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Private Banking

Building a Culture of Excellence

BORIS F.J. COLLARDI

Private Banking

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This book is dedicated to my wife Cherin for always being encouraging and enthusiastic about all my endeavours, to Alex Widmer for sharing with me his passion for the business, and to my parents for giving me a great sense of curiosity and a keen interest in people.

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Preface

Can an industry steeped in tradition adapt to an ever-faster changing business environment? The numerous challenges facing private banking, which are elaborated upon here, have arisen over many years. But the urgency with which these must be confronted has taken on a whole new meaning since the financial turmoil that made itself felt in all areas of financial services. This made the timing of this book especially meaningful.

I started to write this book in early 2008, on the eve of a period that would raise fundamental questions about the future of a business that has survived, literally, centuries. Today private banking is being shaken to its core by global events. These include volatile financial markets and the new wealth being created in developing regions of the world, offering not only tremendous opportunities but also potential risk factors to consider. Meanwhile, partly as a result of past crises, banks worldwide now face the challenges imposed by new regulatory regimes. These factors have contributed to a sense of urgency driving changes within our industry. Not only has the pace of change accelerated but the scope of potential issues banks face today is also enormously broad. This is affecting how the business adapts: Should a private bank act with uncertainty or wait for the dust to settle and risk losing out on key opportunities that accompany these changes? A period of rapid growth was followed by widespread setbacks, giving rise to a desire to make the business more sustainable and answerable to the considerations that influence the health and vitality of any industry. This, truly, is one of the most interesting periods our industry has faced. In that spirit, I decided to finish the book.

For perhaps the first time ever, each private bank is being forced to examine a business model that has survived for decades, in some cases, for over 100 or 200 years. What has transpired in just a short span over the past 30 years or so is now challenging that long-established model. Global economics and upheavals in financial markets, new clients coming onto the scene, and stricter regulatory requirements all are contributing to a radically changing environment. When I began in the business in 1993, every private banker decided autonomously on the services and solutions offered to his or her clients. Private bankers dealt with issues as they arose, dispensing

investment ideas, legal guidance, and often also personal advice to clients more or less on an ad hoc basis. There was no uniformity, and thus no guarantee of any quality standard or minimum level of service—the banker was the bank.

Changes in the past years have radically altered the familiar, sometimes cosy world of Swiss private banking. Players are facing a variety of challenges. Today the business demands a high level of expertise in many different areas of competence along with professionalism that must exceed already significant expectations that clients rightly have. Given the growing complexity and inter-linkages among markets, the increased sophistication of investors and products, as well as the imperative to abide by regulations of different regions, a client advisor today must rely on a number of specialists. The all-in-one advisor of decades ago has been supplanted by someone backed by teams of professionals in areas ranging from local investment market and estate planning expertise to country-specific legal and compliance knowhow, to name just a few. Private banks must seek to remain viable for the future by refocusing or perhaps by expanding into new markets, either on their own or through acquisitions and partnerships. As the opportunities arise, so do the risks, given that an extended set of local rules and regulations must be applied and closely followed when private banks expand into foreign markets. After the financial crisis, regulators intensified their efforts to reduce the threat of a large financial institution failing. These rules should improve the safety and soundness of the system and help to restore trust in it. It is up to the banking industry to deal with this new environment and to comply.

Almost four years have passed since the collapse of Lehman Brothers in September 2008, and a number of open questions remain that must be addressed, such as how to further regulate systemically important institutions where a failure could undermine the stability of the entire financial system. Adding to the complexity, private banks in Switzerland must adhere to ever more stringent requirements governing foreign domiciled clients. Banking secrecy has been, and will continue to be the subject of much public debate, both inside the country and abroad.

While it should not be abused, privacy has played an important role in protecting clients' assets in the past and will continue to be valued in the future. There will still be assets held offshore, but the motivation for this will not be tax avoidance. Clients will want to maintain diversification of jurisdiction. This business will remain interesting for banks but time will tell in what form, and in which markets, successful players will operate in the wake of changing regulations. Adapting and upholding a variety of new and more complex country-specific regulations clearly increases the cost pressures that banks face, requiring them to find ways to provide

cost-efficient service. Nevertheless, the only way forward is through meeting the requirements and anticipating how these will develop to ensure that the correct internal controls are in place and clients are well informed about compliance requirements. Private banks should serve as role models for their industry. No less is expected of them by their clients, their staff, and regulators. Growth must be based on factors that take into account the latest developments.

Even facing a wide range of challenges, however, the private banking industry is surrounded by plenty of opportunities. In terms of global wealth, the potential remains truly enormous, and there is still significant room for growth. Economic growth in many regions of the world has added a new dimension to the business. For example, a rising class of young entrepreneurs in emerging markets will favour private banks able to deliver to a high standard. Thus, the surge in demand for competent wealth managers in regions beyond Western Europe, especially in Asia, is opening up new territory for those private banks able to offer expertise and know-how. Singapore, for example, is already today a financial hub rivalling those in Western Europe, including Switzerland. Meanwhile, a number of financial firms, after the damage to reputation and balance sheets suffered in the financial crisis and amid regulatory pressure, are reexamining their business models. For strong firms, this creates unique opportunities to expand their business and reposition themselves in those markets.

Private banks will have to look at all of the forces and trends that shape the industry and identify the opportunities as they arise along with the challenges. They can never afford to lose sight of the fact that their business depends first and foremost on maintaining high standards of quality and personalised, superior client service. For a business that should always place the client at the centre, the question becomes, how can private banks continue to ensure that each and every individual in different places in the world gets the level of personal attention, delivered with the consistent high quality of service that he or she requires and has come to expect? In many ways, growing sophistication has transformed the way private banks operate. No single advisor could hope to fulfil all the needs of each and every client. This trend has led to a mass customisation, if you will. There is no room any more for the advisor who may lack the expertise, the information, and the people skills that the job today demands. The focus remains on clients, and the aim is still to provide the best individualised service. But how this is achieved has raised the bar in terms of the knowledge and expertise demanded of relationship managers. No matter how much the industry changes, clients are and will remain the most important element. They are to be viewed always as individuals, making decisions that can profoundly affect their lives and the well-being of those people who depend on them.

With these aforementioned opportunities and challenges in mind, this book aims to provide an overview of the elements that play a critical role in our business, illustrating how they may be aligned to serve a single objective: to strive for excellence in private banking, keeping the client at the centre of focus for all activities. This book seeks to highlight the current patterns and trends providing direction from the perspective of a private bank and based on the experience I have gathered over the past 19 years. Through my academic involvement as a member of the Advisory Board at the Singapore Management University (SMU), I have realised that very little literature was available on private banking. I hope that this publication will appeal also to the next generation of people interested in our *métier*, a factor of outmost importance given the relative scarcity of available talent in the private banking industry today.

The book is arranged schematically, with the first chapters providing an overview of the main elements that should be considered by a private bank, which will then each be explored in greater detail during the subsequent chapters. Although written from the viewpoint of Swiss private banking, this book also looks at the issues from a global perspective. My aim is to offer insight into the bigger picture of a business that is still in the midst of change to share a vision of the future of the industry and the potential directions that may be taken with regard to best practices and strategies. Yet it is important to note that any book can offer only ideas. It should not be construed as a reference guide full of ready-made solutions or a guaranty to success. It is therefore important to highlight that this book, though providing a practical framework, should not be construed as a strict how-to manual for running a private bank. There are many ways to go about formulating strategies and adapting to change. This book should be treated as a collection of ideas and suggestions; it represents just one attempt to answer the most pressing questions regarding what makes a private bank successful. It clearly does not offer all the answers, and in the end, the well-reasoned and sound opinions of each individual reader must decide what solutions are most suitable and practical, based on the particular situation.

To come back to my original question: Can an industry with such a long tradition adjust to an environment where change is taking place at an ever-increasing pace, affecting nearly all aspects of the business? Those institutions that will succeed must meet numerous challenges, taking into account modern practices and ideas, while continuing to respect established traditions. Private banking needs a courageous new vision, but it also needs to continue to develop the basic expertise, competence, and capabilities necessary to work well and efficiently.

There are many ways to approach this. I have tried to touch on a few that might resonate especially with readers in or associated with the industry. It always requires work to realise a vision, but it is possible. This is the message of this book. Despite the many questions the business faces, the outlook for private banking gives every reason to be optimistic. The way ahead won't always be easy. Yet the opportunities are vast. Private banking has a great future ahead of it.

Acknowledgments

When I started to write this book at the beginning of 2008, I did not anticipate that the upcoming four years would be the most intense, interesting, and thrilling ones I have up until now experienced in my professional life. I am not referring only to my career development but certainly also to the events that affected the financial industry and indeed much of the world during this period. The financial industry has entered a phase of radical change with the debate about the future of private banking—the very subject of this book—taking on new dimensions that hardly could have been imagined just a decade ago, or even when I started to write this book. Without a doubt, this period has provided me with much inspiration and a good deal of insight, furnishing fertile ground to bring this project to fruition.

Certainly, however, it would never have been possible to write this book during such turbulent times without the valuable contributions offered by those to whom I am grateful for their help and unflagging support. Two people in particular deserve mention for being there early on when the book was little more than an idea and sticking with it to the end. Christina Ziegler and Guido Ruoss have helped to take this book from a set of ideas to something with a carefully conceived and viable structure, providing considerable support in content management and research, going through numerous revisions, and pulling everything together whilst acting as a valuable sounding board. Without their help and unflagging commitment the book would not have been completed. I also would like to express my sincerest appreciation to Alice Ratcliffe for the extensive editing work and professional writing experience she has brought to the project.

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A Framework for Excellence in Private Banking

One of the strangest lessons of the financial crisis was that despite the large number of people who were aware of the direction in which things were going and the many warnings sounded, the outcome was in a sense unavoidable because there were too many short-term—and short-sighted—incentives that were not aligned with long-term goals. As a business, wealth management poses interesting intellectual challenges: How can long-term goals of capital preservation and appreciation be matched with short-term market fluctuations? Another question is how do we achieve this while serving one of the most demanding client groups in a fast-growing and highly competitive market? This “culture of excellence” demands that one accepts basic assumptions, attitudes, practices, and concepts upon which to build a business capable of satisfying the most demanding clients. The best time to do that is not when business is booming; the foundations must be laid well in advance to take advantage of the opportunities provided by a crisis or recession.

Is it possible to change systems and alter the incentive structure based on one single event or a particular insight? Rarely is this the case. Too often, institutions tend to stick with the paradigm that they have chosen and, furthermore, fail to communicate it or to inspire employees. Often, individuals are not even aware of the bigger picture and how they fit into it. People in banking generally know what is expected of them based on a job description and performance objectives. But sometimes they lack the understanding of how they, or their function, fit into the bigger picture, along with the bank’s vision and the general direction the industry is taking. If a broader frame of reference is lacking, people have a more difficult time adjusting to the extreme fluctuations that may characterise private banking today. Achieving a “culture of excellence” in private banking isn’t merely an exercise involving surveys to find ways to improve client satisfaction, or

about putting pressure on employees to meet particular goals. It goes right to the basic foundations of the business. It requires redefining the concepts and terms that are often taken for granted. Then, and only then, is it possible to get to the point of asking how structures and processes can be improved to create value for all parties involved.

Before going into more detail about specific topics, it is worthwhile to lay out the framework of this book. The way in which the book is structured can also serve to develop a strategy for a private bank. This framework will look at the following questions: What makes a successful private bank? Which aspects are important? How do these fit together? How should important goals be achieved?

To successfully steer a company striving for excellence, and particularly a bank, the vision and mission statement offer vital direction, but it doesn't stop there. As outlined in Figure 1.1, there needs to be an honest appraisal of the business in its current state and how it really is performing. It also must ask tough questions regarding where and how it can best employ its resources, targeting which client groups and in which markets. Geography, the regulatory environment, and competition all play a role. In an ideal world, full data transparency would allow the market to be sliced and segmented so as to identify the most advantageous segments. In practice, knowledge of client behaviour is limited to the past, and the future is the realm of forecast and conjecture. Even the best strategy will be limited by what can be known. Running a bank therefore requires a mixture of managing and improving on what the bank already is doing, as well as transformational leadership,

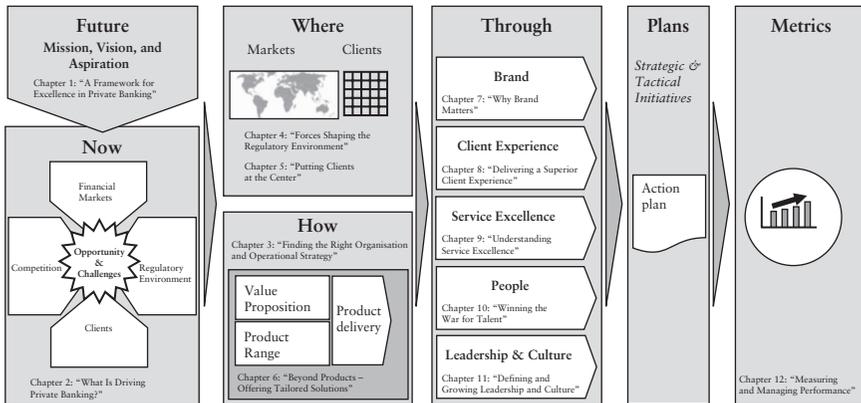


FIGURE 1.1 The Seven Main Components for Achieving Excellence—An Outline for This Book

Source: Author

meaning venturing into new and unfamiliar territory. All of this requires measuring the performance on a regular basis to keep grounded. It's no use formulating high-flown mission statements that have no basis in reality.

The framework shown in Figure 1.1 offers a schematic approach to the steps necessary to take a bank from a simple vision to really achieving its concrete goals. This is done through a process that, hopefully, will lead to excellence—by definition something that also requires defining strategy, honing it, and constantly seeking to either reaffirm it or, as necessary, to make adjustments. What is “excellence,” and how can it be measured to know whether or not a bank is achieving it? To make it easy to understand the process that went into writing this book, the chapters are arranged in the same order as this overview: “*future*,” “*now*,” “*where and how*,” “*through*,” “*plans*,” and finally, “*metrics*.” These same elements correspond to the chapters, aiming to provide structure to a process that in practice is unlikely to be as neat as shown here. The chart represents an ideal to give guidance on the road to excellence. It does not rule out that there will be obstacles, detours, and unexpected bumps along the way.

The seven elements together define a strategy to achieve excellence. They can be further used to refine or to adjust an existing strategy or to guide a new business, an established one entering a new area, or, for example, one that aims to consolidate an existing business. The *vision* states how the bank would like to see the *future*. But first the current situation must be assessed, the *now*. Then management must decide *where* the bank wants to compete. This can include geographic regions or client segments that offer the most promising potential. Once that is accomplished, decisions must be made on *how* the bank will reach those markets and clients with a strong product range with a family of value propositions and excellent delivery. Then it must begin to implement that vision *through* its brand, people, performance management, and frontline processes. With the support of *planning* and information supplied by *metrics*, the process can be used on an ongoing basis to implement strategy, assess it, and alter it when needed.

VISION AND MISSION

The ideals and goals contained in the *vision* and *mission* statements take into account aspects of most chapters in this book. These are the inspirational elements that form the bedrock that defines a company's existence. Anyone who has worked in a corporate environment will be familiar with the concept of company vision and mission statements. Ideally, the vision gives a sense of the company's future aspirations. It gives a sense of purpose.

Yet the reality often falls short of the ideal. Looking at existing vision and mission statements in all industries, no pattern emerges save for the fact that many companies want to be “number one,” or “the best,” or the “leading supplier.” Nevertheless, while companies have used or abused the concepts of vision and mission statements, it is possible to create meaningful ones that confer tangible benefits. It helps to recall that the vision is about leadership and painting a picture of the future that should explain why a company wants to create something. A mission is about management—*managing* how the company will achieve that vision. The mission serves as the link that takes a company from its vision to setting and meeting concrete targets. A *vision* describes a better future without saying exactly how the company will get there. The *mission* turns the vision into a concrete endeavour.

PRESENT STATUS

Along the path to excellence, the “now” shown in Figure 1.1 represents the current state of affairs. Chapter 2, “What Is Driving Private Banking?”, examines opportunities and challenges posed by the four main factors driving the industry. These include markets, the regulatory environment, clients, and competition. How these issues are dealt with and the success that individual banks have in facing changes in these major areas will be a determining factor in how they approach all the areas outlined here.

WHERE AND HOW?

To understand the “*where*” and “*how*” in the process, especially as it pertains to near-term developments, Chapter 3, “Finding the Right Organisation and Operational Strategy,” takes a detailed look at how this aspect of the business is changing. Companies are reviewing their basic strategies, and in some cases, this is driving them to consider alterations to their business models. These might be “pure-play” private banks joined together with other businesses as part of a larger “universal” bank, or it could include larger organisations that choose to focus on individual parts of the business. Equally important in terms of such developments, Chapter 4, “Forces Shaping the Regulatory Environment,” provides an overview of the main changes that are key in terms of how banks can ensure that their business is transparent and meets stringent guidelines in terms of both local markets and international business. This is a major consideration when it comes to the discussion of where energy and resources should be deployed.

Chapter 5, “Putting Clients at the Centre,” examines long-term trends that determine whom banks serve. Changes with regard to the client mix and client expectations are key factors driving the business, and they will continue to do so in the future. While it is possible to segment clients by wealth level, risk preference, or any number of other variables, in all cases each client has a right to expect a tailored, customised service suited to his or her personal goals. This is discussed in Chapter 6, “Beyond Products—Offering Tailored Solutions.” Looking at how the changing market environment has affected clients’ preferences for certain types of instruments along with changes in the regulatory environment that also affect both the way needs are addressed and the types of solutions offered, it is a foregone conclusion that products and services must be suited to individual clients. This requires tailoring solutions to ensure that these best match clients’ needs.

PROCESSES, PEOPLE, AND PLANS

Allocating responsibilities allows goals to be achieved. But it is not the steps alone that are needed. There also has to be a way to give any story meaning by keeping in mind that all facets of this process are in some way intertwined. There are various ways that a bank can address the “*thru*” section of the path to excellence. A bank reaches its markets and clients through its brand. Especially in private banking, where brand is a relatively new focus, it is essential to understand what the brand stands for and how it can be reinforced. Chapter 7, “Why Brand Matters,” looks at these aspects, while Chapter 8, “Delivering a Superior Client Experience,” focuses on how clients perceive the bank, including by way of “touch-points” that they encounter through advertising and by visiting the company premises. Chapter 9, “Understanding Service Excellence,” explores the idea that everyone working in an organisation is a client, even of other employees within the organisation. Much of this involves “*processes*.” Amid all the efforts to cultivate excellence, *people*, however, play the biggest role. Thus Chapter 10, “Winning the War for Talent,” takes a popular industry phrase as its title to explain how escalating demand for staff, especially in fast-growing markets, is influencing the industry as a whole.

All these factors can contribute to an optimal result if they are viewed objectively. It requires planning to ensure that the processes and, more important, the people work together to achieve the goals. Chapter 11, “Defining and Growing Leadership and Culture,” looks at how styles of leadership have evolved and how leadership can be encouraged, even in those who might consider themselves to be narrow specialists. Leaders must

not only *plan*, but delegate. Planning is the art of turning goals into manageable steps.

METRICS

Every private banking “story” has a beginning, a middle, and an end. Very likely achieving goals in the quest to obtain excellence will prove that the process is self-perpetuating. To ensure that the bank is on track with regard to the strategy it has selected, targets are required. These need to be measured on a regular basis. Such targets can comprise key performance indicators (KPIs), for example. It is not necessary to measure 20 to 40 different parameters. A handful will do. They should be used to track developments in each region, market cluster, or organisational entity where the bank is active. At the management level, a relatively small number of KPIs tell the story. This is the focus of the final chapter of this book, Chapter 12, “Measuring and Managing Performance.”

CONCLUSION

This framework should serve as the unifying map to guide the reader through the different discussions in this book. By means of the steps outlined here, excellence gains a concrete dimension. It can be evaluated and analysed, and deficiencies can be addressed and strong points reinforced. Excellence then becomes more than just a word. It is something that can be strived for and, with effort, achieved. Without any plan, even the most inspiring vision will lead nowhere. Planning is the art of turning goals into manageable steps. By following a clear path and with a great deal of hard work, the desired aims can be achieved. The following chapters offer some insights into this process.

What Is Driving Private Banking?

There are numerous forces at work shaping the private banking industry. Market volatility following the financial crisis of 2008 has led to a demand for simpler, more transparent types of investments among clients. Regulatory matters are also affecting the business. Concerns about the safety and soundness of banks have increased the pressure for stricter regulations to protect clients and to ensure that banks are adequately capitalised. As for clients, growth in nontraditional markets along with a shift taking place as a new generation takes over wealth planning also have affected how the business develops.

Competition, too, is undergoing change. Today's competitor is no longer interested only in clients but also in securing the necessary talent to serve these clients in a market in which demand for relationship managers has increased. Where capital is concerned, banks that can demonstrate that they are able to exceed regulatory minimum requirements are at an advantage. Those that lack capital or the size necessary to compete in new markets are likely to join a wave of consolidation already underway in the industry.

How these forces together are shaping the industry makes private banking both exciting and challenging. The clock cannot be turned back. Private banks must accept that the world is changing and must seek to adapt. This chapter explores the issues that are critical for an understanding of how the industry will evolve in the future and to answering the questions that must be addressed to succeed in this new environment.

AN INDUSTRY IN THE MIDST OF CHANGE

Private banks are among the few service providers just as relevant to clients now as they were decades or even a century ago. In today's dynamic marketplace, changes on numerous fronts are profoundly affecting how these

banks approach their business. To take advantage of opportunities and anticipate risks, it is becoming increasingly important to assess the forces shaping the industry. This is done to get a clear idea of what lies ahead and which areas might offer the best avenues for growth. Due to its global nature, private banking is influenced by developments all over the world, in virtually every market and in real time. Today, it is no longer enough to wait for events and then respond to them. It is vital to understand the trends sweeping through the industry. Numerous factors come into play. The rising level of wealth in emerging markets has altered the client mix, making the business more interesting and varied. At the same time, it adds a new layer of complexity. Intense competition in some markets is challenging both new and established players. The financial crisis has led to a host of initiatives aimed at reducing risks, adding to an already intricate set of rules and regulations. Meanwhile, governments, concerned about undisclosed assets, are stepping up pressure on private banks to divulge information on assets that are held cross-border.

Although the private banking business model and geographic focus might undergo occasional changes, the central focus of the business remains the same. Its main goal continues to be to ensure that the wealth of clients is preserved, not just for a few quarters but for generations, providing growth on a sustainable basis without jeopardising assets. Delivering a high standard of service in a sustainable way, meeting and trying to exceed client expectations, maintaining their privacy, serving them with integrity, and deserving their trust remain the *raison d'être* of any private bank. Due to the internal and external forces affecting the industry, private banks must make choices and take decisions now that will have a far-reaching impact for years to come in order to best serve new and existing clients. The speed at which events unfold today along with the implications that developments may have means that any actions must be carefully weighed. It is important to plan and to act when necessary, rather than face an uncertain future.

A note here is in order regarding the term “private banking.” Traditionally private banking was viewed as a sub-service of wealth management, a category that could include many other types of businesses. Today, however, *private banking* is often used as a term interchangeable with *wealth management*. Unless a clear distinction is made, this book uses both of these terms to describe the activity of managing the wealth of high-net-worth individuals.

The next section of this chapter looks at the key forces having the greatest impact on how private banking is developing from a business perspective. The four drivers—markets, regulatory environment, clients, and competition—are the main forces that are shaping the industry today

and most likely will be for years to come. To gain a better understanding of what these factors are and their potential impact, this chapter touches on many of the main themes that are explored in greater detail elsewhere in this book.

Swiss Industry, International Perspective

Switzerland has a long history as a financial centre. The country's financial industry* accounts for 10.7 percent of the GDP and employs in total nearly 246,000 people both within and outside of Switzerland. The financial centre pays each year an estimated 14 billion to 18 billion Swiss francs in taxes, equal to 12 to 15 percent of total tax revenue.⁽¹⁾ Swiss private banking enjoys a reputation unparalleled in terms of quality and client discretion. The country's modern and efficient infrastructure, educated population, sound currency, and stable government all contribute to its attractions as a banking centre. The Swiss law governing banking secrecy, adopted in 1934, though subject to much debate over the years, has certainly played a role as well.

Switzerland, with a population of about 7.8 million people, roughly equal to that of Greater London, provides only a small home market. The strong growth of private wealth during the 1990s led many Swiss and foreign banks, especially larger players, to expand their private banking operations on an international basis, both onshore and offshore.** Where the larger Swiss banks are concerned, this means going to where their customers are, including both Europe and some rapidly growing emerging markets.

Changes in the regulatory environment at home and expanding wealth in emerging markets are factors that are leading Swiss banks to rapidly expand their international presence, especially in Asia. A survey conducted by the University of St. Gallen found that no less than 63 percent of Swiss banking CEOs believed that having an international presence would be "important" or "very important" for private banks in the future. Furthermore, nearly two-thirds of CEOs "effectively believe that banks that increase their international presence meet a precondition for future success in private banking."⁽²⁾

*The financial industry comprises both the banking sector (retail banking, wealth management, asset management, investment banking) and the insurance sector.

**Offshore clients are individuals who deposit their money in a bank outside of their home country. *Onshore* refers to those whose money is booked in their home country.

Evolution of the Business Model

Providing personalised money management and advisory services to wealthy individuals or families is what a private bank *does*. But defining what a private bank *is*, in terms of its business model, is more difficult. Today there is a diverse set of models under which private banking services are offered. In Switzerland, the classic definition of a “private bank” is one in which its owners are partners who share unlimited liability. This type of structure has become increasingly rare over the years. In 2010 there were just 12 such private banks in Switzerland matching this description.* The classic private banking model aims to provide integrated services, meaning offering only products developed by the bank itself. Such an approach encompasses all parts of the value chain (production and delivery).

A key reason for taking this approach has been privacy. In other words, private banks saw a risk in having client information handled by outside parties. Beyond that, it was considered “a sign of weakness” if external products were employed, according to a study published by Hans Geiger, a professor of banking at the University of Zurich, and Harry Hürzeler, managing director of the Swiss Banking School.⁽³⁾ Things have changed, however. One reason is that clients’ needs have become more complex and sophisticated. This affects their requirements regarding financial expertise, taxation, and legal compliance. The range of product offerings and services likewise demands increasingly specialised know-how. A model whereby a single private bank offers the best possible solutions in all categories is growing less feasible. In fact, today third-party products and services are a sign of strength, in that they give clients what truly represents the top of the range in terms of quality.

This is leading to a business model that more often is characterised by different forms and various types of ownership. A private bank today might be owned by partners in the traditional sense, or it might just as easily be part of another, larger publicly traded financial group. Such an institution may offer private banking as its sole dedicated service, as a so-called pure-play private bank. Alternatively, private banking may be one of a number of multiple services offered to clients on an integrated basis, alongside asset management, investment banking, and retail services. In Switzerland, private banking can also be offered by regional banks in which the Swiss

*The Swiss Private Bankers Association lists the following 12 “unlimited liability” banks as members: Baumann & Cie, Bordier & Cie, E. Gutzwiller & Cie, Gonet & Cie, Landolt & Cie, La Roche & Co Banquiers, Lombard Odier & Cie, Mirabaud & Cie, Mourgue d’Algue & Cie, Pictet & Cie, Rahn & Bodmer Co., Reichmuth & Co.

cantons hold a majority stake, serving both retail and wealthy clients. To add to the complexity, private banking services even might be by “non-banks” or companies having their core competencies in different fields, such as independent asset managers or insurers. Thus, while there may be only a few independent private banks in the traditional sense, the private banking industry in the broader sense has grown tremendously in size and scale, reflecting its attractiveness as a business, along with the increase in the level of overall wealth, which has drawn a variety of companies to this industry.

Global Financial Centres

As part of their activities, most private banks engage in cross-border business. Offshore wealth management comprises a significant share of global wealth. According to the Boston Consulting Group, the offshore component was estimated to amount to some \$7.8 trillion in 2010, increasing from \$7.5 trillion in 2009.⁽⁴⁾ However, that study noted that the proportion of global wealth held offshore slipped to 6.4 percent, down from 6.6 percent in 2009. This was attributed partly to growth in markets such as China, where the offshore wealth business is less common, as well as to stricter regulations in Europe and North America, which prompted outflows from offshore assets. While onshore wealth management is a major business, it attracts little public attention compared with offshore wealth management. Offshore banking is often associated in the public’s mind with money that has not been declared to tax authorities. It is often presumed by the public to be money belonging to criminals and dictators or other “politically exposed persons” (PEPs). This may have been one of the original motivations for depositing money in offshore bank account. Yet other legitimate reasons exist for holding funds offshore—assets that are fully declared to local tax authorities. Such assets might belong to an entrepreneur concerned about political stability and financial risk in his or her home country. Worries about capital controls, concerns about soaring inflation, or currency devaluations might all lead private clients to keep money in an offshore account. It is worth noting that, independent of why wealth might be held offshore, the distinction between “offshore” and “onshore” refers simply to where the money is booked. And due to mounting pressure from regulators, tax amnesties, and agreements hammered out between governments to force citizens to report foreign assets, it is becoming increasingly likely that money will be kept in such accounts only if it is declared.

In terms of offshore wealth, Switzerland is a global leader. The Boston Consulting Group has ranked it as the world’s largest offshore centre. In 2010, banks in the country managed an estimated \$2.1 trillion in offshore client assets, representing 27 percent of all global offshore wealth held in