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Desarrollo e innovación en la banca española y latinoamericana, siglos XIX a XXI: ¿evolución o ruptura?

WEALTH CONCENTRATION AND THE RISE OF PRIVATE BANKING: THE SPANISH CASE

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Abstract:

This article is concerned with an increasingly relevant actor of the financial industry: private banking. The heirs of the merchant and investment banks that sustained the industrial revolution, they have been strengthened by the worldwide concentration of wealth of the past four decades, refocusing on wealth advice and management. Our research examines this process through the evolution of private banking in Spain, showing that its rise is closely associated with the conservative revolution of the 1980s and the deregulation and fast growth of the stock markets. The Spanish case reveals that a new industry was created by a small number of executives of historical investment banks, stock market brokers and new players that seized the opportunities created by Spain's economic transformation and the second globalization wave. Finally, our study suggests that private banking played a key role in the recent development of family capitalism and the knowledge industry, deserving therefore more attention from business historians.

Keywords: private banking, wealth concentration, financial system, Spain.

1. Introduction

Wealth concentration is a central issue in the history of capitalism. The impact of technological innovation and economic growth on income distribution captured the attention of contemporaries of the Industrial Revolution as influential as Friedrich Engels and fueled intense political economic debates. In the 1950s economist Simon Kuznets proposed a hypothesis according to which as an economy develops, market forces first increase and then decrease economic inequality (Kuznets, 1955). The Kuznets curve implies that in a country undergoing industrialization internal migration by workers looking for better-paying jobs in urban hubs causes a significant rural-urban inequality. Yet once a certain level of average income is reached and the processes of industrialization, democratization and the rise of the welfare state allow for the benefits from rapid growth to increase the per-capita income, inequality falls again, following an inverted “U” shape.

Widely discussed ever since, the Kuznets curve continues to be used widely in the social sciences. However, the historical experience that inspired Kuznets —the Golden Age— was followed by a worldwide rise of inequality that keeps accelerating in the 21st century. According to estimates put forward by Thomas Piketty and the World Inequality Database (WID) inequality has returned to the levels of the late 19th century (Piketty, 2020). The French economist has done history a great service: even if his ambition and methodology have drawn some criticism among historians, the WID has challenged economic and business historical research.

In this article we look at the institution that has traditionally managed the financial affairs of the wealthiest members of society: private banks. Over the past forty years a remarkable worldwide growth of high net worth individuals has transformed the financial industry and the global economy. We want to examine the recent rise of modern private banking while integrating it into business history. It seems to us that by continuing to focus on the financial institutions that emerged from the industrial revolution, historians are paying little attention to the rise of new financial actors such as wealth managers, missing or not contributing as much as expected to academic and public discussions on wealth concentration. How have the demands of high net worth individuals influenced financial institutions and regulation? Can we already make sense of the driving forces of modern private banking?

Our research focuses on Spain, one of the Western countries where wealth concentration has grown more intensely over the past two decades and where private banking has emerged in close association with the stock market and the new rules of the game established in the 1980s. The article is organized as follows. First, we provide a brief account of the long term development of private banks. Then we reconstruct the history of Spanish private banking based on published and internal reports and over forty interviews with historical and relevant actors[1]. Finally, we examine the impact of the Global Financial Crisis on the wealth management industry and present the main conclusions of this article along with some ideas for future research.

2. Reinventing private banking

The origins of modern private banking go back to the Italian merchant banks of the late Middle Ages. A pillar of the so called Commercial Revolution, merchant banks spread throughout Western Europe on the eve of the first industrialization wave (Reinert and Fredona, 2019; Fredona and Reinert, 2020). Deposit or commercial banking did not become relevant until the 19th century, starting in England in the 1830s and then spreading across Continental Europe from the 1850s onwards (Grossman, 2010). Meanwhile in the antebellum United States a multitude of banks of all kinds emerged in response to the idea that the young republican economy needed abundant credit to support a strong business community (Olegario, 2016).

Deposit banking played a modest role in the British and American industrialization because of the small size and conservatism of institutions, among other factors. This problem was corrected in Great Britain with a process of mergers and acquisitions that ended up creating the Big Five entities (Barclays, Lloyds, Midland, National Provincial and Westminster) of the City of London, which accumulated 25 per cent of deposits in 1900 and close to 80 per cent in 1921 (Turner, 2013, p. 45). In the United States, legal limitations to operate outside the states prevented a similar process so that thousands of entities were affected by the banking crisis of the Great Depression (1930-1932) (Friedman and Schwartz, 1965).

[1] The authors have had access to over forty professionals and internal reports as academic authors of the research project "History of private banking in Spain" commissioned by the Spanish private bank A&G in 2019. The project is detailed in: https://historiadelabancaprivada.com/.

In the 19th century the City of London was dominated by merchant banks and the London Stock Exchange (Cassis, 2012). The most prominent banking houses were Rothschild, Baring, Schroeder and Hambro, to which other names such as Morgan Grenfell and Lazard should be added. During the second industrialization wave the whole British financial system came under fire for funneling savings into attractive overseas investments while neglecting domestic companies. This was the case of Baring, on the brink of bankruptcy in 1890 after some failed investments in Argentina. The bank had to be rescued in an operation led by the Bank of England and participated by the Rothschilds (Ziegler, 1988). In 1890 both Rothschild and Baring were among the five largest banking institutions in Britain in terms of assets, but by 1913 there were no longer merchant banks in the Top Ten (Cassis, 2012, pp. 72-73).

Merchant banks continued to lose ground in relation to deposit banks in the interwar period: in 1928 Midland's assets were 15 times those of Baring (Cassis, 2012, p. 78). In addition, London began to be overtaken by New York as an international financial center. Investment banks, the American version of merchant banks, had emerged in the Civil War years. They remained unregulated, operating as shadow banking, which led the United States Congress to establish the Pujo Committee (1912) in order to investigate their accumulated power (Olegario, 2016, p. 120). This move accelerated the end of the prominent banker John Pierpont Morgan (JP Morgan) as well as the creation of the Federal Reserve (1913) (Carosso, 1970). Still, Jack Morgan, JP Morgan's son, became the world's largest private banker shortly before the Great Depression (Chernow, 1992).

What stopped investment banks was the Glass-Steagall Act (1933), a fundamental piece of President Franklin D. Roosevelt's New Deal, which forced a separation between commercial and investment banking, establishing protection mechanisms only for the former. After the Second World War traditional investment banks were threatened by the strict regulation known as "financial repression" that spread across the world. JP Morgan soon understood its implications: in 1940 it became a public limited company to practice commercial banking, entrusting investment banking to Morgan Stanley, a branch created in 1935 that did not become a public limited company until 1970-1975.

In this new financial environment, British merchant banks continued their decline well into the 1980s. They were not able to take advantage of the opportunities offered by the *Big Bang* of 1986, that is the deregulation of financial markets promoted by the conservative leader Margaret Thatcher that would serve as a model for many other countries, including Spain. Lazard accentuated its New York profile and Rothschild strengthened its French branch (Ferguson, 1998). Meanwhile, Swiss private banks started to rise (Euromoney, 2019). Their origins are in a group of prominent 18th century merchant banks such as Pictet, Hentsch, Lombard, Odier and Mirabaud (Cassis, 1994, p. 1015). From Geneva, these bankers catered to an international clientele. In the 19th century they would be joined by important commercial banks such as the Swiss Bank Corporation (SBC) (1854), Credit Suisse (CS) (1856) and the Union Bank of Switzerland (UBS) (1862). The neutrality observed by Switzerland during the two world wars turned this country into a great international financial center. Backed by the Swiss Banking Law of 1934, Switzerland became not just a safe haven but also a tax haven in the high taxation context of the Golden Age (Kuenzler, 2007).

Financial repression abated in Europe and Japan earlier than in the United States, where it remained until 1999, when the Gramm-Leach-Bliley Act led to the abolition of the Glass-Steagall Act. The new legislation allowed Wall Street's innovative investment bankers, turned universal bankers, to take advantage of the opportunities offered by the "financial high-tech, large-scale production" model that had previously been developed by the large commercial banks of the United States. Advances in liberalization explain that the first banking crises of the post-second world war era occurred in Spain (1977), Norway (1987), Finland (1991), Sweden (1991) and Japan (1992), fulfilling the "Goodbye Financial Repression, Hello Financial Crash" phenomenon described by Columbia University economist Carlos Díaz-Alejandro (Díaz-Alejandro, 1985; Reinhart and Rogoff, 2011).

How does Spain fit into this evolution? The available literature indicates that the Spanish banking system was born from the 1898 US-Spanish war that put an end to the Spanish Empire (Malo-de-Molina and Martín-Aceña, 2012; Tortella and García-Ruiz, 2013). The *Disaster*, as the resulting moral and economic crisis was known, was followed by a successful stabilization plan for the *peseta* (the national currency) that facilitated the repatriation of capital from Cuba, Puerto Rico and the Philippines. Much of this money was used to found large universal banks in Madrid, such as Banco Hispano Americano (1900) and Banco Español de Crédito (1902), which would soon be joined by others, such as Banco Urquijo (1918), Banco Central (1919) and Banco Popular

(1926). These banks helped finance the industrial policies implemented from the late 19th century through the end of General Franco's dictatorship (1939-1975). At a more regional level, Banco de Bilbao (1857), Banco de Vizcaya (1901) and Banco de Santander (1857) would also contribute to the industrialization of Spain.

During Franco's regime the Banking Regulation Law of 1946 did not nationalize the banks, but put them under strong control, in line with the worldwide dominant financial repression. The economic opening started in 1959 under tight international supervision (known as Stabilization Plan) did not end with financial repression. However, a new Banking Regulation Law of 1962 led to the creation of investment banks and investment funds (decree-law of April 30, 1964) as a way to get more resources for industrialization (Carnero, 2003; Fundación Inverco, 2007). In 1974 a new reform was implemented to encourage competition and boost the banking sector.

Liberalization accelerated after 1977, fuelling a crisis that affected half of the banks and about a third of bank resources and employees, the high cost of which was covered almost completely by the public sector[2]. Pessimism rose among contemporary analysts, who believed that domestic banks would be easy prey for foreign banks. But they turned out to be wrong. A consolidation process started in 1987 gave rise to two leading financial institutions: Santander, which absorbed the largest banks of Madrid, and BBVA, which was born from the union of the big Basque banks with the public bank Argentaria. A third player, Caixabank, originally a savings bank based in Barcelona, would join them after the serious real estate crisis that affected savings banks during the Global Financial Crisis of 2007-2008.

Whereas the making of internationally competitive Spanish banks has been analyzed extensively, the emergence of alternative private banking has received little attention. Our research will show that the new private banks are associated with a revival of merchant banking, the rise of collective investment vehicles such as investment funds, and a comprehensive reform of the securities market. In the next sections we will describe the milestones of a phenomenon that is shaping the financial system, a system marked by the convergence between banks and stock markets (García-Ruiz and Vasta, 2021).

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[2] 75 per cent according to Cuervo (1988).

3. The configuration of Spanish private banking

The history of Spanish private banking starts in 1851, when Estanislado de Urquijo established himself as an agent of the Rothschilds in Madrid. This allowed him to extend his activities into the promising fields of government loans, railways, and other major businesses of the time. His new role also helped him join the ranks of the Spanish aristocratic elite (Puig and Torres, 2008; Otazu, 1986; López-Morell, 2013). In 1918 Banco Urquijo was created as a universal bank. After the Spanish civil war (1936-1939) Urquijo established an enduring alliance with Banco Hispano Americano, Spain's largest commercial bank. This venture benefited from Urquijo's experience as an international merchant bank. Changes in Spain's regulatory framework encouraged Urquijo to launch the first investment fund in Spain in 1964 in association with UBS. Professionalization would make Urquijo —jokingly labeled the "Spanish JP Morgan"— an incubator for financial executives[3].

Supported by an innovative research department, the bank increasingly extended its activities into investment banking while increasing its international outreach[4]. This evolution was cut short when the first international oil crisis broke out and the privileges of industrial banking in Spain were eliminated overnight. Between 1974 and 1983 the bank underwent a metamorphosis led by the fifth generation of the Urquijo family, which opted for the dismantling of the industrial group and the embrace of the activities of a pure merchant bank, international broker and wealth management expert. In 1983, a combination of economic crises and reckless overseas management accelerated Urquijo's bankruptcy and public intervention. After that the bank would be controlled by Banca March (1988-1998), KLB-KBC (1998-2006) and Banco Sabadell (since 2006).

Another forerunner was Banca March, the oldest private bank in Spain. Founded in 1926 by the Majorcan financier Juan March, Banca March has managed to remain in the hands of the family and has been one of the major players in Spanish private banking since 1986 (Torres, 2000;

[3] This strategy was led by two heirs educated in Cambridge (U.K.) and in the offices of the big international private banks in New York.

[4] In 1972 Banco Urquijo established Urquijo Finanz in partnership with Credit Suisse. In 1973 followed Banco Urquijo Ltd. in London, which was allowed to operate as a merchant bank. In 1974 the bank also opened a fully operative branch in New York.

Cabrera, 2011). The March group's private banking activities are carried out through Corporación Financiera Alba, founded to channel the industrial and service investments of the bank, the family and the foundation of the same name, and listed on the stock market. March's takeover of Banco Urquijo between 1988 and 1998 strengthened its private banking focus.

Driven by the liberalizing atmosphere of the 1960s, new private agents such as Banif and Safei, among others, emerged. They are included in Table 1. An event of paramount relevance was the approval of the Securities Market Law on July 28, 1988, which marks the official start of modern private banking in Spain. This law echoed the deregulation of the London stock exchange orchestrated by Prime Minister Margaret Thatcher and her Finance Minister Nigel Lawson in October 1986. By then Spain was in a state of euphoria having overcome the economic and political challenges of the 1970s and joined the European Economic Community as a full member (1986)[5]. Preceded by a 1977 institutional initiative that pointed in the same direction and the development of securities companies in 1982, the 1988 law was welcome in financial circles, even if or because it ended with a 19th century institution: the meritocratic elite of the *agentes de cambio y bolsa*, the exchange and stock brokers that held the monopoly of brokerage in the Spanish market. These agents accessed this position after a tough state examination that granted them a lifelong, prestigious and highly profitable occupation.

Table 1
The Making of Spanish Private Banking

	Milestones	***Current Ownership /Control***
Banco Urquijo (1870)	Founded by Juan Manuel Urquijo. 1944: alliance with BHA strengthens investment banking specialization. 1960s: refocus on corporate and private banking. 1983: bankruptcy and takeover by BHA. 1988: acquired by Banca March. 1998: acquired by KLB-KBC. 2006: acquired by Banco Sabadell.	Banco Sabadell
Banca March (1926)	Founded by Juan March. 1985-1989: alliance with NatWest. 1986: Corporación Financiera Alba. 1988-1998: acquisition of Banco Urquijo.	March family

[5] The average growth of the GDP in 1987-1990 was above the 4 per cent (Malo-de-Molina, 2019, p. 122).

	2000s: launching of inhouse fund management firm and acquisition of Consulnor, Inversis and others.	
Banif (1962)	Founded by Juan A. Ruiz de Alda and others. 1975: acquired by BHA. 1999: merged with Banco Santander Negocios. 2012: merged with Banesto and implementation of Banif model through Santander Private Banking.	Banco Santander
Safei (1963)	Founded by Fernando de Roda. 1979: internationalization. 1993: Alliance with Eurofinanzas y Eurosafei. 2001: sold to Fineco-Inversis-March.	Banca March
Privanza (1978)	Established by Banco Bilbao as Banco Bilbao International (Jersey). 1988: becomes Bilbao Vizcaya Bank (Jersey) 1997: becomes BBV Privanza Bank (Jersey) 2002: stops operating due to irregular deals related to merger with Argentaria. 2010: closure of Privanza and creation of BBVA Banca Privada.	
AB Asesores (1984)	Founded by Salvador García-Atance, Ignacio Garralda and Pedro Guerrero. 1988: alliance with American International Group (AIG). 2000: sold to Morgan Stanley. 2008: sold to La Caixa.	CaixaBank
Beta Capital (1985)	Founded by César Alierta and other Urquijo analyists. 1987-1991: alliance with KIO group. 1996: sold to MeesPierson.	MeesPierson
Renta 4 (1986)	Founded by Juan Carlos Ureta, José Usera, Anna Carreras and Francisco González. 1991: launches its own fund management unit. 1997: listed. 2012: operates as bank.	Juan Carlos Ureta and others
FG Inversiones Bursátiles (1987)	Founded by Francisco González. 1996: sold to Merrill Lynch.	Merrill Lynch
A&G (1987)	Founded by Alberto Rodríguez-Fraile. 2000: participation by Banque Cantonale Vaudoise (BCV). 2005: starts operating in Luxemburg. 2008: EFG takes BCV share. 2014: becomes A&G Banca Privada taking EFG activities in Spain.	Rodríguez-Fraile y socios (57,49%) y EFG (42,51%)
Benito y Monjardín (1988)	Founded by Enrique de Benito and Juan Monjardín. 1990: 20% sold to Kidder Peabody. 1999: sold to Banco Espírito Santo.	Novo Banco
Ibersecurities (1988)	Founded by Manuel Pizarro. 2000: sold to Banco Sabadell.	Banco Sabadell

Iberagentes Activos (1989)	Founded by Emilio Viñas Barba and Vicente Santana Aparicio. 2001-2004: sold to Banco Popular + Dexia. 2017: sold to Banco Santander.	Banco Santander
GVC (1989)	Founded by Javier Garçón, M. Àngels Vallvé and Francisco Contreras. 2008: acquires Gaesco to create GVC Gaesco group. 2013-2016: acquires Bankia Bolsa to create GVC Gaesco Beka. 2017: alliance with Global Alliance Partners.	Hortalà-Vallvé family

Source: Authors' own elaboration from research project "Historia de la banca privada en España: creadores de prosperidad" (2019).

The 1988 Securities Market Law introduced four substantive changes: 1) the replacement of exchange and stock brokers by securities companies and agencies as specialized financial intermediaries; 2) the regulation of issuance and public offering procedures, as well as the obligation to publish information regularly and periodically; 3) the clarification of secondary securities markets and official public debt markets; and 4) the creation of the National Securities Market Commission (Comisión Nacional del Mercado de Valores, CNMV) as the supervisory authority. The Madrid, Barcelona, Bilbao and Valencia stock exchanges became public limited companies and were interconnected through electronic contracting, banishing the traditional trading floors. This was in line with what was happening in the rest of Europe in preparation for the free movement of capital in 1990 (Moreno-Castaño, 2006). Promoted by Spain's first socialist government, these changes were seen as very positive by the financial community.

Foreign investment banks did not miss the opportunity to enter the Spanish market, joining pioneers such as Merrill Lynch (1961) or JP Morgan (1976). Between 1978 and 1990 the number of foreign banks and offices rose from 6 to 64 and 37 to 1,242 respectively (Álvarez and Iglesias-Sarria, 1992, p. 64). The most successful banks were Deutsche Bank (1996), Chase Manhattan Bank (1987), Morgan Stanley (1989), Crédit Agricole Indosuez (1994), BNP Paribas (1998), Credit Suisse (1989) and UBS (1999). Others, such as Barclays (1989), Degroof (1990) or Banco Espírito Santo (1997), had weaker foundations (DBK, 2000; DBK, 2012; DBK, 2019).

Before the financial crisis of 2008 caused profound regulatory changes on a global scale, Spanish wealthy clients use to trust their assets to Swiss banks and their Spanish agents. It is very telling that Urquijo Bank cooperated with Credit Suisse since the 1960s and established its own Swiss branch in 1972. However, in Spain Swiss banking operated discreetly, through individual agents rather than subsidiaries, until the end of the 20th century. Its influence was significant in two areas: high quality private banking services and top professionals that were permanently trained.

Lacking the tradition of Swiss banks, considerably more modest in terms of human capital and reputation, but geographically close, Andorran banking has traditionally played a secondary role for Spanish, particularly Catalan clients. Controlled by a series of local families, Andorran banking has undergone a remarkable process of concentration, internationalization and reorientation since its inception in 1930. Until very recently, the Andorran system has been characterized by the absence of a central bank, freedom of currency circulation, tax exemption on savings and the self-regulation of banking secrecy. These factors contributed to the emergence of an offshore center that attracted mainly Spanish and French capital. The growing maturity of the sector, coupled with stricter European regulation, led to important changes. When the Global Financial Crisis broke out, Andorra had already equipped itself with a more modern and rigorous system —for the citizens of the European Union— and was ceasing to be a refuge for capital and was focusing on the private banking business. The crisis would accelerate the transition (Galabert, 2017; Galabert, 2018).

4. The founders: from civil servants to bankers

In the transformation of the Spanish financial system the legal changes that ended up privatizing the stock markets were as important as the role played by those exchange and stock brokers who opted to become private bankers rather than notaries public (the alternative offered by the Spanish Administration). The cases of Ignacio Garralda (AB Asesores, 1984), Juan Carlos Ureta (Renta 4, 1986), Francisco González (FG Inversiones Bursátiles, 1987) and María Àngels Vallvé (GVC, 1989) stand out. Juan Monjardín (Benito and Monjardín, 1988), Manuel Pizarro (Ibersecurities, 1988) and Emilio Viñas and Vicente Santana (Iberagentes, 1989), also listed in Table 1, followed similar paths, but we will focus on the former[6].

At AB Asesores, Ignacio Garralda worked hand in hand with Pedro Guerrero and Salvador García-Atance, who would serve as president of the new company. According to García-Atance's

[6] See interviews with these and other forerunners in A&G (2019).

testimony, they operated under a shared concern about the prospects of stock market deregulation and the strong impression that the British financial system made on them in an early visit to the City. AB's departing idea was that the Spanish financial system in general, and the stock market in particular, would have to adjust to the European model given the imminent integration of Spain into Europe, and that internationalization required intermediaries other than the inherited figure of the exchange agent (García-Atance, 1994, pp. 11-23).

The way to go into action was relatively simple. They chose a promising business area, equity intermediation for foreign institutions. Sticking to the English model, Garralda and his partners started to perform systematic and independent analysis of the companies under consideration. A prospective trip to London served the founders of AB to verify that the interest of international investors in Spain was very high. Indeed, by 1984 Spain had become fashionable in financial circles, but everything remained to be done. The largest banks and the economic authorities listened to them with suspicion. Neither the banks nor the Administration were prepared for the massive foreign investment that was showing interest in Spain. Companies were not used to provide information, much less to present it in public. Even the telephone network, vital to the business, left much to be desired. Given that they were treading unfamiliar terrain and facing new problems, they chose a proprietary partner structure and hired young professionals with little or no experience in the Spanish market yet with excellent academic training.

To facilitate attracting foreign investment, in 1988 30 per cent of AB Asesores was transferred to the American International Group (AIG) and a joint venture was created between both firms to develop their own products. However, this alliance was short lived. In García-Atance's opinion, the 1988 law had fallen short and it was necessary to enter into portfolio management and the distribution of products such as investment funds among individual clients[7]. In this field, AB had to compete with commercial banks since 1990, which forced the firm to create an extensive network of branches across Spain. By 1999 the number of offices had reached 45 and the workforce exceeded 600 employees (DBK, 2000, pp. 102-103). One year later, with

[7] García-Atance (1994), p. 17. This broker provides a vivid account of the precarious and frantic beginnings of his firm.

the stock market at a high, AB was sold to Morgan Stanley for the astronomical figure of 50,000 million pesetas[8].

Renta 4 would have a longer route than AB, until the present day. In 1989 Renta 4 became the first securities and exchange company to register with the CNMV; in 1991 it created its first fund management unit (Renta 4 Gestora); it went public in 1997 and since 2012 has operated as a bank. His founder, the former exchange and stock broker Juan Carlos Ureta, took the advice of his colleague Francisco González, whom we will talk about later, and traveled to New York to explore the American financial market (López-Torrents, 2013, pp. 160-161). In addition to meeting and becoming known by some of the prominent brokers of the moment, Ureta established a good relationship with the commercial attaché of the Spanish embassy, Jaime Caruana. Caruana would later become partner of Renta 4 and governor of the Spanish central bank. Ureta's idea was not so much about attracting foreign investors to the Spanish market as to bring the international market to Spanish investors, whether large, medium or small, and to do so in a visible and cozy way, through the physical offices of Renta 4, but relying on cutting-edge technology[9]. A native of the Basque Country who had witnessed the shuttering effects of the decline of Spain's heavy industry, Ureta followed a rather conservative strategy focused on public bonds.

Although Francisco González helped Ureta found Renta 4, he also started his own company, FG Inversiones Bursátiles, in 1987. The son of Galician immigrants, González grew up and worked in Argentina, and worked as a computer programmer at IBM, Nixdorf and ITT before passing with honors the foreign exchange and stock broker examination. Eventually, he founded FG Inversiones Bursátiles with a team that came from Continental Illinois Bank, one of the victims of the American banking crisis of the 1980s[10]. Then he hired a number of young executives who have left their mark in the financial industry and beyond. Like his competitors, FG dedicated itself to attracting international clients for the Spanish market by employing foreign intermediaries. This strategy worked well in the already mentioned context of growth and enthusiasm that allowed González's company to become one of the largest brokers on the Spanish stock market. Encouraged by his own success, FG launched a fund management company expanding its

[8] López-Torrens (2013), p. 82. The founders owned 45 per cent of the capital and AIG 20 per cent.
[9] Before 2008, Renta 4 created the largest network of offices (57) of an independent private bank and had a relevant international presence (López-Torrents, 2013, p. 168).
[10] For the Spanish vision of the US banking crisis of the 1980s, see Torrero (1994).

activities until 1996. At that point González, who controlled 70 per cent of the company, decided to sell to the highest bidder: Merrill Lynch. He continued his career in commercial banking, eventually presiding over BBVA and becoming a powerful yet controversial actor in Spanish banking.

The last remarkable case is that of Maria Àngels Vallvé, the first female exchange and stock broker in Spain (until 1970 the access of women to the profession was banned). Garçon, Contreras and Vallvé was founded in 1989, two years later becoming General de Valores y Cambios (GVC), one of the few Catalan entities in an industry which is highly concentrated in Madrid. Vallvé married professor Joan Hortalà, who was a counselor to the Catalan Government and lasting president of the Barcelona Stock Exchange. The Hortalà-Vallvé family has maintained control of 77 per cent of the capital of the GVC group, which is made up of a securities company, an investment fund manager, a pension fund management firm and an insurance company. GVC would grow by absorbing Gaesco (Barcelona, 2007) and Beka (Madrid, 2013).

5. Room for outsiders

There was still room for outsiders in the nascent industry we are describing. Apart from exchange and stock agents, other university graduates promoted relevant ventures. It was the case of Beta Capital and A&G. The history of Beta starts in 1970, when César Alierta, recently arrived from Columbia University with a master’s degree in financial management, began working at Urquijo’s department of wealth and fund management. Alierta’s innovative spirit was revealed, for example, when he proposed to enter the business of corporate bond issues, an activity scarcely developed in Spain and traditionally controlled by savings banks. The idea was to persuade the companies through higher interest rates to manage their bonds. Since Urquijo did not have a wide network of offices, Alierta proposed to advertise corporate bonds on television. The project went ahead and the highly innovative advertising campaign showed that there was considerable latent demand in Spain.

In 1985, when Banco Urquijo went into crisis, frustrating Alierta’s career ambitions, he decided to found his own business, Beta Capital. His growth strategy focused on the North American market, and not on the City, so as not to collide with AB Asesores. It was necessary to earn the trust of the large international funds to sell them Spanish securities and grow in line with the ongoing Spanish economic opening. Beta's take-off was supported by its first large clients, notably Fidelity Investments and the New York public school teachers' pension fund. In addition, Alierta drew up a very aggressive plan to attract new Spanish institutional clients. Based equally on the foreign and domestic markets, Beta's growth exceeded all expectations.

To create Beta Capital, Alierta surrounded himself with a group of former Urquijo executives. It was a team united by professional experience and very different from AB, whose founders knew the system from within. None of them contributed capital, but clients and friends were turned to in order to buy back their participation if things went well. Two years later Alierta took 20 per cent of Beta shares, the rest of his colleagues acquiring lower stakes (López-Torrents, 2013, pp. 110-111). Between 1987 and 1991, Beta Capital went a step further partnering with the controversial group KIO (Kuwait Investment Office), which acquired 50 per cent of the capital and took two seats on the board. Luckily for Alierta, he disengaged from KIO in time to avoid the financial and reputational impact of its downfall. Beta turned again to local investors to widen its operations, specializing on the management of historic companies' IPOs and public company privatizations (López-Torrents, 2013, pp. 119-120). As a matter of fact, Alierta would find his personal future in this area, successively chairing Tabacalera and Telefónica, after handing over Beta Capital to the Dutch private bank MeesPierson.

Very different is the case of A&G (Asesores y Gestores Financieros, Agencia de Valores), a company founded in 1987 by Alberto Rodríguez-Fraile, a graduate in Business Administration from the University of Miami. His family was engaged in luxury residential construction (Medina-Saiz, 2004). In the United States, he had obtained his stockbroker license and began his professional life as a financial analyst at Merrill Lynch. He returned to Spain in 1982, completed his training at the business school IESE and founded a securities agency, A&G. Rodríguez-Fraile, who lived through the American conservative revolution at the forefront, was captivated by the concept of the family office, whose knowledge in Spain at the time was limited to a small number of businessmen, lawyers and business consultants. This concept went beyond the administration of a family's wealth, as it involved long-term planning of the investment of family wealth with first-rate financial, tax and wealth advice.

The broker-dealer was in fact configured as a multi-family office. Rodríguez-Fraile convinced his own family and others in his social circle to entrust him with the management of their assets. From the beginning, he opted for the open architecture and proprietary structure of the historic private bank: a bank of independent bankers. A&G operated as a securities agency until 2014, the year in which it obtained the bank token and was renamed A&G Banca Privada, S.A. Crucial to this transformation was the presence in the shareholders of Banque Cantonale Vaudoise (BCV) since 2000 and EFG International since 2008. This allowed A&G to start operating in Luxembourg and continue to grow, multiplying by five its assets under management up to 10 billion euros (KPMG, 2015).

In 2014, EFG's Luxembourg subsidiary agreed to separate itself from its parent, EFG International, and transfer the assets and liabilities related to its financial business in Spain by universal succession to A&G Private Banking. EFG's participation has meant enjoying "supported independence", since it allows maintaining independence in decision-making while working with a very high solvency ratio and the quality standards of a large international group (A&G, 2016). In 2019, EFG International and A&G signed a new agreement by virtue of which the percentage held by Spanish shareholders, mainly bankers and company executives, increased to 57.49 per cent. A&G is the only one of EFG's 17 main subsidiaries that is not 100 per cent controlled.

6. The Global Financial Crisis

New Century's bankruptcy in April 2007 was the first sign. This American real estate fund (Real Estate Investment Trust, REIT) specialized in subprime mortgages. The securitization of these mortgages, granted to clients with low credit ratings at very high interest rates, spread the risk among a large number of investors. Considered the great financial innovation in the United States, subprime mortgages accounted for around 20 per cent of new mortgages in the mid-2000s, but their share fell to 3 per cent in the last quarter of 2007 (Inside Mortgage Finance, 2008).

Although the US monetary authorities took steps in 2007 and 2008 to deal with the mortgage market crisis, it was not enough. On September 15, 2008 panic broke out when the venerable investment bank Lehman Brothers entered the largest bankruptcy in the country's history, largely due to its exposure to subprime mortgages. The Global Financial Crisis would lead to a Great Recession with consequences on a global scale. On the same day that Lehman Brothers fell, another investment bank, Merrill Lynch, was acquired by Bank of America. The whole investment banking industry reacted hastily, promoting mergers and acquisitions and/or abandoning their original activities and legal structure in order to receive more protection from the Federal Reserve (Fed).

In September 2007, the Fed had started to lower the federal funds rate, which would be around 0 per cent at the end of 2008. In November 2008, the first round of an unconventional monetary policy known as Quantitative Easing (QE) and already used to fight deflation in Japan was launched. The Bank of England and the European Central Bank (ECB) would follow the same path. Monetary policy was accompanied by increased regulation. Thus, in July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act came into force and Europe would experience a "regulatory tsunami" since the creation in 2011 of the European Supervisory Authorities (ESAs) for banking, stock exchanges and insurance.

The Spanish banking system of the 21st century experienced the most serious crisis in its entire history, over and above the 1977-1985 crisis. The origin was in the very high financing that was provided to the real estate bubble of the previous years. Between 2008 and 2015, interventions to support the financial system followed in the form of recapitalizations, write-offs and guarantees, at a cost that was the highest among the large Western European countries. The creation of a "bad bank", the Society for the Management of Assets from Bank Restructuring (Sareb in Spanish), was related to the bank rescue operation that the Spanish Government had been forced to request from the authorities European in 2012. The European Stability Mechanism (ESM) granted 41,333 million euros to Spain, after the signing of a Memorandum of Understanding (MoU) with the European Commission (Banco de España, 2017).

As a result of this crisis the Spanish banking map changed radically. Savings banks practically disappeared and banks went from 88 "national entities" in 2000 to 43 in 2018 (Asociación Española de Banca, 2019). The Global Financial Crisis affected banking institutions in particular because of their strong involvement in real estate loans. However, the crisis also left its mark on stock prices, which had kept rising since the turn of the century. They started to fall in 2007, reaching lows in mid-2012.

At the end of the 20th century, the new private banking business in Spain was divided between 1) a dozen specialized divisions of universal banking (including those of Bankinter and Banco Urquijo); 2) a dozen specialized banking entities also linked to universal banking (with BSN, BBV Privanza, Banco Banif and J. P. Morgan at the helm); and 3) four other independent entities (AB Asesores Morgan Stanley, Beta Capital, Gesconsult and Merrill Lynch).[11] The first group had a market share of 20 per cent; the second, 65 per cent; and the third, 15 per cent. The assets managed by private banks were growing rapidly, having gone from 5.4 trillion pesetas in 1997 to 8.8 trillion in 1999, expecting to reach 10.5 trillion by the end of 2000 (DBK, 2000, pp. 79 and 84).

The years preceding the Global Financial Crisis were extraordinary for Spanish private banking. Data from the DBK consulting firm report that, in 2007, the assets managed by private banks tripled the levels of 2000 (DBK, 2012, p. 30). The direct involvement of Spanish universal banking grew at a good pace, forcing entities to segment the market between private banking (rich clients), personal banking (relevant but not rich clients) and commercial banking (rest of clients) (Accenture, Morgan Stanley, Instituto de Empresa, 2007). By then, responding to international trends and local demands, the activity of new management instruments had been authorized and regulated, particularly alternative management funds and hedge funds, investment companies with variable capital (known as *sicavs* in Spain) and family offices. The introduction and spread of these vehicles between 2003 and 2007 marks a milestone in the history of collective investment in Spain (Fundación Inverco, 2007, pp. 27-34).

Hedge funds had had a spectacular development in the US market in the 1990s. Spanish investors looked at them with suspicion for their aggressiveness and risks, but many agents embraced them with enthusiasm. As vehicles and platforms for the management of large assets, however, *sicavs* and family offices presented greater potential. Similar to US open-ended mutual funds, *sicavs* allowed to invest through a public limited company and defer tax payment. In 2003, when they were first regulated in Spain, such collective investment schemes were widespread in other European countries. Family offices are crucial for large family business, as they allow the global management of family assets, facilitating their conservation, growth and transmission

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[11] AB Asesores and Beta Capital were the only societies quoted in Table 1 that were acting as private banks at that time. Gesconsult was controlled by Crédit Commercial de France.

between generations. In Spain they were an old claim of the Family Business Institute, a lobby founded in Barcelona in 1992, in a context of massive sales of family firms to multinational firms.

In 2005 Banif's CEO Javier Marín shared his optimistic vision of Spanish private banking with a long term analysis (Marín, 2005). His main argument was that in Spain there was a significant potential demand for private banking services. The evolution of the past thirty years showed that per capita income had grown dramatically, in a context of loss of ground for inherited wealth to newly created wealth. Furthermore, the stock market continued to experience unprecedented growth. Despite the traditional risk aversion of Spanish savers and the powerful appeal of real estate investment, the liquid wealth of Spanish residents was growing vigorously, and with it the need for professional advice.

Clients were not only more numerous, but also increasingly sophisticated, as their needs had evolved from the sale of securities to portfolio management and wealth advice, where the open architecture model was prevailing. From a geographical point of view, private banking was already highly concentrated in Madrid, Barcelona and Valencia. From Banif's privileged observatory, its CEO envisioned a future with almost 800,000 potential clients and a single global bank model —a result of the late development of Spanish banking— with highly qualified personnel, advanced technology and a wide range of free products. Conflict of interest did not seem to be a problem.

DBK reports reveal that private banking suffered the first impact of the Global Financial Crisis and the deterioration of the economic situation, but that it very soon began to recover (Figure 1). Many clients decided to transfer part of their assets to traditional banking products, and many commercial banks then decided to lower the minimum assets required in order to expand the client portfolio in their private banking divisions. It was a successful strategy, as the specialized divisions of commercial and savings banks increased their share to 63 per cent in 2008, to the detriment of specialized banking entities (32 per cent) and, above all, of the independent entities (5 per cent). The truth is that the assets managed by private banks continued to grow in the following years, expecting to exceed 500,000 million euros on the eve of the 2020 coronavirus crisis. DBK estimated private banking clients at 420,000 in 2018, of which 110,500 would be located in Madrid and 94,600 in Barcelona, with the average managed assets being much higher in Madrid (1.5 million and 1 million euros respectively).

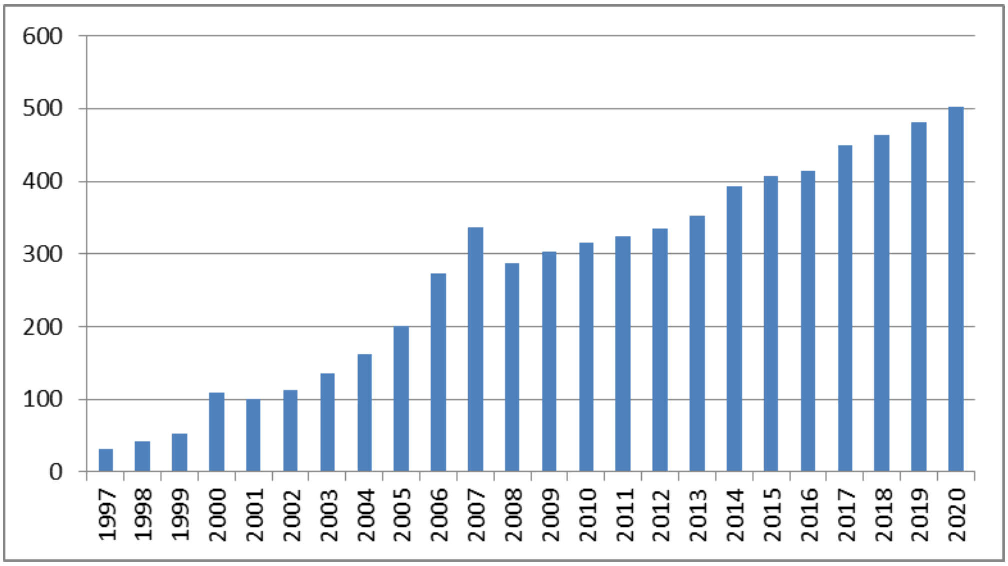

Figure 1. Assets under private banking management (billion euros), 1997-2020 (2019 and 2020 figures are estimates).
Source: DBK (2000, 2012 and 2019).

As shown in Table 2, Santander, BBVA and later on Caixabank have held their leadership in the 21st century. These three institutions add up to more than 50 per cent of a fast growing market. In 2018 the private banking industry was estimated at 464,000 million euros, almost nine times larger than in 1999. Even if Spanish universal banking entities absorbed 77 per cent of the market, independent entities had grown to represent the remaining 23 per cent. The fact is that many wealthy clients had felt neglected by commercial banks, which were facing problems on all fronts in the midst of the crisis. Three pioneering independent bankers stand out in terms of market share: Renta 4 Banco (2.4 per cent), A&G Banca Privada (2.2 per cent) and GVC Gaesco (1.1 per cent).

Table 2
Spanish private banking ranking, 1999 and 2018 (only those with over 1 per cent share in assets)

	June 1999		December 2018
BSN (Santander)	17.8	Banco Santander	22.4
BBV Privanza	17.2	BBVA	14.8
Banco Banif	11.3	Caixabank	13.8
Bankinter	5.0	Bankinter	7.7
AB Asesores Morgan Stanley	3.9	Banco Sabadell	5.9
Beta Capital	3.2	Banca March	3.1
J. P. Morgan	2.9	UBS	2.9
Banco Urquijo	2.7	Bankia	2.6
Fibanc	2.7	Renta 4 Banco	2.4

Deutsche Bank	2.5	Deutsche Bank	2.4
BNP España	2.3	A&G Banca Privada	2.2
Merrill Lynch	2.1	Andbank	2.1
Chase Manhattan Bank	1.9	BNP Paribas	1.6
Sabadell Multibanca	1.6	J. P. Morgan	1.6
Argentaria	1.4	Ibercaja Banco	1.4
Altae	1.4	GVC Gaesco	1.1
Credit Suisse	1.2	Indosuez Wealth Management	1.0
Crédit Agricole Indosuez	1.1		
Private Bank	1.1		

Source: DBK, *Competitors 2000*; DBK, *Competitors 2019*.

Ultimately the growth of private banking relies on the concentration of wealth in the hands of high-net-worth individuals. Therefore, it is important to pay attention to the demographic evolution of the concentration of wealth. Capgemini consultants have estimated that HNWIs have grown worldwide after the Great Recession. The most relevant cases are the United States (5.3 million), Japan (3.2), Germany (1.4), China (1.2), France (0.635) and the United Kingdom (0.556). Italy (0.275) and Spain (0.224) are well behind (Capgemini, 2019, p. 9). If the DBK and Capgemini data were correct, then the growth possibilities of private banking in Spain would be very limited, since the current customer base would double the number of HNWIs. However, estimates from the Credit Suisse Research Institute attribute to Spain a figure of 979,000 HNWIs, which will reach 1.4 million in 2024, with growth only surpassed in Europe by lagging countries such as Poland and Portugal (Credit Suisse Research Institute, 2019). Overall, Credit Suisse's numbers are larger than Capgemini's, and the main reason is that the benchmark of USD one million excludes primary residence and personal property for Capgemini.

Scholars have also shown interest in the distribution of wealth. The most ambitious initiative is the World Inequality Lab (WIL), based in Paris, which coordinates an international network of more than a hundred researchers in seventy countries with the aim of feeding information into the World Inequality Database (WID) and the resulting World Inequality Report. In the 2017 report the data for Spain, referring to 2013, show that Spanish private banking serves the Top 1 per cent of wealth distribution, which accounts for 21.1 per cent of the total (which rises to 24 per cent if we include hidden wealth in "tax havens") (World Inequality Lab, 2017, pp. 232 and 240). Compared to other countries, the weight of real estate investment is striking, particularly between the 30th and 60th percentiles (World Inequality Lab, 2017, pp. 233-235).

A recent report by Ernst & Young confirmed the good prospects for global private banking, but warned that one in three clients was considering changing bankers in the next three years, showing a penchant for independent banks and fintechs, that is, companies that offer robo advice and other technological tools to manage personal finances (Ernst & Young, 2019). Sector-specific regulation in Europe is limited to the MiFID directives (Markets in Financial Instruments Directive), which have had conflicting orientations. MiFID I was launched in 2004 seeking harmonization and deregulation, allowing the birth of the Independent Financial Advisory Companies (EAFIs in Spanish). As for MiFID II, it was approved in 2014, after the outbreak of the Global Financial Crisis, to reinforce requirements and supervision, therefore endangering newborn EAFIs (Accenture-AFI, 2013). On the other hand, it is reasonable to think that underlying cost and size problems will eventually trigger a merger process (McKinsey & Co., 2019).

7. Conclusions and ideas for future research

This article is concerned with an increasingly relevant actor of the financial industry: private banking. Modern private bankers are advisers and managers of large assets which are channeled mainly through collective investment schemes. Their origins are in the old European merchant banks and US investment banks that sustained the industrial revolution, but over the past four decades globalization and the worldwide rise of wealthy families and individuals has strengthened and renewed the social and economic role of private bankers. Our research examines this process through the evolution of private banking in Spain.

The first conclusion of our study is that private banks have not received the attention they deserve from recent business history scholarship. Yet these institutions are at the core of financialization, that is the increase in size and importance of the financial sector relative to the overall economy, a process that has changed industrial capitalism dramatically. Moreover, the history of private banks is also closely related to the evolution of family capitalism, a subject that has been very well covered by recent scholarship except for its financial dimension.

Second, regulation during the interwar and golden age and deregulation since the 1980s have determined the transformation of private banks. The recent rise of the heirs of merchant and investment banks, the focus of this article, runs parallel to the deregulation and boom of stock markets following the British Big Bang of 1986.

Third, the Spanish story shows that deregulation alongside international integration spurred the rise of modern private banking from the 1980s onwards. Under strong Anglo-American influence, a seemingly brand-new industry emerged, but in reality it was made up of both old and new players and both insiders and outsiders. Most of our empirical research has consisted of identifying these actors and reconstructing their background and strategies.

Fourth and last, the growth of private banking is inseparable from the increase in the concentration of wealth by a social minority. This wealth is both inherited and new. Interestingly, Spain's entry into the European Union caused, on the one hand, a massive sale of family businesses to foreign multinationals, putting in the hands of heirs important assets that needed to be invested. But on the other hand, the integration of Spain in international markets provided enormous business opportunities, allowing the formation of new wealth. The founders featured in this article are a good example of this. As the evidence gathered by the World Inequality Lab and the Credit Suisse Research Institute shows, Spain has experienced one of the fastest wealth concentration processes within the Western world, a fact that in itself justifies our research.

Ours is only a modest step in understanding the development of a fascinating activity. We still need to explain satisfactorily the driving forces of private banking and how the demands of wealthy individuals influence financial institutions and regulation. Among the lines of research that we would like to suggest to address private banking within and especially outside of Spain with the focus and tools of business history are the following. First, the regulatory process, that is the context and agents that contribute to change the rules of the game. Second, international alliances between banks, crucial in a historically international sector. Third, investment strategies and patterns of private banks. And fourth, the systematic study of private bankers, one of the highest paid professional groups in the world. This would throw light on the recent development of the knowledge industry, undoubtedly one of the great topics of business history.

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