulation.	Rise of smartphones and social media networks as important vehicles for individuals to access their investments, and any additional information about offshore securities.	Low.	Stable.	International Regulators decisions to open markets and ease regulations over financial institutions.
		International Financial Regulators	Low Education effort by offshore Private Banking firms.				BCB and CVM approval of foreign currency denominated accounts in Brazil and offshore securities solicitation ub Brazil.
		Central Bank of Brazil					Low domestic interest rates in Brazil.
		Private Banking Firms					Increasing offshore assets owned by Brazilians.
							Low numbers of Private Banking firms educating investors about foreign securities.

Chart 4 – Scenarios´ summary
Source: Author, 2020.

5. CONCLUSION

This study aimed to analyze the offshore Private Banking segment serving Brazilin citizens, going through the industry's attributes, as well as looking to the future and discussing its threats and opportunities. In view of these reflections, scenarios were created that could help answer the focal question of the study: "What are the drivers for the Brazilian offshore Private Banking firms in the next two decades?"

Four scenarios were presented considering different directions of two Driving Forces: Regulation and Education. Analyzing Regulation, it was identified that sovereign jurisdictions and its institutions' regulations have potential to determine the outcomes for the industry. Depending on their decisions, these actors might create a scenario of higher or lower competition, affecting Private Banking firms businesses' margins. Private Banking firms should monitor closely the main Regulators' decisions that can impact their business, while, at the same time, invest in qualified staff, technology and processes to help them navigate through the Brazilian and offshore investments regulatory frameworks.

Analyzing the second driving force, Education, the market will be impacted by how Private Banking firms focus their efforts in educating potential investors, especially the rising affluent segment and the millennials demographic group. There is an educational challenge inside Brazil. The country and its population are still relatively closed, compared to developed nations, in terms of exchanging goods and services with foreign countries. This goal can be achieved by leveraging the use of investment platforms, robo-advisors, mobile application and social media. However, it is still important for Private Banking firms to maintain a qualified minimum staff to help clients in their investment decision-making process, as the industry reaches a new equilibrium in terms of machines vs. human labor services.

The variables studied are complex to interpret and depend on context and perspective. The scenarios methodology does not have the objective to state a most likely scenario neither to give probability to the scenarios, but to structure possibilities for the future and map potential outcomes according to the methodological path adopted. Scenarios help the researcher to better structure future thinking.

The complexity of the offshore Private Banking sector, which is influenced by Macro Economic, Regulatory and Investors' individual preferences factors, is highly uncertain when it comes to predicting the future. All these factors might change in the next decades to come, potentially also changing the scenarios.

Other limitations of this work include the difficulty to predict international regulation changes, the recent CVM regulation change for BDRs (Brazilian Depositary Receipts), and the potential (re)development of a black market for foreign currency exchange and investments. This study assumed in certain scenarios that regulatory changes in the main international jurisdictions would be followed suit by Brazilian Regulators, such as the Open Banking regulation, which in fact started to happen, and currency convertibility. In addition, the work does not distinguish between Private Banking firms` legal registration, which can be as an investment advisor, a broker-dealer, or a bank. A Private Banking firm might be registered in a foreign jurisdiction with one license or another, or maybe all three, with different regulatory requirements for each license.

Also, this work did not address the issue of the foreign exchange black market. It was a traditional vehicle for sending money offshore in the 1980's and 90's in Brazil. However, for obvious reasons, there is no data available estimating the size of this market. In 2016, the Brazilian Government passed legislation that allowed individuals to formalize their nontax declared assets sitting offshore Brazil, paying a penalty fine. The currency exchange black market can rise again in The Dark Ages scenario, however it is difficult to predict its potential size in that scenario. Last, this work did not have an objective to measure the total size of the Brazilian individuals' offshore assets in any of the scenarios.

As contributions, it is important to mention that this study fills a gap in the literature of internationalization of the Private Banking industry of Brazil, exploring future scenarios. Studies about the issue have already discussed some driving forces (e.g., Molina, 2013), but have not worked on projections for the next decades. These projections might help both scholars and practitioners in understanding and delineating strategic choices in the industry. Both scholars and practitioners might also replicate the methodology used of prospective scenarios (Schwartz, 1996; Van der Heidjen, 2005) using Delphi (Lima, 2014; Skulmoski, Hartman & Krahn, 2007) method.

REFERENCES

Alvarez, J. F. M., Sheng, H. H., & Vaz, D. V. (2015). The Internationalization of Spanish- and Portuguese-Speaking Banks. *Latin American Business Review*, *16*(3), 183-204. https://doi.org/10.1080/10978526.2015.1075199

Angel, J. J., Harris, L. E., & Spatt, C. S. (2011). Equity trading in the 21st century. *The Quarterly Journal of Finance*, *1*(01), 1-53. https://doi.org/10.1142/S2010139211000067

BCG (2019). Global Wealth 2019: Reigniting Radical Growth. *A report by Boston Consulting Group*, June 2019. https://image-src.bcg.com/Images/BCG-Reigniting-Radical-Growth-June-2019_tcm9-222638.pdf

Central Bank of Brazil (2019a): Concentração, Concorrência e Inovação. *Relatório de Economia Bancária 2018,* cap. 6, p. 137-182. https://www.bcb.gov.br/content/publicacoes/relatorioeconomiabancaria/reb_2018.pdf

Central Bank of Brazil (2019b): International Investment position series, *Central Bank of Brazil* (BCB). https://www.bcb.gov.br/en/legacy?url=https:%2F%2Fwww.bcb.gov.br%2Fingles%2Feconomic%2Fseriehistposintinv.asp

Cleary, K. (2000). Using the Delphi process to reach consensus. *Eastern Washington University*. https://www.researchgate.net/publication/292983472_Using_the_Delphi_process_to_reach_consensus/link/56b3b44a08ae1f8aa453530b/download

Cummins, R. A., & Gullone, E. (2000, March). Why we should not use 5-point Likert scales: The case for subjective quality of life measurement. In *Proceedings, second international conference on quality of life in cities* (Vol. 74, p. 93). https://scholar.google.com/citations?view_op=view_citation&hl=en&user=q3fAMQwAAAAJ&citation_for_view=q3fAMQwAAAAJ:L8Ckcad2t8MC

CVM (2003): Instrução CVM número 400, de 29 de dezembro de 2003. Comissão de Valores Mobiliários. http://conteudo.cvm.gov.br/export/sites/cvm/legislacao/instrucoes/anexos/400/inst400consolid.pdf

CVM (2013): Instrução CVM número 539, de 13 de novembro de 2013. Comissão de Valores Mobiliários. http://conteudo.cvm.gov.br/legislacao/instrucoes/inst539.html

Deloitte (2015). Wealth Management and Private Banking, Connecting with clients and reinventing the value proposition. https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Financial-Services/gx-fsi-wp-emea-wealth-management-private-banking.pdf

Deloitte (2018). The Deloitte International Wealth Management Centre Ranking 2018. The winding road to future value creation. Third edition. https://www2.deloitte.com/cn/en/pages/financial-services/articles/the-deloitte-wealth-management-centre-ranking-2018.html

De Paula, L. F. R. (2002). Expansion strategies of European banks to Brazil and their impacts on the Brazilian banking sector. *Latin American Business Review*, *3*(4), 59-91. https://doi.org/10.1300/J140v03n04_04

Eichengreen, B., & Fishlow, A. (1998). Contending with capital flows: what is different about the 1990s?. *Capital flows and financial crises*, 23-68. https://web.stanford.edu/~judy/ps241/ei_fi98.pdf

Ernst & Young (2018). The evolution of Robo-advisors and Advisor 2.0 model, the future of investment management and financial advisory. https://businessdocbox.com/Business_Software/95856332-The-evolution-of-robo-advisors-and-advisor-2-0-model-the-future-of-investment-management-and-financial-advisory.html

Garvin, D. A., & Levesque, L. C. (2005). A note on scenario planning. *Harvard Business Review Cases*. https://store.hbr.org/product/note-on-scenario-planning/306003?sku=306003-PDF-ENG

Geleilate, J., & Forte, S. (2012). Motivações e estratégias de internacionalização dos três maiores bancos brasileiros frente à nova configuração econômica mundial. *Revista de Gestão dos Países de Língua Portuguesa*, *11*(1), 02-12. https://www.redalyc.org/pdf/3885/388539132002.pdf

Glenn, J. C.; Gordon, T. J. (2009). Futures research Methodology, version 3.0. *Millenium Project, Washington D.C.* https://library.teachthefuture.org/wp-content/uploads/2017/01/Futures-Research-Methodology-Version-3.pdf

Gonzalez-Carrasco, I., Colomo-Palacios, R., Lopez-Cuadrado, J. L., Garcı, Á., & Ruiz-Mezcua, B. (2012). PB-ADVISOR: A private banking multi-investment portfolio advisor. *Information Sciences*, *206*, 63-82. https://doi.org/10.1016/j.ins.2012.04.008

Lee, D. K. C., Guo, L., & Wang, Y. (2018). Cryptocurrency: A New Investment Opportunity? *Journal of Alternative Investments.* 20, (3), 16-40. Research Collection Lee Kong Chian School of Business. https://doi.org/10.3905/jai.2018.20.3.016

Lima, A. C. (2014). *Uma análise do ambiente competitivo dos bancos comerciais no Brasil* (Doctoral dissertation, Universidade de São Paulo). https://www.teses.usp.br/teses/disponiveis/12/12139/tde-26052014-175045/en.php

Maaz, R. F. (2018). *A atividade de negociações algorítmicas de alta frequência no mercado brasileiro de dólar futuro* (Doctoral dissertation). http://bibliotecadigital.fgv.br/dspace;/bitstream/handle/10438/24594/Dissertation_20180821_RFM.pdf

Molina, V. L. B. (2013). *Motivos determinantes para a internacionalização na indústria brasileira de private banking: estudo de caso do Banco Itaú Unibanco SA* (Master dissertation). http://bibliotecadigital.fgv.br/dspace/bitstream/handle/10438/10376/Tese_Vinicius%20Molina_20130110_VF_PUBLICACAO.pdf;jsessionid=934875F89866B0A7A4ABAABFA1DCD8EB?sequence=1

Potter, S. M. (2015). Executive Vice President of the Markets Group of the Federal Reserve Bank of New York, *at the 2015 FX Week Conference*, *New York City*, 14 July 2015, pages 3-4. https://www.newyorkfed.org/newsevents/speeches/2015/pot150714

Securities Act of 1933, Regulation D, Rule 501 (1933). https://www.sec.gov/rules/final/2020/33-10824.pdf.

Schwartz, P. (1996). *The art of the long view: paths to strategic insight for yourself and your company*. Currency. Pages, 3, 4 and 35.

Serena, J. M., & Moreno, R. (2016). Domestic financial markets and offshore bond financing. *BIS Quarterly Review September*. https://www.bis.org/publ/qtrpdf/r_qt1609g.htm

Skulmoski, G. J., Hartman, F. T., & Krahn, J. (2007). The Delphi method for graduate research. *Journal of Information Technology Education: Research*, *6*(1), 1-21. https://www.learntechlib.org/p/111405/

Stulz, R. M. (1999). International portfolio flows and security markets. http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.39.168&rep=rep1&type=pdf

Van der Heijden, K. (2005). *Scenarios: the art of strategic conversation.* Cichester: John Wiley & Sons. Loc 145, 874.