**SONAM WHITE PAPER**

# Bring Back the FUN in Private Banking

SONAM
PRIVATE BANKING CONSULTANCY

MARCH 2013

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# FOREWORD

**"It is no longer what it used to be."** These days, this is an often-heard complaint coming from Private Banking practitioners. Especially those who have been in the industry for some time, and feel deprived from the freedom, privileges and status they were used to.

Rules and regulations have mushroomed and deeply impacted the life of every banker; the public perception about bankers has become negative – in certain jurisdictions even outright hostile; the markets are more risky and complicated than ever. It appears that the Private Banking industry is operating under dark clouds. And the weather forecast does not seem to give much hope for improvement any time soon.

Nonetheless, even against this background and the sometimes convincing examples of why it has become so difficult to work in the Private Banking sector, I remain positive and optimistic. As long as there are wealthy individuals requiring the services of professionals to protect and conserve their assets, nothing really changes fundamentally.

**Bottom line: Private Banking is as exciting as ever.**

In order to appreciate and experience that the industry is as fun as it used to be, we will first need to go through a painful and honest process of self-reflection. How did we end up in this situation? Where did it go wrong?

It seems unfortunately fair to conclude that the Private Banks bear to a large extent responsibility for the current situation. In our zealous drive to reach unprecedented levels of short-term profit and personal remuneration – consolation: this was certainly not only a characteristic of the financial sector – we have in many respects compromised on quality and integrity.

We also realise that all regulators and Banks are working hard to cope with the new reality of Private Banking, so this document aims to contribute to this process by putting the discussion in a back-to-basics perspective.

The intention of this Sonam White Paper is to facilitate the self-reflection process by going back to some basic fundamentals of our industry.

By looking at Private Banking from various perspectives and angles, I hope to facilitate this self-reflective thought process and to provide basic input for **fruitful discussions** about our industry; discussions involving **practitioners, regulators, and clients**, ultimately leading to a **fun** and **respectable industry** where principles of quality and integrity are the leading values.

**Kees Stoute**
March 2013

# ABOUT SONAM

Sonam was established in 2012. As the Private Banking industry is undergoing immense change, the morale in the industry is under pressure. As a low morale-industry is detrimental to the level of service, Sonam's ambition is to contribute to the discussion how to "bring back the fun".

Fundamentally nothing has changed to the mission of the industry, i.e. to help high net worth individuals enjoy their wealth today and in the future. From that perspective the industry is still as vibrant and exciting as ever. Interestingly, for top-quality professionals who operate with a high level of integrity, the changes have less impact.

Therefore, to deal effectively with the challenges facing the industry, it is crucial for every Private Bank to focus on both Quality and Integrity.

By focusing on the basics of our industry and by encouraging an open dialogue among all stakeholders, Sonam aims to contribute to the further professional development of the Private Banking industry in such a way that both practitioners and clients – and therefore regulators – experience a high level of satisfaction.

**Sonam offers the following services:**

### Consultancy

Every project or change in the organization can be designed and executed in many ways. All roads lead to Rome, but not all roads are the fastest the most scenic, etc.

In other words, in order to be successful it does not only matter WHAT you want but also HOW you want to achieve that. With regards to many strategic Private Banking matters, Sonam has the experience to contribute to both the WHAT and the HOW questions.

### Assessment

Sonam's aim is to offer a (simulation) tool to Private Banks to assess the quality level of their practitioners.

This part of the service offering is under development.

### Mentoring

Mentoring is a safe, powerful and proven way to reflect on one's position, challenges and ambitions with the intention to foster personal growth.

Thanks to experience with both the industry and mentoring, Sonam is well-positioned to offer executive mentoring programs.

**For more information about Sonam as well as contact details, see the website www.sonam.nl or www.sonam.sg.**

# ABOUT THE AUTHOR

Kees Stoute, the founder of Sonam, is also the author of this first Sonam White Paper on Private Banking.

Prior to establishing Sonam, he was the Managing Director of EFG Bank in South East Asia. EFG Bank is the Swiss private banking subsidiary of EFG International, which is one of the larger banking groups in Switzerland by Tier-1 capital.

Kees Stoute has a distinguished career spanning the academic, IT & Operations and Private Banking sectors, and has been based in Asia for almost 19 years, of which most of the time in managerial positions in Singapore. As an experienced Private Banking manager, Kees Stoute served at MeesPierson from 1992 to 1996 as its regional head of IT. In 1996, he was promoted to the position of Chief Operating Officer of Fortis / MeesPierson in Singapore.

In April 2000, he moved on to become Managing Director of Private Banking and Trust in Asia for MeesPierson.

When Fortis acquired the London-headquartered Dryden Wealth Management in 2005, Kees Stoute was appointed global CEO and Chairman with the mandate to integrate this company into Fortis.

In 2007, after the integration of Dryden into Fortis, Kees moved on to become Managing Director, EFG Bank Singapore where he remained in charge until early 2012. He left EFG Banking to set up and develop Sonam.

In 2011 Kees Stoute became one of the first in Singapore to be certified by the Institute of Banking and Finance (IBF) in Singapore as Financial Industry Certified Professional (FICP – Role Model 6).

In the same year, he was also invited to participate in the Private Banking Industry Group, a consultative forum which was established by the Monetary Authority of Singapore ('MAS') to further strengthen the competency and market conduct standards of the Private Banking industry in Singapore.

In 2012, Kees Stoute became the inaugural winner of the Hubbis Recognition of Excellence in Asian Wealth Management Award.

# Chapter 1
# PRIVATE BANKING FUN?

**"What do you mean fun? Don't you think you are a bit overambitious? I am glad that most of my career was during the good years of Private Banking."**

Once the Sonam website was launched, we received quite a bit of positive and encouraging feedback, but, interestingly, Sonam's expressed mission to **contribute** to bringing back the fun in the industry met quite a bit of skepticism.

It almost seems as if today's private banking professionals – especially the ones with quite a bit of experience – have resigned to the idea that Private Banking is no fun (anymore).

Private Banking has become instead a source of frustration, not only for bank managers and private bankers, but also for clients. At least, that seems to be the message of many practitioners these days.

We fully acknowledge and understand – mostly 'thanks' to our own many years of Private Banking experience – that the industry has changed fundamentally.

Amongst others, these changes have led to a redefinition of the responsibility of a Private Bank and therefore of a Private Banker. And frankly speaking – no worries: we fully agree – these changes have increased the burden on the shoulder of individual Private Bankers. And this in turn has resulted in more scrutiny, more administrative duties and obligations as well as in more outside interference (e.g. regulations) for Private Bankers.

And that is no fun. Not to mention the negative, sometimes hostile perception of the public towards bankers.

It cannot be the objective of the regulator to generate a high level of dissatisfaction, most likely leading to higher levels of indifference and lower levels of service, thus defeating the purpose of regulation.

The reason why it is essential to focus on fun is that we believe that it cannot be possible that an unhappy, demoralized Private Banking industry is capable of delivering superior service to their customers.

Managing the level of "fun" becomes therefore a key focus in the interest of a smooth functioning industry. In other words, excitement and enthusiasm are not only in the interest of the banker, but also in the interest of the banks, the clients and therefore the regulator.

Before we share a few ideas that could lead to the desired higher level of satisfaction in the industry – i.e. to more fun – we would first like to make an attempt to explain what has caused the apparent and unprecedented mood swing in the industry of the past few years.

The better we are able to explain the causes of the depression in the Private Banking industry – and the more we agree on this explanation, the more effective the proposed panacea will prove to be.

## A Changed Industry – Causes of Depression

In our view there are three factors that explain why fundamental changes took place in the past few years:

### 1. The world has become a more dangerous place

Catalyzed by the traumatic 9/11 event in 2001, many governments – and not the least influential ones in the geopolitical arena – declared an all-out war against terrorism.

One way to frustrate the life of a terrorist is to make it difficult to have access to 'his' funds. And since these funds pass through banks, an important focus of the anti-terrorism war was directed at banks.

More than ever banks were expected to thoroughly know their clients and to understand precisely the origins and objectives of the funds entrusted to the bank.

As a result, **Know Your Client** (KYC) became a key point of attention for banks, as the quality of clients is now more than ever linked to the reputation of the organization. As a result, it has become more complicated to open a bank account.

Many questions have to be asked and many internal approvals have to be obtained (i.e. many individuals need to be convinced). This very often means that opening an account may take up to several weeks.

To put it a bit extreme: you work hard trying to convince your client to trust you and your organization, but your organization does not allow you to trust your client. At least, that is how it is often perceived.

And that's no fun.

## 2. The financial crisis has reshaped the landscape

In many countries the tax regulators have been active for years already to hunt those who don't like to pay their taxes. But with the financial crisis the national budgets deteriorated severely, thus inspiring the respective governments to drastically step up their game in an effort to receive all unpaid taxes.

All has changed. A number of highly reputable governments had no qualms to buy stolen client data from disgruntled or greedy (ex)employees of banks in Switzerland. Only a few years earlier such act would have been deemed an outrageous act.

How can a government of a civilized country encourage individuals from neighboring and equally civilized countries to steal property from banks, thus further eroding the credibility of the banks in that country? It can! Whether or not this behavior is ethical, is a nice topic for discussion with a good glass of wine and soothing background music, but fact is that it won't help to change the new reality.

It is a passed station. In the war against tax evasion, the objective justifies all means.

Traditional Private Banking is a consultancy relationship between a high net worth individual and a wealth management specialist; highly personal and individual. Partly thanks to the wonders of IT, banks discovered the benefits of scalability.  For the Private Banks this process already started end of the eighties.

In addition, the expectations with regards to performance were defined differently – more directed at increasing shareholder value - and in terms of KPIs: AUM-intake, revenue ratio, cost/income ratio, etc. The frequency of monitoring the progress increased: from annually to monthly and on occasion even daily.

This led to a higher drive to grow, to become more efficient and to increase revenues.

With the steady increase of Private Banking service providers, the increased costs in managing all the new business control requirements, and the highly uncertain markets, it became even more challenging to meet the KPI-targets, thus further sharpening the focus on scale, processes and products. For clients this development meant that they gradually turned from 'patients' requiring specialist assistance to sources of revenue.

## 3. Private banks gradually become more focused on scale, processes and products

Countries like Switzerland and Singapore, where banks did not need to ensure that their clients paid their taxes, have now also adopted the broad definition of money laundering, which includes evaded tax money.

The governments don't even settle for a neutral position for the banks, as they make the banks increasingly instrumental in the fight against tax evasion. If we look at FATCA, for example, we see how a government expects all banks in the world (Foreign Financial Institutions) to conduct due diligence in order to identify US accounts, to report information to the IRS, to verify compliance and to withhold 30% tax (if applicable).

And also as a result of the fact that most reputable jurisdictions facilitate the provisions of article 26 of the OECD model agreement, points in the direction that banks have to accept responsibility for the tax behavior of their clients.

It is clear that governments mean business, which has amongst other things led to even more stringent KYC-policies as well as stringent cross-border measures in the off-shore Private Banking environment.

Bankers were converted to sales-people rather than consultants. And as long as the economy did well and every product delivered positive returns, nobody really cared.

But once the economy was hit by a severe crisis and investments dropped in value, the industry suddenly came under regulatory and public scrutiny. It was as if the financial crisis peeled off the silky skin surrounding the Private Banks and what we ended up with did not look pretty. The banks were – certainly in the perception of the broad public – caught with the pants down. It appeared that many products were sold to serve the best interests of the bank rather than the client.

The clients were upset and complained with the regulators, who reacted as if they are fully responsible for allowing the banks in their jurisdiction and under their supervision to behave and act like sales organizations rather than as fiduciary caretakers. As a result they reacted fiercely and decisively by issuing rules and regulations in an effort to repair trust in the industry.

The regulatory measures were mainly focused at:

- **Suitability of products (ensure that products sold to clients are indeed suitable/appropriate for these clients and serve their best interest)**

- **Transparency (by becoming open about income the levels of trust will increase and excessive charging will be avoided)**

- **Record keeping (make sure you have a trail on the relationships with your clients which you can fall back on at any time)**

- **Fraud control (the number of internal fraud cases reached new record levels during the financial crisis, which demonstrated in the opinion of the regulators that the internal controls in the banks were insufficient and in need of improvement)**

- **Suitability of bankers (by focusing on training and experience)**

- **Quality assurance (ensure that bankers have the right level of competence in order to be able to act professional and responsibly)**

- **Remuneration of bankers (trying to align the remuneration with the best interests of the clients)**

In short, in the past ten years our industry has been shaking. And to a large extent the soil under our feet is still trembling. Only the odd one out there might consider all these changes fun. The "normal" professional, however, had and has a tough time to keep up the good spirit.

You choose to become a Private Banker, because you enjoy helping high net worth individuals to manage their life. You did not have the ambition to become a crime or terrorist-fighter, nor an agent of the tax authorities, neither an administrator who is too busy to give personal attention to clients. Let's be honest and admit: **fun is at stake.**

And in addition to the many factual regulatory changes in the industry, there is also the psychological element that further depresses the fun. Today's Private Banker is operating in an environment of fear: the regulator, the bank manager, the compliance manager, the auditor, are all scared to make mistakes.

A mistake that – with the benefit of hindsight – could have been avoided if you had even better and more advanced controls and oversight in place, hence affecting the prospects of your career (as you were the one who overlooked it). And as fear is contagious, the banker is seriously affected by it.

The sad news is that most of these control measures are meant to deter a handful of trouble-makers. How many people have the intention to crash a plane? How many bankers are happily providing their clients with unsound advice and enjoy ripping them off with unsuitable products?

We are talking about a very small number here. Nonetheless, it is due to that very small number of trouble-makers, that we all have to be treated like potential terrorists or potential fraudsters.

Fear has a tendency to make life much more inconvenient.

## Ten Ingredients of Fun

So far we have tried to explain why the industry is not as fun as it was anymore. It might even seem that so far we have been building up a convincing case for believing that our industry is no fun anymore.

However, that certainly is not the intention. The intention is to explain what has happened to the industry, understandably resulting in a lower overall morale.

Recognizing all of the above, we are still firmly of the opinion that essentially nothing has changed to our industry: wealthy clients still need professional wealth management advice like ever. Based on this conviction, we view it as our mission to **contribute** to bringing back the fun in Private Banking.

And why?

Because we believe, as mentioned earlier, that it is in everybody's interest – regulator, bank, banker and client – to have a professional, motivated, energized sector. Based on our interpretation of what has caused the fun to be under such unprecedented pressure, we'll now identify 10 ingredients of fun in our industry:

## 1. Accept change - Take control

Once you start to view (parts of) your environment negatively – for whatever reason – the likelihood that from then happiness is on a downward slope is high. You will most likely explain your sense of unhappiness by factors in your environment, thus, sometimes unconsciously, slowly maneuvering yourself into the role of victim.

In a way it is comfortable to be a victim. Victims cannot be blamed for what happens to them. For that reason victim-thinking tends to cause anger, apathy, lethargy, a sense of helplessness and other negative, self-destructive effects on one's mood. If you see yourself as a victim, your unhappiness is legitimate and justified, which is typically not the most fertile soil for positive action.

It might help to realize that it is not the reality as such that is negative, it is your perception of the reality that is the real issue here. It is very difficult to detach yourself from your current thinking and to take a fresh new approach to things.

However, once you are capable to realize that your unhappiness says as much about you as about your environment, you might stand a chance to turn things around. You can act, you can take decisions, you can change direction, you can take control. Always try to make sure you think clear about your own situation.

Explain for yourself the challenges in your profession and decide which challenges you can change and which you can't change but have to deal with. For example, you cannot change the introduction of FATCA.

We have heard many people complaining about FATCA, even though more often than not they had no clue what it exactly entails. Rather than spending time on moaning about FATCA, you could use that time to make an effort to fully understand what FATCA means for you and your clients and business.

This way you take control over your situation, which brings you in a position to give direction to your professional life.

In other words, only once you have accepted change, will you be able to use your energy to make it work for you.

We are fully aware that it is so much easier said than done. And for certain situations it might even seem impossible to turn things around.

For example, if you only had American clients and your Bank has decided to stop accepting and serving American clients, your position is very weak and all you have worked for in the past years will be taken away from you just like that. Isn't it legitimate then to say that you are a victim of the situation? Yes, of course you are. However, even in an extreme scenario like this, it won't help you at all to psyche yourself into a state of anger and depression.

Anger and depressions are bad foundations to build your next chapter on. It will only pull you deeper into the swamp of helpless self-pity.

Even in an extreme scenario like this you are better off to accept the facts, analyze your situation, consider your options, take decisions and move on. Deal with it. Don't expect that others will deal with it for you. On the contrary: the more you moan, complain and victimize yourself, the less likely that people will be interested to help you. Be in control, be positive and – you'll be surprised – the world looks much brighter.

## 2. Embrace Mentoring

We are a great believer in the blossoming potential of mentoring. Certainly if you have to deal with the challenge to turn yourself from a helpless victim into a resourceful initiator, it may be extremely useful to work with someone who helps you to structure your thought processes; to help you to think clear about your own predicament.

Someone experienced and knowledgeable, who is not your colleague and not a member of your family and who can be trusted to keep your discussions confidential.

## How About Having a Mentor?

Various studies seem to agree on the finding that professionals who work with a mentor typically perform better and end up with higher than average salaries.

Don't get us wrong: the last thing we want is to appeal to greed to generate interest in having a mentor. However, we do believe that it is not a coincidence. From our own experience, we are able to share that a good mentor can have a great impact on one's performance.

Mentors may (in random order):

- **Serve like a personal trainer in the gym. Even if you know all the routines in the gym, it is still good to have someone to act as your discipline: promising to take certain actions is one thing, really taking these actions is another thing**
- **Help you to step out of your hectic daily business life and to look 'down' at this life from a distance, thus providing you a broader perspective. Issues that look very important when you are closely on top of it, will most likely look much less relevant once you take a distance, which is not only healthy and stress-reducing, but also helps you to take much better decisions**
- **Give you access to a support system during a critical stage in your career**
- **Provide you an independent, confidential, critical and experienced listening ear it is usually not easy or comfortable to discuss observations, frustrations, challenges, doubts, ambitions, etc. with colleagues or at home - the higher you are up in the hierarchy the more difficult this will become**
- **Provide introductions to powerful resources in your profession thus expanding your professional network**

There are many more reasons - some mentors even evaluate the meaning of your life - but key is that a confidential conversation with an independent individual with relevant experience and authority proves very effective to most people. Key obviously is to find the right mentor as in our opinion not every mentor is good for every professional. It might help to realize that a good mentor is NOT:

- **An individual telling you what to do**
- **An individual who is better or more intelligent than you**
- **Forced upon you**

There has to be mutual respect and chemistry, otherwise it is not likely that you will be prepared to share what really drives or worries you, thus reducing the effectiveness of the mentorship effort significantly and reducing the 'exercise' to a waste of time.

**Our advice: try it!**

### 3. Ensure quality / Training

To be a good private banker means that you have to have a sufficient level of quality. Only with quality you will be **able** to act in your client's as well as in your bank's best interest. Quality comes through talent, education and experience and in this dynamic world improving quality should be a never-ending process.

Therefore it is essential to develop your professional skills on a continuous basis. Make sure you fully understand all risks that you are exposed to, improve your knowledge on each topic you discuss or should discuss with your clients and/or look for a niche. An interesting, somewhat extreme example of the latter category is the banker who launched a specialist service offering for high net worth individuals with autistic children.

He himself has an autistic child and therefore understands what the implications are on the financial life – from a planning and management point of view – for the family. As there are not many such specialists, he might very well gain a global specialist reputation for himself in this area.

How about specializing yourself in wealth transfer issues, child-education issues, issues pertaining to sudden wealth (e.g. lottery winners), etc.? Ongoing training and specialization are key to a successful career. And success is a main ingredient of happiness and fun.

For the junior, inexperienced bankers this might be tolerable, but for the senior, seasoned bankers – which most of the good Private Bankers typically tend to be – this can be annoying and frustrating. They feel treated with disrespect and distrust, which has an adverse effect on their motivation (even more so when they take things personal).

And in addition to the many factual regulatory changes in the industry, there is also the psychological element that further depresses the fun. Today's Private Banker is operating in an environment of fear: the regulator, the bank manager, the compliance manager, the auditor, are all scared to make mistakes.

A mistake that – with the benefit of hindsight – could have been avoided if you had even better and more advanced controls and oversight in place, hence affecting the prospects of your career (as you were the one who overlooked it). And as fear is contagious, the banker is seriously affected by it.

The only consolation is that an increase in intrusive regulation in combination with high levels of fear is a phenomenon that we don't just find in the banking sector. In 1999 you took a plane and walked in just like that. In 2012, years after the terrorist attacks, we are not allowed to bring a bottle of water or a nail cutter on board a plane. And in many instance you have to take off shoes and belts before you enter the plane.

## 4. Introduce an industry oath

As quality is linked to the **ability** to serve a client's best interest, integrity is linked to a **desire** to serve a client's best interest. The general public is rather negative, sometimes even hostile, towards banks and bankers.

Therefore, as an industry we have to do all that it takes to gain back the levels of trust that we were used to. A powerful way to demonstrate our sincerity is to introduce a formal industry oath. In a few jurisdictions – Australia, The Netherlands, etc. – such oath is in the process of being introduced.

If we formally commit ourselves to quality and integrity and accept the consequences for "breaching" this commitment, we deserve to gain back some of the lost territory.

**Note:** how the oath and the subsequent monitoring of professional conduct is introduced is extremely important, as this initiative should not lead to adding more fear to the current high levels of fear in the industry.

That would only work counterproductive, i.e. demoralizing and depressing. It should be introduced as a **positive initiative**, preferably by the banking sector itself, to demonstrate to the public that their commitment to integrity is much more than just a few empty words.

## 5. Work with straight-forward clients

**If it ain't simple, it ain't working.** If you only work with clients who have nothing to hide and who have no qualms to share their financial situation with you, you won't have any KYC- and/or tax-issues.

Rule of thumb: if clients present deals that are too beautiful to be true, than most likely it is not true. Avoid using your creativity and energy – a scarce resource – to try to have doubtful clients and deals accepted by the Bank.

Even if you succeed, you will most likely pay the price – a big one – at a later stage.

## 6. Make distinction between types of Private Banks

Not all Private Banks are the same and have the same ambitions. Those Private Banks that just want to focus on the manufacturing of products and on the distribution of these products, without being bothered about the suitability of these products for the buyers, should be allowed to operate.

These are the banks, which do not wish to accept a fiduciary responsibility. However, there should be one essential condition: it has to be unambiguously, crystal clear to the public that buying products from such bank is 100% at own risk. A bank like this is a retail shop like any other retail shop.

Banks belonging to this category would not need to pledge an oath nor be subject to client/product suitability regulation.

This ingredient might be somewhat controversial as there seems to be a consensus that those who give investment advice, automatically have a fiduciary

We, however, believe that we don't need to be too paternalistic. High net worth clients also have a role to play and should be entrusted to be able to protect themselves. If they really are incapable of protecting themselves, we should immediately close all casinos, to mention just one example.

Consequently, we believe that high net worth individuals don't need to be overprotected and should not be underestimated. If the communication about the type of bank is clear, which could even be addressed by having clients sign a simple one-page document confirming their understanding of the role of their bank and accepting 100% responsibility of the investment decisions, there should not be any miscommunication and certainly no breach of fiduciary duties.

## 7. Avoid zero-tolerance atmosphere

Nobody will doubt the need for regulation. But we do not believe that it is the objective of regulation to entirely eradicate accidents, incidents or unwanted and undesirable behavior. Accidents happen. In our view it is not necessary that each accident or incident should automatically lead to sacrificing a manager.

Just like the position of the Head of Police is not immediately at stake when confronted with a murder case in his jurisdiction, is it unreasonable to hold a manager automatically responsible for a deliberate and intentional policy breach by one of his employees.

Obviously, a thorough post-mortem analysis is essential after each incident or accident, but the objective of such analysis should in the first place be to learn; learn how to avoid a reoccurrence of such incident.

Zero-tolerance is commendable in cases of deliberate breaches of policies, but should not be a guiding principle in situations where a high level of judgment is required. It is not possible to define exactly and in general terms when it is justified to blame and even sacrifice a manager for overlooking signals, which, if picked up timely, would have helped to avoid the accident.

With the benefit of hindsight it is easy to manage, but whilst you are in the midst of running a department with many issues concurrently competing for your attention, it is much more difficult. In our opinion it is fair to take the reality into account when forming an opinion about the quality of a manager in the case of an incident or accident.

If a manager be given the comfort that an incident or accident will not immediately result in a bloodthirsty which-hunt, but instead in a professional, reasonable, high-level, high quality and nuanced investigation into the matter, he will most likely be more at ease, less stressed, happier and therefore most likely a better manager.

And that is important as unhappy and scared bank managers will not contribute to making the industry more fun, more interesting, more inspiring, more truly service-oriented. Scared people tend to spend 80 to 100% of their time on covering their back, whilst the clients are standing in front of them.

## 8. Improve communication

With the growth of the organizations, the insulated departmentalization of functions, the "new" communications media (e.g. email), the overall quality of communication seems to have deteriorated over the years. It is often impersonal and insensitive.

One example, which applies to almost all organizations, is the confrontation between Sales and Compliance. Sales teams accuse Compliance to make it close to impossible to conduct normal business, as they block every out-of-the-ordinary initiative. And in these days of extreme paranoia almost every initiative is out-of-the-ordinary.

On the other hand, Compliance accuses Sales to act irresponsibly; in total disregard of the changed reality. They behave like lazy, spoiled, loose cannons, who don't care about the consequences of mistakes, regulatory oversights, incidents, etc., as the blame will be passed on to Compliance anyway.

There might be some truth in the position of both parties. Organizations need to take much more time to clarify positions between two stakeholders in the organization. In this example, it is important that much more face-to-face interaction takes place between Compliance and Sales, so that both have an opportunity to nuance their respective positions. Rather than firing one new policy in the organization after the other, it is essential that the receivers of these new policies get to understand the rationale behind it.

Rather than blaming Compliance Managers for having no sense of business at all, it most of the time helps to sit down with them and hear from them why they demonstrated some reluctance about your last proposal.

Direct communication will not mean that everyone will always agree with each other, but at least the likelihood that there is respect for each other's opinion and position is much higher. And that in itself adds to job satisfaction: working in a respectful environment. Face-to-face conversations are essential as the tone of many emails exacerbates the communication problem.

## 9. Ensure a high - and practical - level of audit

It should be realized that for bankers and bank managers it is very difficult and even frustrating to be audited by inexperienced, or worse, incompetent auditors. They have the habit not to focus on the real issues, but tend to waste time on trivial matters.

A good auditor in our view is not someone whose aim it should be to prove that there are many lapses in control, but instead should be any manager's best friend as he helps to avoid issues or incidents that could damage the bank as well as the career of the manager (and the bankers).

The higher the knowledge and experience level of the auditor, the more self-confident he will be, the more relaxed he will approach the auditees and the more value he will therefore add to the control framework in the organization.

Only such auditor will be able to create a spirit of partnership, whilst not neglecting his independency.

## 10. Allow clients to take limited responsibility for banker

It is generally assumed that a Bank should take full responsibility for the behavior and conduct of their bankers. We believe that it would be positive to allow clients to share this responsibility for the integrity of their bankers.

Rationale behind this idea is that many clients and bankers have excellent and long-lasting relationships. In many instances the clients know their bankers better than the managers of these bankers. Certain best practice policies affect the quality of the relationship, e.g. with regards to order-taking, with regards to mode of communication, etc.

A bank has no choice but to apply policies and procedures across the board, unless a client is prepared to take responsibility for the integrity of the banker. In that case, some of the policies or procedures may be relaxed.

Condition obviously should be to explicitly confirm in a separate contract which deviations from the standard policies will be allowed as a result of the client's decision to share responsibility with the bank. This has to be transparent.

It may sound radical and controversial. However, we believe that the number of policies that may be applicable for easing as a result of such contract, will be limited. But the few that qualify, might make a significant difference for the conduct of the relationship between client and banker. This would be good for both client and banker, whilst reducing the risk for the bank.

## Conclusion

Sonam is not going to change the world, but Sonam does have the ambition to **contribute** to making our industry more fun. And not just for the sake of it. An industry that is fun and inspiring is an industry that works. That is an industry that can be relied upon in a sustainable manner. Many changes in the environment have had a significant impact on the way Private Bankers operate. And frankly speaking most of these changes had an adverse effect on the level of fun in the industry. And that is dangerous.

However, notwithstanding all these changes, fundamentally nothing has changed. We are still here to help high net worth individuals and their families to enjoy their wealth. This is a "fun" and exciting mission.

The wealth sector might get some inspiration from the health sector, which also accepts fiduciary responsibility.

Medical specialists operate in an environment with many rules, guidelines, procedures, etc. This does not seem to depress them (generally speaking). The better and more professional the industry is, the least we will be (psychologically) affected by regulation, the more value we will be able to add, the higher we will be regarded by the public. It is possible.

We discussed 10 ingredients of fun for the Private Banking sector. These might serve as a useful starting point for a revival of fun in our industry. The required dose of these ingredients depends on the context, which will differ per jurisdiction, per bank and even per banker. As these differences can be big, we don't believe it is feasible to present a universal recipe for fun. We offer ten ingredients, which we hope will help you to make your own recipe.

# Chapter 2
# THE ADDED VALUE OF A PRIVATE BANKER

Private bankers provide professional services to their clients, just like doctors, lawyers and accountants do. However, doctors, lawyers and accountants seem to have much less difficulties than private bankers to earn a position of authority vis-à-vis their clients. In our view there are two explanations:

1. **The mandate for private bankers is less** explicit. Doctors, lawyers and accountants are most of the time approached by their clients with an explicit need or problem, whereas private bankers have to use their – often psychological – skills to bring the real needs to the surface.

2. **For doctors, lawyers and accountants, the** link between need/problem on the one hand and proposed course of action on the other hand is generally speaking more transparent and easier to measure. Problems tend to be concretely addressed and solved by doctors, lawyers and accountants. For private bankers this link is far less evident. If a client asks his banker to outperform inflation by 2%, it is very well possible that during the next meeting the banker has to inform the client that he has lost 5% of his assets due to **unexpected** circumstances. Most clients would much rather lose that kind of money themselves, most probably in a much more entertaining way. In other words, the uncertainty of the outcome of the proposed course of action is relatively high, thus affecting the credibility and therefore authority of the private banker.

If we add to that the actual behavior of many private bankers – acting as product salesmen rather than wealth advisor as if they themselves are not convinced that they are able to add value – then it is clear why the general public has more difficulty to accept the relevance of a private banker than that of a doctor, lawyer or accountant.

Let's ask ourselves that fundamental question: **do we as private bankers believe that we have an added value?** If we ourselves don't believe it, we cannot blame our clients and the public for treating us with suspicion. If we lack the knowledge, confidence, self-esteem and pride to be valuable wealth advisers, we will see a self-fulfilling prophecy at work: the banker will never be able to add real value and succumb to a role as mere revenue generator by selling fanciful, but often inappropriate and unsuitable products.

We are **firmly** of the opinion that Private Banks – and therefore private bankers – do have a significant value to add. And to define that value requires an understanding of what the objective or mission of the private banker is: the mission of each private banker should be **to help high net worth individuals enjoy their wealth; now and in the future.**

Nothing more, nothing less. Being rich is a universal ambition, but once rich it becomes a source of many headaches and sleepless nights. And to make it more complicated, most headaches are still latent and require the professional services of a private banker to become manifest. Once manifest, it should be the private banker – the wealth doctor – to come with a prescription to cure the headache and to instill peace of mind.

What are generally the most common concerns bothering high net worth individuals:

- **Fear of losing money (in whatever shape or form: scared to make wrong investments, taxes, overspending, law suits, etc.)**
- **Fear of missing out on opportunities (by predicting the past they often regret in hindsight that they did not take a certain investment decision, causing great dissatisfaction and sometimes even unhappiness. They are afraid to once again make a similar mistake)**
- **Concerns about wealth succession and – if applicable – business succession**
- **Concerns about the future (will I have sufficient when I reach an old age?)**
- **Concerns about education of children (how to avoid that they become spoiled brats with a low self-esteem?)**
- **Concerns about being rich in a responsible manner**
- **Concerns about security**

Private bankers play a crucial role with regards to all of the above concerns; either directly by suggesting – and helping to implement – a course of action or indirectly by referring the client to the appropriate specialist. However, as we mentioned, most of these concerns or fears are not manifest and require the private banker's expertise to become explicit.

Once explicit, the private banker specialist can propose a course of action, which should ease the client's worries. For each of the areas of concern, private bankers have – or should have – the relevant tools to operate. These tools are solidly founded on years of experience and scientific research.

For example, when it comes to investments, private bankers should be able to explain their clients that it is not their role to make money for the client. Clients are already rich; that's why they are Private Banking clients. Making money is something different than managing money.

Managing money means striking a balance between ambition and risk. We would rather speak about risk management than about investment management as the prime objective is to manage risk and therefore reduce the dependency on luck. How much risk are you **willing** and how much risk are you **able** to take?

This is not meant to be an article about portfolio management. The point we are making is that advice on each of the concern areas is based on scientific principles; principles typically not known to clients. That's where we, Private Bankers, come in.

We are the experts. No difference with doctors, lawyers or accountants. But yes, even though our advice is (should be) based on scientific principles, we should at all times be aware that circumstances might suddenly change and affect the outcome of our recipes. That is part of risk management and of the communication to our clients. Dealing with uncertainty is part of the job.

Only if we agree that we have this important role to play, we will be able to achieve the best you can achieve as a private banker: give your client peace of mind.

Are you reading anything new or shocking? We hope not. Surprisingly, however, is the fact that many private bankers lack the confidence or ability to act as real advisers. They feel much more comfortable to approach a client with a concrete product or an unreasonable service proposition – e.g. "you can call me 24 hours a day" – instead of trying to analyze which concern needs addressing.

As long as a significant number of private bankers lack the believe or ability to focus on helping their clients to really enjoy their wealth, we may not be surprised that we are ranked much lower on the authority ladder than doctors, lawyers and accountants.

Let's focus on quality and integrity.

# Chapter 3
# PRIVATE BANKING BUSINESS MODELS

Are all wealth management service providers the same? Clearly not. Apart from the usual differences of opinion and philosophies, one of the key reasons for such wide variety of approaches to the same business is the scarcity of qualified holistic service professionals.

To illustrate this point for Asia Pacific: according to the World Wealth Report of CapGemini and RBC Wealth Management, there are 3.37 million high net worth individuals (HNWIs) in Asia Pacific.

Let's assume that on average one holistic service professional is capable of handling 50 clients, this would mean that we are in need of 67,400 specialists. In the same Asia Pacific – one of the Private Banking hubs – we have according to UBS a total of approximately 4,000 Private Bankers, of whom maybe at most 20-30% is capable of providing a truly holistic service.

Even if we are way off with our assumptions, we'll never get close to the number of specialists that we need to provide the required individual tailor-made service.

### What is a 'Holistic Service'-Professional?

In this article we make a few times a reference to **holistic service professionals**. In our definition a "holistic service professional" is an individual who has the ability to:

- **Make an overall and adequate assessment – diagnosis – of a HNWIs financial situation and concerns. Focus is not restricted to the management of assets, but also on asset structuring and asset protection – in the broadest sense - as well as liability management**
- **Really understand and appreciate the financial ambitions of the client (e.g. his aspirations, his ability and preparedness to take risks, etc.)**
- **Prescribe the correct measures to achieve the desired results or refer to the correct specialists for specific areas of expertise (e.g. tax consultants, Trust lawyers, asset managers, insurance experts, etc.)**

As every HNWI is unique, a truly holistic service offering should be individual and tailor-made. Having said that, by means of intelligent questionnaires, it is possible to achieve a high level of holistic service offering without actually having to sit down with an expensive and scarcely-available advisor.

It's like filling in an online medical questionnaire, which helps to narrow down the possible causes for the experienced discomfort. However, also in the medical field, nothing beats a personal face-to-face meeting with a qualified professional when it comes to diagnoses and treatments.

How we deal with the scarcity of holistic service professionals is how we create different models of Private Banking. To give a few examples:

1. **Some Banks don't feel that scarcity of qualified** resources should affect their business. In their hiring they only focus on the experienced professionals with a proven track record. Typically these are the smaller, boutique organizations. Their staff costs are relatively high as is their dependence on their staff. They don't have many clients, but merely focus on the more sizeable and sophisticated ones

2. **Other Banks have set themselves growth** ambitions in order to create critical mass and to reduce the dependence on individuals. They hire a mix of seasoned, experienced – expensive – bankers and relatively junior staff. This way they can handle more clients, whereby the idea is that the simple, more straightforward – often smaller – clients can be handled by the junior bankers. By creating a support system for the more junior bankers, minimum service levels can be guaranteed.

3. **Some Banks try to maximize the scalability** of their business by hiring only a few – mostly asset management – specialists. They design and produce the products and services in a manner that they can be safely distributed to the clients by advisors who themselves don't need to be specialists. It's sufficient if they just understand what they are selling. This type of Private Banking is typically targeted at the large group of – smaller – clients with pretty much standard needs (e.g. they fit in one of five risk return profiles, they have no complicated tax, succession planning or insurance needs, they are not in a divorce situation, etc.

4. **There are Banks and wealth management** service providers that limit their service offering and try to build a reputation in a specific niche (e.g. philanthropy, sustainability, art, real estate, Trust, or – very extreme – on HNWIs with autistic children, etc.). The number of staff will be limited, but they will be highly specialized in their respective niche area (thus demanding a higher margin for their services).

5. **With the apparent endless opportunities** offered by technology, there are also wealth management service providers that have embraced technology and have managed to offer a state-of-the-art, (high-level of) tailor-made service offering without the involvement of physical advisors, thus targeting the growing army of internet-savvy sophisticated HNWIs with a sufficient level of standardized need.

We can go on like this, but the point is clear: we have a serious challenge with regards to high quality resources and therefore we have to find ways to overcome that in a way that all HNWIs can have access to a wealth management service that suits them.

The above is summarized in the below graph, whereby we identify two dimensions:

## 1. Level of client centricity

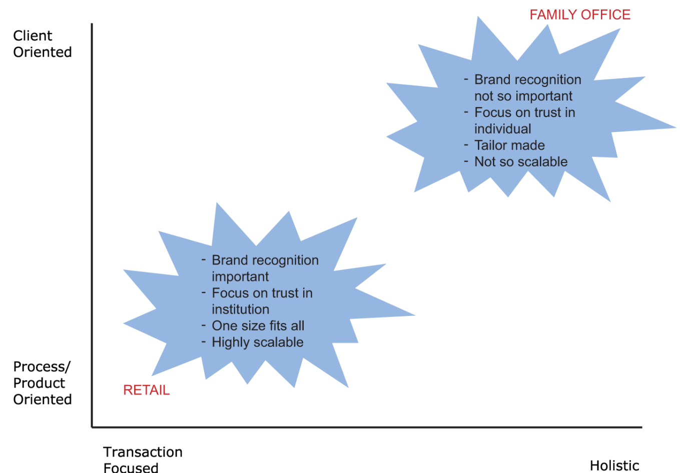
On one extreme we have the models where every client is treated uniquely and given ample time in order to assess the uniqueness of this client.  On the other extreme, we have the models where clients fit in one of five or six standard profiles, based on the outcome of a questionnaire (i.e. hardly or no face-to-face contact with a specialist).

## 2. Degree to which the service can be considered holistic

On one extreme we have the models where every client is treated uniquely and given ample time in order to assess the uniqueness of this client.  On the other extreme, we have the models where clients fit in one of five or six standard profiles, based on the outcome of a questionnaire (i.e. hardly or no face-to-face contact with a specialist).

The most ideal would be to be perfectly holistic, whilst process oriented. In this scenario clients receive exactly what they need in a manner that is perfectly scalable and not too dependent on a small group of specialists.

However, the more process-oriented a model becomes, the more the model has to stereotype their customers, no matter how sophisticated technology-aided tools are to obtain a picture of the needs of individual clients.




Two final remarks:

1. **It is tempting to confuse "holistic" and** "client oriented" with the values "quality" and "integrity". That is a mistake. There are high quality family offices and high quality retail organizations, as there are appalling family offices and appalling retail institutions. There are family offices with high and with low levels of integrity as there are low-integrity and high-integrity retail institutions. Having said that, it is correct that the more client-centric and holistic a Private Banking model intends to be, the more is expected from experience and quality levels of the advisors.

2. **A professional who has the qualifications to** be a client-centric holistic service professional, does not need to necessarily work in a boutique environment. Some of these scarce professionals have a choice to either go for a high-profile corporate career as a provider of input for product and service manufacturing or to opt for a lower-profile role as client advisor, working closely with a few families. It very much depends on the nature of the individual where he ends up.

Chapter 4

# RESPONSIBILITIES OF A PRIVATE BANKER

In a way it should surprise that there are so many court cases whereby clients are suing their Private Banks for a perceived breach of fiduciary duty. How difficult can it be to know how the responsibilities are shared between the client and the Bank?

Clients tend to claim that the Bank has made money out of selling a product that was not suitable for the client, whilst Banks often claim that they may not be held responsible, as it was the knowledgeable client himself who decided to enter into this investment.

It is now up to the client to prove that he was an ignorant victim, that the investment benefited the bank much more than him and that the investment was clearly not in his best interests. At the other end, the Bank will have to prove that the investment was suitable, that there is a record to demonstrate that at the time the Bank had taken all steps to ensure that the investment was in the client's best interest and/or the client took full responsibility and was deemed sufficiently sophisticated and therefore capable to take this informed investment decision.

Up to the judge to decide who has the strongest arguments to support their respective case.

Traditionally we identify three Private Banking service levels:

**1. Discretionary**

**2. Advisory**

**3. Custody / Execution only**

It is generally accepted that the Bank takes full responsibility with regards to the management and performance of the portfolios that have been entrusted to the Bank with a discretionary mandate. For that reason the organization surrounding the discretionary management process tends to be rather elaborate.

This is with the aim to ensure:

- **A robust investment process**
- **Best possible performance**
- **Solid record keeping of the rationale behind in-vestment decisions**
- **Fairness (e.g. fair allocation of shares over portfolios)**

The Bank typically invests quite a bit in the entire organization for the discretionary management process. This is firstly because it is commercially important to achieve superior performance. Secondly, the Bank takes on full responsibility for the portfolios, so it is important to surround this process with all the necessary guarantees.

In return, the Bank can charge a relatively high fee for this service: the more responsibility the Bank takes, the higher the risk, the more legitimate it is to charge a decent fee.

The advisory service is where the client pays a fee for a pro-active advisory role of the Bank, but does not feel comfortable outsourcing actual investment decisions to the Bank. In other words, the client still wants to take the final decision.

Therefore the risk for the Bank is slightly lower, as will be the fee for the client. However, the Bank still has a clear responsibility: as the Bank is paid for a pro-active service, the Bank at times has to be able to prove:

- **How the monitoring of the client portfolios took place**
- **Why certain recommendations were made (and considered to be in the client's best interest)**

The last category concerns the execution only. This means that the client does not (want to) pay for any advisory service, but understands that the Bank generates its income from the investments done by the client. In this case the client takes full responsibility for whatever happens in the portfolio. As the client takes full risk, it is fair that he only pays as and when he uses the services of the Bank, i.e. per transaction.

It seems so simple. Unfortunately, however, there are many reasons why life is not this simple:

1. **When challenged about an investment that** took place some time ago, the Bank has to be able to show from its records (e.g. voice logs, call reports, etc.) that due care was taken. In the absence of proper record keeping, the position of the Bank is severely weakened. In this regard, don't forget that clients can be fraudulent. If, for example, they know that they can give transaction instructions via unrecorded mobile phones, they can enjoy the upside of their investments and complain once these investments turn sour.

2. **In case of discretionary portfolios, the Banks** have to be able to prove that their investment process is professional, fair and well organized. If not, the Bank's position is at risk.

3. **When the Bank actively promotes an** investment to execution-only clients, it proves difficult to take the position that the client is fully responsible. If the Bank is using its position of authority to sell a product to their clients which is more in the interest of the Bank than in the interests of the clients, the Bank may be held responsible for actively selling this product to ignorant clients; no matter what their service level is. In other words, even with regards to execution only clients, the Banks may be deemed to have a certain level of fiduciary responsibility.

4. **Another example to illustrate this point: if an** execution only client calls the Bank and instructs the Bank to invest 80% of his assets in one counter, the Bank still has a duty to at least make an effort to discourage the client by explaining the risks involved in investing such a large part of one's assets in one counter.

5. **If the client has not received the portfolio** statements for quite some time – for whatever reason caused by the Bank – a client might have a strong position claiming that he was not aware that the portfolio was under water so badly.

6. **Even if the Bank has acted with proven** utmost integrity, but the client can build a credible case – e.g. through a second opinion – that the quality of the service was obviously below what may be expected from a Bank, the Bank's position is at stake and a claim for compensation for losses may be deemed legitimate.

Any Bank that can prove that it invests in conducting its business according to principles of **Quality** – not only of people, but also of processes and organization - and **Integrity**, will see a low level of client disputes. That correlation is strong.

### Food for Thought

There are a few reasons why it would make sense for Private Banks not to accept execution only clients anymore:

1. **By charging a fee – either discretionary or advisory – it is clear to both the Bank and the client that the bank is aware that it is supposed to add value to the client.**

2. **A fee as a percentage of AUM is a great way to align the long-term interests of clients and Bank.**

3. **It accepts the business fact that for real execution only services it is much more economical for clients to make use of an Internet broker. The moment a client pays more than what he would pay an Internet broker, it may be deemed fair that some added value – and therefore fiduciary responsibility - is assumed.**

4. **With discretionary and advisory the record keeping can be much more straightforward, as these result from centralized and well organized processes. Due to the ad hoc character of the relationship with execution only clients, it is much more difficult to ensure and monitor the necessary level of quality with regards to record keeping.**

5. **It is not healthy – and potentially damaging for the reputation - to commit to a fiduciary responsibility whilst having an economic interest in increasing the number of transactions.**

As we have recommended in an earlier chapter, it could be a suggestion to allow Banks to choose for the option not to accept fiduciary responsibility (like in internet brokerage). In that case they should not be allowed to offer advisory and/or discretionary management services.

They would then just be order takers and allowed to sell, even if it would not be in the client's best interest. However, this is only acceptable on the condition that this position is explicitly known to the clients.

# Chapter 5
# A PROFESSIONAL OATH FOR PRIVATE BANKING

Good news. For some time already, we are in favor of promoting the idea of introducing an oath for Private Banking, just like in other disciplines where professionals commit to taking on a fiduciary responsibility. In July 2012 six influential executives in Australia have formed a company to improve ethical conduct at local banks and fund managers.

The Banking and Finance Oath Limited (BFO) will oversee and enforce a voluntary oath of conduct to be sworn by professionals employed across the Australian financial services industry.

Mr. Stephen Dunne, director of BFO: **"The idea of developing an oath for bankers and other financial services professionals came from the observations out of the global financial crisis that new regulation was not the only way to rebuild public trust in the industry."**

**"Trust is at an all-time low and people feel the industry hasn't put the view of the client ahead of its own. Our industry is built around trust and when you violate that the industry creates a great problem for itself"**, he said.

The BFO oath goes as follows:

"Trust is the foundation of my profession

I will serve all interests in good faith

I will compete with honour

I will pursue my ends with ethical restraint

I will create a sustainable future

I will help create a more just society

I will speak out against wrongdoing and support others who do the same

I will accept responsibility for my actions

My word is my bond."

Even though it is voluntary, members – i.e. bankers who have pronounced the oath – of the company can become subject to a formal review process if a complaint about their conduct is brought to the attention of the directors.

Members can be censured, suspended or expelled by the directors if a "Committee of Review" finds that they have broken the oath or harmed the reputation of the banking and finance industry.

Also in The Netherlands the government announced in April 2012 the introduction of an oath for the banking sector in general, although details are not given yet.

We welcome both initiatives. What we like particularly about the Australian initiative is that it is initiated by the industry.

Apart from an oath we also promote that as an industry we formally acknowledge that there are two categories of Private Banks: the ones who take fiduciary responsibility and the ones who explicitly do not wish to take on such responsibility (as mentioned in earlier chapters).

What does "fiduciary responsibility" exactly mean?

Let's consider a definition that we found on www.USLegal.com:

**"When one person does agree to act for another in a fiduciary relationship, the law forbids the fiduciary from acting in any manner adverse or contrary to the interests of the client, or from acting for his own benefit in relation to the subject matter.**

**The client is entitled to the best efforts of the fiduciary on his behalf and the fiduciary must exercise all of the skill, care and diligence at his disposal when acting on behalf of the client.**

**A person acting in a fiduciary capacity is held to a high standard of honesty and full disclosure in regard to the client and must not obtain a personal benefit at the expense of the client."**

This comes close to the one that we found on www.LegalPractioner.com:

**"Fiduciary duties require that the fiduciary acts solely in the best interest of the employer/principal, free of any self-dealing, conflicts of interest, or other abuse of the principal for personal advantage."**

Characteristically, a fiduciary has greater knowledge and expertise about the matters being handled than the client and therefore the client should be allowed to enter "naively" into a relationship with someone who introduces himself or herself as a fiduciary.

Let's be honest, not all banks will be able to take on a fiduciary responsibility, simply because they lack the expertise. Rather than "forcing" them to pronounce an oath, which they will not be able to honor, it would be preferable to allow them to act as a provider of financial products without taking any responsibility for these products in terms of suitability. Nothing wrong with that, as long as the public is aware and it is clearly communicated what this means in terms of responsibilities.

This kind of "product bank" does not differ much from any retail shop in the sense that it sells products where the buyer – and nobody but the buyer – has to take responsibility for the acquisition of this product; a product that in itself could very well be of high quality by the way.

This type of financial service provider does not need to be subject to an industry oath.

However, those Private Banks committed to undertaking a fiduciary responsibility vis-à-vis their clients should demonstrate such commitment by pledging an oath. This shows sincerity and therefore instills trust.

The “Sonam Oath” looks slightly different than the BFO-oath as Sonam is convinced that there are basically only three ingredients for professionalism in private banking:

- **Quality**
- **Integrity**
- **Pride**

Inspired by an oath used at the Institute of Medical Science in Toronto, the Sonam private banking oath is as follows:

I, _________________, have entered the serious pursuit of acting as a professional wealth manager for high net worth individuals. I declare that I am fully committed to:

1. Quality, as I understand that quality stands for the ability to act in my client’s best interests. I will pursue knowledge at all times, whilst always endeavoring to stay within the boundaries of my knowledge level.

2. Integrity, as I understand that integrity stands for the desire to act in my client’s best interest. I promise never to allow financial gain, competitiveness or ambition cloud my judgment in the conduct of ethical wealth advisory.

3. Pride, as I understand that pride requires me to think highly of my accomplishments and abilities at all time, ensuring that my accomplishments and abilities are worthy of praise.

By pronouncing this Private Banking oath, I affirm my commitment to professional conduct and to abide by the principles of the relevant industry codes of conduct.

By presenting this oath as an alternative to the BFO-oath, we do not wish to give the impression that we are interested to embark on an oath competition. It is far more important to introduce an oath – even if it would be on a stand-alone basis – than to quarrel about the content of such oath.

By accepting and pronouncing an oath, we believe the Private Banking industry will be given a significant credibility boost. Even more so if the sanctions on breaching an oath are severe and public. Let’s face it, a credibility boost would be very welcome at this stage.

# Chapter 6
# GROWING A PRIVATE BANK

Almost every Private Bank seeks on a regular basis publicity with a statement that the Bank has the intention to grow, often illustrated by aggressive percentages: the AUM will be doubled in the next three years, the number of front-line staff will increase with 50% within two years, the Bank will open a first presence in country X, etc.

Even during the past few years – while most of the Banks are struggling with increased regulatory pressure, the downward spiral of the revenue ratio, the unsettling uncertain markets, a highly skeptical, sometimes formally complaining, clientele – many Banks have continued to publicly express their intention to significantly grow their business (especially in Asia).

Both non-performing and well-performing Private Banks seem to be of the opinion that growth is essential for their survival. But what are we really talking about here? What is it that explains the never-dying desire to grow? Is that what the clients expect? What are the advantages of being big?

A few attempts:

1. **Being big means that the Bank must have** done a few things right, which makes it easier to attract new clients and thus grow even bigger. Banks with a strong brand name are expected to care about their reputation and will go all the way to protect this reputation. That's why strong brand names instill trust, which makes it much easier to attract clients. Difficult not to agree with that. However, it is worthwhile to note that there are approximately 3,000 external asset managers and family offices in Switzerland alone. In Asia we are witnessing a growth of this business phenomenon as well. This seems to imply that many clients are more than happy to entrust their wealth advise to small companies without a brand name. True, these businesses have no booking capacity and therefore still require the services of Banks, but the most profitable part of the relationship is apparently not dependent on the size of the company.

2. **The Bank needs a critical mass to be able to** deal with the ever-increasing IT and Compliance expenses required to run even a basic Private Banking outfit. Also true. But……..what is that minimum critical mass? Is that 1Bn AUM, 10Bn, 20Bn? Nobody seems to know. And also Banks with an AUM of 30Bn or 100Bn still come with aggressive growth commitments.

3. **It makes the CEO more important. Being a** CEO of a Private Bank with 150Bn AUM demands more respect than being a CEO of a Private Bank with 15Bn AUM, isn't it? Especially, if at least 35% of the 150Bn AUM can be attributed to you. Also true, although in our experience the CEOs of smaller Private Banks are highly respected individuals and certainly not lesser in social demand than the CEOs of the bigger players.

4. **The bigger you are, the higher the** profitability potential. True. The main beneficiaries of high profitability are typically shareholders and senior management. A growing, highly profitable Private Bank pays good dividend (and bonuses) and will see its share price rise. And that is essential to attract shareholders, who otherwise will spend their investment dollars on the shares of competitors (at the expense of your share price). Especially for any publicly listed Private Bank this need to satisfy the expectations of shareholders is essential and will keep up the pressure to grow (fast) and outsmart the competition.

5. **Apart from the above explicit or implicit** rationales there is of course the human inborn desire to grow. Any living creature that stops growing is destined to decay. Growth is a sign of life, buoyancy and vibrancy, which is the main ingredient of attraction (for clients, employees and shareholders alike).

We don't intend to cast doubt on the need for growth, as growth is indeed healthy. However, we do believe that it is important to be critical about what is driving these growth ambitions, as there is in our experience a correlation between rationale behind an ambition to grow on the one hand and successful growth on the other hand. It would be wise to always keep the following two considerations in mind when defining ambitious growth plans:

1. **There is no – or at least not an obvious** – correlation between being big and being good: bigger Private Banks are not better than smaller Private Banks (and for the avoidance of doubt: also not worse). Therefore, be honest why you want to grow, how big you want to be and when you intend to achieve this growth.

2. **Growth comes with a risk: the higher the** urgency to grow, the higher typically the risks will need to be to achieve the desired outcome. We have seen too often that management teams with a high level of growth urgency run the risk to turn a blind eye to the risks they are taking.

### Most Common Growth Options

A Private Banking manager who paints a favorable, bullish picture of the future of the Bank typically finds in order of riskiness the following growth options – or a combination of these options – on the palette:


SONAM PRIVATE BANKING CONSULTANCY

| Typical Growth Initiative | Typical rationale/ approach | Typical actions | Typical threats |
|---|---|---|---|
| Improve visibility | - By increasing the awareness of the Bank, it is expected that client acquisition becomes easier.<br>- A PR campaign improves the moral of the employees. | - PR campaign.<br>- (Targeted) client events. | - Costly.<br>- Extremely difficult to measure success as direct/indirect result from increase of PR budget. |
| Improve performance (“operational excellence”) | - It is easier to get more out of existing clients than to find new clients.<br>- Too much “fat” in the organization. | - Set clear targets with regards to revenue ratio, high yielding products (e.g. convert fixed deposits), cost-income ratio, share of wallet, etc. (strong KPI-drive)<br>- Hire product specialists<br>- Invest in specific product training. | - Increase in costs without additional revenues as bankers are not able/willing to get more from/out of their clients. |
| Exploit the existing bank network | - The Bank has many high net worth clients, served by other units of the Bank. These clients should be introduced to the Private Bank (does obviously not apply to pure play Private Banks). | - Service level agreements (SLAs)/ introduction fee arrangements with other departments in the Bank.<br>- Executive directives to introduce clients to the Private Bank. | - Unwillingness of other departments to give up their clients (in case of retail) or to introduce to Private Bank (scared that PB will ruin the relationship), resulting in subtle obstruction. Result: huge corporate efforts with hardly any result. |
| Add new and/or more competitive services | - A new service is expected to enhance the Bank’s attractiveness to a meaningful client segment.<br>- By making the existing products more competi tive, it is expected that clients can be drawn from the competition. | - Introduce the new product/ service or the new terms<br>- PR drive | - Cannibalization of existing business.<br>- Demand for new product/ service low as clients do not perceive the Bank (yet) as being strong in that area (lack of credibility). |

| | | | |
|---|---|---|---|
| Hire 'rainmakers' | - Rainmakers (mostly front-line staff or managers) come with the experience and network (= clients) to expedite the growth of the business. | - Set aggressive hiring targets/ambitions.<br>- Involve recruitment firms. | - Rainmakers do not perform as expected: rainmakers become loss-makers<br>- Real rainmakers are expensive: costs will surge. |
| Enter 'new' market | - By acquiring a new business the desired growth can be achieved much faster.<br>- The required investment will not be reflected in the P&L (as will be the case with all other, organic growth initiatives). | - Look for suitable targets.<br>- Acquire the target. | - Lots of management attention and time required.<br>- Cultural differences too big.<br>- High level of uncertainty in both the target and the original organization.<br>- Expensive.<br>- Risk of losing key staff.<br>- Risk of buying the wrong business/ company. |

## What Determines Success?

In practice, only a fraction of all growth strategies seem to (partially) work. Are there any minimum conditions that must be met in order to succeed? From experience and from critical observations there seem to be a few "guiding principles", or rules of thumb:

1. **Have a clear and consistent strategy, inspired** by an explicit vision. Very often we see that banks are so obsessed with growth that it reaches desperate levels. The main victim of this despair is the strategy, which becomes as volatile as the weather. Growth initiatives are implemented and if no promising results are reported within six months the strategy is put in doubt. Every half a year the strategy is reviewed and adjusted to the "new reality", which de facto means: **no strategy**. Every opportunity to grow will be explored seriously and, if deemed promising, incorporated in the strategy. The strategy follows the opportunities (instead of the other way around). Sad to say, but Private Banking is not a formulaic business, which can be turned around by just twisting and tweaking a few knobs.

2. **Apart from defining which growth options the** Bank is going to pursue and to what extent, the Bank should also make it explicit which level of risk the Bank is prepared to take. In other words: are the level of urgency and level of risk preparedness sufficiently in sync? An honest – and, again, explicit – assessment is essential.

3. **In view of the relative slow nature of Private** Banking, you have to demonstrate a **high level of patience**. Be committed to the strategy. If a strategy has been thought through well enough, it does not need to be reviewed every quarter. Loss of direction creates insecurity, fosters defensive and opportunistic selfishness – i.e. a "political culture" – and ultimately produces an atmosphere of panic, which can only result in the opposite of what was originally intended: loss of business.

4. **Take the time to communicate the strategy to** all stakeholders – on a regular basis - and ensure their buy-in.

5. **Being patient and committed to a strategy** does not mean that you can afford to sit back and relax. To win a war, you have to **work hard and smart**. You have not much time to lose. The competition is not going to allow you to have an easy ride. The great advantage of a clear and clearly communicated strategy is that all stakeholders will fully understand why decisions are taken and even needed. It increases transparency, which is a key driver of staff motivation and productivity. Employees need to feel motivated to perform.

   There will be many obstacles on the way to the desired end result. These obstacles must be detected early and on an ongoing basis and subsequently dealt with. Therefore, the management requires good MIS and a willingness to take (clear and well-communicated) decisions.

6. **Try to achieve a high level of stability in** terms of staffing. A high level of staff turnaround is detrimental for the growth of any Private Bank. As a rule, clients don't like to entrust their hard earned money with an organization where the people change with the four seasons. A stable management team and a stable team of bankers work highly reassuring as it is a prerequisite of personalized attention.

7. **Care about your reputation. It takes very** long to build a solid reputation, but in a matter of days this same reputation can be tainted to the extent that clients, prospects and prospective employees seriously doubt the credibility of the organization.

   In this respect it is key to remember that it is the management that sets the tone: a manager with weak values is more likely to produce employees who emulate his unwanted values. For example, a greedy manager will not earn much respect when he informs his staff that unfortunately this year there is not much room for a salary increase. Employees with low levels of respect for their superiors are prone to undesirable behavior, thus affecting the reputation of the Bank.

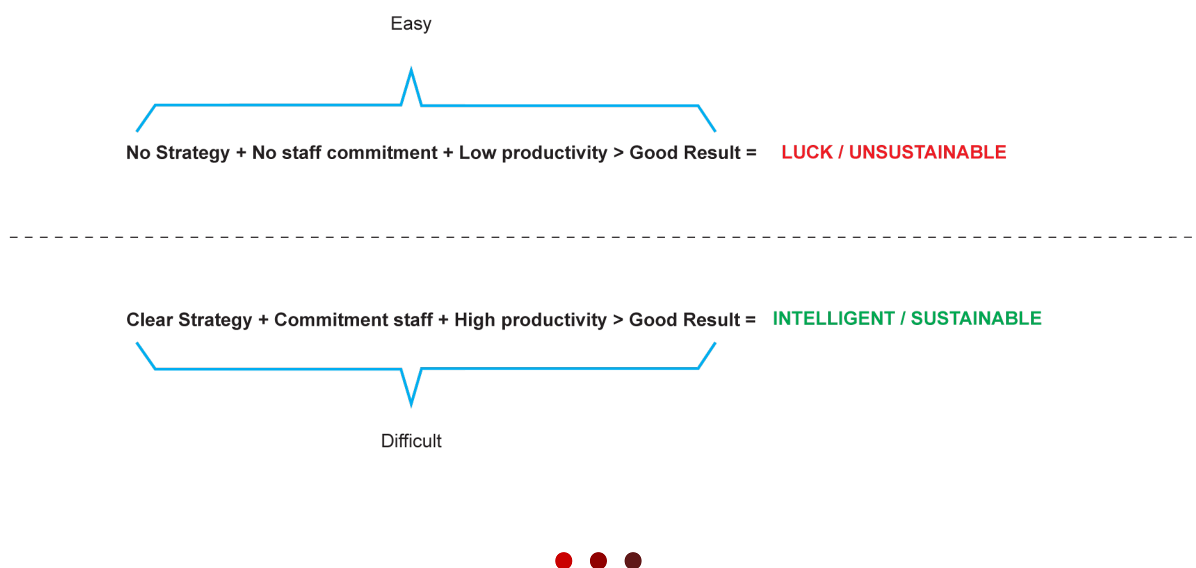
   For the sake of the reputation: never compromise on **quality and integrity**. There is no short-cut. The costs of lack of quality and/or lack of integrity are high. If not today, then tomorrow.

The benefit of these “guiding principles” is that it contributes to an **avoidance** – as much as practically possible – **on a dependency on luck**.

Everybody can be lucky once in a while, but to rely on luck when trying to grow a business seems unhealthy and unsustainable and therefore irresponsible.

If a Bank is guided by the above ‘guiding principles’ in its efforts to grow the business, it does not only stand a better chance to succeed, it also becomes an attractive Bank for shareholders. Sensible shareholders (should) only take a stake in a Private Bank with the objective to achieve predictable, low-risk, sustainable returns.

This way we believe growth is exciting and fun for management, staff, clients and shareholders alike.



# Chapter 7
# FROM ACQUISITION TO INTEGRATION

To make a significant leap forward in terms of business size, an acquisition is an appealing option. As dicussed earlier, this also happens to be one of the most risky ventures

As an acquisition is usually expensive and fraught with many (intangible) uncertainties. At the due diligence stage the focus tends to be predominantly 'techno-cratic' and conceptual: to what extent is it possible and likely that we will be able to achieve the neces-sary synergies?

The more promising the business figures and business outlook of the combined business, the more tempting to downplay the obstacles that might come up during the due diligence phase.

The stronger the desire to acquire, the greater the risk that the due diligence phase is reduced to a rubber-stamping formality rather than what it is supposed to be: a critical, almost independent assessment of the target company and of the likelihood that this com-pany can be integrated into the acquiring company.

Once all pros and cons have been assessed and the final conclusion is to pursue the deal, the signing cer-emony can be organized. Subject to approval from the regulator(s), the acquisition is now reality.

It is time for the difficult part of the journey: the inte-gration.

Based on extensive integration experience, it is rec-ommended to take note of the following integration considerations:

1. **Whilst working on obtaining the approval** from the respective regulator(s), it is import-tant to already start the organization of the integra-tion (people, planning, detailed objectives (KPIs), communication, etc.).

2. **Although – as mentioned above - at the time** prior to the actual acquisition, the focus tends to be on figures and (commercial, financial and operational) synergies, the **most difficult part** of any integration is the **matching of two different cultures**. To put it simplistically: both camps feel that the other camp is inferior and not able (or not willing) to understand their way of doing business.

   Employees working for the acquirer feel that the other Bank was too weak to survive without them – why would the Bank otherwise be sold? – and therefore that the people in that Bank must be weak too. For that reason, they should not com-plain and just learn to sing the song of the acquir-er as soon as prac- tically possible. Often this is further complicated by a high level of jealousy amongst the employees of the acquirer as they feel that the new colleagues of the acquired Bank are way too pampered (e.g. retainers, attention, etc.).

   On the other hand, employees of the acquired Bank feel that they must be excellent otherwise the acquiring Bank would never have paid such a huge amount for the acquisition. And why would they offer retainers? They must be scared that they would leave otherwise. As a result, the 'if you want to keep me, you better do as I say'-attitude creeps in.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It is fair to say that employees of both the acquirer and the acquired feel unsettled and sense a high level of distrust towards the other camp. And it is therefore fair to say that this is most likely the biggest challenge for any integration project. And obviously: the more the cultures diverge, the more complicated to really integrate the two entities.

This matter is delicate and, if handled well, is the key success factor of the integration. Much more important than the migration of system and the moving of offices, to name two typical 'technical' integration challenges.

3. **An important reason for the high level of** distrust between the two camps is caused by the fact that there is a high level of **uncertainty,** especially with regards to positions. Where possible, **create clarity**. Where not possible, make clear when clarity may be ex-pected.

4. **Communicate, communicate, communicate.** Don't just inform the employees – of both camps – which decisions have been taken, but also and much more importantly, why these decisions were taken.

   Treat people like adults, and share everything openly with them (as open as feasible). Only communicating good news or polished messages, is treated as an insult (people feel underestimated) and will not help to gain the respect needed to make the integration successful. Be honest – also about the difficulties – and employees at both camps will show appreciation for the integrity, intention and efforts.

   Lastly, clearly communicate about the overall integration deliverables and integration plan and subsequently on the progress (versus the deliverables and the plan).

5. **Ensure you score some quick wins. The** beginning of the integration project is difficult. You have to set-up the team, obtain all regulatory approvals, make an inventory of all the integration issues, agree on the objectives, etc. The work is so overwhelming that much time is needed to get the structure and the plan in place. And in the meantime the interruption for the business as usual should be kept to a minimum. That is difficult.

   However, the integration is a project. In other words it is a clearly defined task with a start date and an end date (preferably not too far away). To succeed, you need momentum. And to create momentum, you need a few quick wins. These quick wins should be celebrated as the prove that the acquisition made sense and the integration is successful.

   For example, the name of the new organization could be a hugely emotional issue. There is no reason to wait with the announcement of the new name. The earlier the name is announced, the faster the staff can start to get used to it.

6. **Deal with the uncertainty in the organization** with the highest level of **urgency**. The earlier it becomes clear who will end up at which position and how the organization structure will look like after the integration, the higher the chance to have a successful integration.

   For those for whom the new organization has no place, the Bank should offer a graceful exit. Best is to already agree on the terms before the announcement of the new organization. This way you avoid that the 'victims' of the integration are given time to vent their anger and frustration and to mobilize their unhappiness, thus frustrating the progress of the integration.

7. **Start as soon as possible with a thorough gap analysis** in the various integration areas:

- **HR (policies, pension, salary, etc.)**
- **IT**
- **Operations**
- **Organization Structure**
- **Products and Services/Credit**
- **Pricing**

   Based on the gap analysis, a detailed integration plan should be made. Once the gaps are known, management can either take a decision on how to close the gaps or agree on obtaining a more detailed cost-benefit analysis for the various close-the-gap-options (before taking the final decision).

8. **Due to the high level of emotions in any** integration, it is very useful to make use of **external consultants/advisers**. They take a more neutral look and 'force' the players in both camps to think and behave more rational than what they would have done without having the neutral party involved.

9. **Bring both camps as soon as practically** possible together in the **same premises**. Proximity is one of the best panaceas against distrust.

10. **Make sure that the focus on the day-to-day management of the business as usual** does not suffer as a result of the integration. A solid continuation of the usual business performance represents a significant (intangible) contribution to the success of the integration project.

11. **Likewise, agree on an integration budget, integration deliverables and integration KPIs** and manage this project tightly. Make expected synergies clear and closely monitor the progress made in this regard.

12. **If in the interest of harmonization it is** preferred to change certain policies, to pacify both clients and affected employees it helps to **grandfather** the old practice until a specified date in the future. This way, ample time is given to digest and react. Make very clear why this decision has been taken (see also under point 4).

13. **Install a steering committee** (i.e. integration board), consisting of senior members of the organization, including the CEO. On a regular basis the head of the integration should report extensively to the Board on the progress made with regards to integration progress (versus the plan), financials and synergies (as well as unforeseen challenges).

14. **Report on the integration progress regularly** with the respective **regulators**. Due to the fact that integrations are fraught with challenges and risks, it is essential to keep the regulator posted on the status of the integration.

# Chapter 8
# HOW TO REMUNERATE A PRIVATE BANKER?

Remuneration has been subject to many debates. Many scientists and ideologists have produced many articles and books on the fair distribution of income and wealth. It will never be possible to get all these fundamentally different schools of thought to agree amongst one another.

The gap is simply too big to bridge.

However, apart from all the theoretical approaches to this topic it seems fair to conclude that in the dominating economies of this world the income level is determined by three parameters:

- **The level of personal risk taken (e.g. entrepreneurs)**
- **The scarcity of the knowledge/skill**
- **The added value**

Anyone who scores high on all three elements is entitled to earn a high salary.

What does this mean for Private Bankers and Private Banking managers? As employees of organizations they are not taking huge personal risks. But as professionals they (are supposed to) add significant value to the financial life of high net worth individuals. And really good ones are scarce.

So, from this perspective it might seem reasonable that top performing Private Banking professionals earn higher than average salaries.

However, the financial crisis has shed a different light on the (Private) Banking industry. During and after the financial crisis (2008) it became apparent that Banks and other providers of financial services had played a dubious role.

We all know the many examples (just to name a few):

- **Madoff**
- **Lehman collapse**
- **The many court cases against private Banks (for selling unsuitable products)**
- **The CDOs**
- **Libor fixing**
- **Tax evasion assistance (amongst others leading to the closure of the 250 years old Wegelin Bank)**

All this news about the financial sector has harmed the credibility of Banks and bankers enormously. Almost overnight the public perception turned Private Bankers into greedy, immoral monsters aimed at ruthlessly enriching themselves at the expense of their clients (and even of society).

They don’t treat their clients as “patients” requiring specialist advise, but instead as sources of revenues. They work hard to instill trust and the moment they succeed, they abuse this trust to benefit themselves. And to make things worse, the Banks they are working for encourage that behavior: the more revenues the Private Bankers manage to get out of their clients – no matter how - the more successful they are in terms of career perspectives as well as remuneration.

The public judgment is clear: these bankers have earned and still earn way too much as:

- **They don't take any personal risks**
- **They are not scarce at all (everyone can sell/ push products)**
- **They hardly add any value, if at all**

The way Banks and bankers behaved, is now broadly considered unethical.

For that reason, the regulator – in every reputable jurisdiction – has reacted fiercely. The credibility damage needs to be repaired.

The Banks are being forced to improve their quality and increase integrity levels. Both quality and integrity standards in Private Banking fell below what one would expect from a business that takes its fiduciary responsibility seriously. And as apparently the Banks were not able or willing to adequately address the issues, the regulators had to step in.

In a relatively short period of time, the regulator introduced many new - or sharpened many existing - rules and regulations aimed at addressing the lack of competence and integrity in the industry:

| CAUSE OF LOW QUALITY BANKERS | Lack of competence | Lack of integrity |
|---|---|---|
| RESPONSE REGULATORS (in general terms) | - Training / Ongoing professional development requirements<br>- Stringent hiring selection criteria<br>- Explicit suyitablility (client risk profiling) guidelines<br>- Sharpened requirement with regards to record keeping<br>- Introduce code of condust (incl. fit and proper criteria)<br>- Introduce robust client complaint handling procedure | - Increase price transparency<br>- Review of remuneration for bankers and management<br>- Explicit suitability (client profiling) guidelines<br>- Professional oath<br>- Improve internal controls<br>- Introduce whistle blowing policies<br>- Sharpened requirements with regards to record keeping<br>- Introduce code of conduct (incl. fit and proper criteria)<br>- Introduce robust client complaint handling procedure |

In this article we focus on remuneration. The main concern of the regulator, to put it simply, is that insane, out of proportion – especially revenue-based - remuneration for bankers causes a major misalignment between the interests of Bankers on the one hand and the interests of their clients on the other hand. So the remuneration should be such that it no longer becomes rewarding to act against the interest of clients.

A few lines of thoughts to support a position against high salaries for Private Bankers:

- **A Private Banker's remuneration should be reasonable, but certainly not too high (relatively speaking). High relative salaries attract the wrong people. It attracts the people who only work for money and as we know, for this kind of people it is never enough. We need a different breed of banker;**

  **A banker who understands that "an ethic of service is at war with a craving for gain" (Gregg Easterbrook, 1987, Newsweek article "A Doctor's Desire to Do Good -- And Do Well").**

- **Remuneration should not be correlated with revenues. Otherwise the banker is encouraged to churn and sell for the sake of selling, regardless the interest of his clients.**

- **Part of the salary should be in the form of non-vested shares or options to ensure a long-term commitment to the business, which will automatically lead to a higher sense of responsibility.**

As mentioned earlier, there are many schools of thought with regards to fair remuneration. That also applies to the remuneration of Private Bankers.

To use remuneration guidelines, as a tool to align the interest of a Banker with the interest of a client, is not as easy and obvious as it might seem. Let us share a few considerations and observations in this respect (in random order):

### 1. Banks are profit organizations.

The more profitable a Bank is the better they seem to be and therefore the easier to attract investors, talent and – paradoxically – clients. Success breeds success. If we accept that a bank is a profit institution, then how to convince anyone working in the Bank that being a Private Banker is a calling: you help rich people who are in need of specialist support.

So, in a profit organization it will prove difficult to attract high end specialists to help the rich like we can find the perfectly altruistic Mother Theresa's to help the poor.

Let's be realistic: if a Bank is allowed – and even encouraged - to strive for profit maximization, then we can't deny the people working for this Bank to have the same ambition.

For that reason, it would be preferred not to focus on trying to reduce salaries and bonuses, but on making (the methodology and philosophy of) remuneration transparent. We have to accept that it becomes our **common challenge to create an industry that successfully combines an ambition of profit maximization with a sincere desire to be truly client centric.**

If we take a look at the below graph, we can't imagine that anyone is opposed to rewarding those Private Bankers who are adding (sustainable) value to the Bank as well as to the client.

If we take a look at the graph below, we can’t imagine that anyone is opposed to rewarding those Private Bankers who are adding (sustainable) value to the Bank as well as to the client.

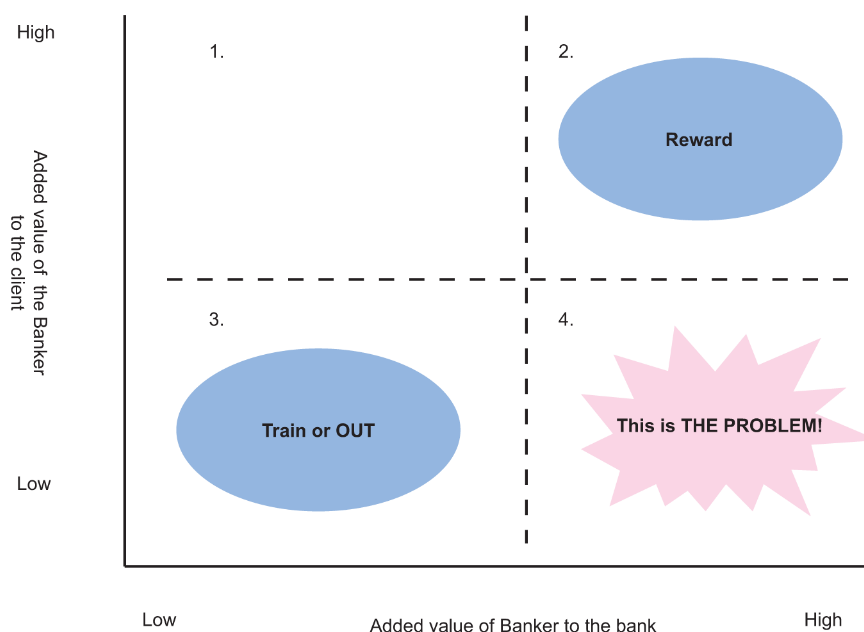
If we accept the above mentioned challenge, Banks will have to explicitly indicate:

- **What they consider to be the profile of a Banker who adds sustainable value to both the Bank and the client (i.e. the quadrant-2 banker)**
- **How they ensure that their bankers all end up in the second quadrant (hiring, incentives, training, etc.)**
- **How they remunerate those who perform in the second quadrant**
- **How they manage and remunerate those who perform in the fourth quadrant**

The more transparent the banks are with regards to these four questions, the more they deserve it to be trusted by the public.

This also is in line with the mentioned general principles of remuneration, whereby we take into account:

- **The level of personal risk taken**
- **The value added (to both client and bank)**
- **The relative scarcity of the talent**



**Note:** a Banker who successfully "sells" his specialist colleagues to the clients, should in our view be considered a banker who adds both value to the Bank **and** to the client (even though he himself cannot qualify to be a holistic client advisor).

What we call a quadrant-4 banker is a banker who sells products/services to the clients without understanding the product/service and/or without understanding the client. And that is precisely what gradually became more rule than exception and what has inflicted the signicifant damage to the reputation of the Private Banking industry.

In other words, as long you understand the products/services as well as the suitability of these products/services for your clients, it is perfectly legitimate to sell.

### 2. The higher the demand for a scarce resource, the higher the price of this resource.

The moment a banker realizes that he has a scarce skillset which is in high demand among high net worth individuals, he will realize that he can demand a higher than average price for it. If within a Bank he is not able to receive an income reflecting his relative competitive position, he will look for other ways to capitalize on his unique skillset (e.g. by moving to another bank for a higher base salary or to a small family office or independent asset manager where remuneration and added value to the organization are correlated more closely and transparently).

## 3. Remuneration is not only a tool to achieve desired behavior.

By interfering in the way Banks remunerate their bankers in an effort to make the Banks more aligned with the interests of their clients, we should not forget that the way we remunerate bankers serves more purposes than just instilling desired behavior. Attracting and retaining talent in a competitive environment are two other important purposes of remuneration.

What needs to be paid to attract and retain bankers differs per bank:

- **How strong is the brand recognition?**
- **How strong is the overall support infrastructure and platform?**
- **How powerful is the distribution capability of the Bank?**
- **What is the strategy of the Bank (aggressive growth plans might necessitate a premium on the salaries)**

Furthermore, the height of the salary will depend on the banker:

- **How senior is he or she?**
- **How much business is he or she expected to generate?**
- **How dependent/independent is the Banker expected to be from the Bank?**

In other words, it is not realistic to treat remuneration only as a tool to encourage client centric behavior.

**Note:** In this respect we would like to share our view that we are not convinced that paying bonus in the form of options is going to make much difference. It is like saying to the bankers "you deserve this income, but only if after three years from now your colleagues have done a good job".

As a result, the control of the individual over a part of the remuneration that he apparently has deserved based on his or her performance is very limited. This part of the salary depends more on the quality of management (over which he or she obviously has little control). This works demoralizing and therefore cannot be the interest of the clients, as we don't believe that demoralized professionals have the ability to deliver top-notch added value to their clients.

The risk therefore exists that this measure is "used" by the Banks to control their costs and to buy a higher level of (negative) "loyalty". In our experience, stock options serve only as true longer term incentive if they are offered on top of the remuneration that they are "entitled" to.

## 4. Not all Private Banks are the same.

There are many Banks offering what they call Private Banking services. However, if we take a closer look, we see that there are many different models. What works for one bank, might not work for another when it comes to remuneration. Let's have a look at the below overview of remuneration models (which by no means is meant to be exhaustive):

In other words, the point we are trying to make is that different Banks want to attract different kinds of professionals – in terms of seniority as well as level of dependency - and therefore have to offer a different appeal when it comes to remuneration.

What is crucial though is that the Banks are aware of the client-risks they run with their respective remuneration model, as risk awareness is the foundation of adequate control.

| Model | Con | Pro | Suitable for ..... |
|---|---|---|---|
| 100% commission.<br><br>This means that the entire income of a banker depends on the revenues he generates. | Banker is systematically encouraged to convince clients into transactions that are not in the interest of clients, but purely meant to generate revenues. | Banker will at all times be pro-active. To be a player for the long term, you will be forced to restrain yourself anyway and manage the temptation to "overdo" it. The moment you disappoint your clients, you are out of business. | Seasoned, experienced bankers with established relationships. |
| Low/market conform base salary and bonus dependent on revenues. | Same as previous with added disadvantage that the fixed costs of the bank is higher. | Same as previous with added advantage that the banker has at least some certainty about income, which might make the banker less desperate for revenue. | Seasoned experienced bankers with established relationships. |
| Low/Market conform base salary, bonus dependent on P&L.<br><br>In this scenario eventual client claims will be deducted from the bonus amount. | Same as previous. | Same as previous with two added advantages:<br><br>1) The banker is much more cost conscious as his bonus does not only depend on the revenues but also on the costs that he incurs in order to generate these revenues;<br>2) A 'successful' client claim will have a direct impact on the income of the banker, which leads to a more cautious and responsible approach towards clients. | (Reasonably) experienced bankers with established relationships. |

| Market conform base salary, bonus dependent on sophisticated target structure (taking into account factors such as overall bank's performance, client satisfaction, portfolio performance, variety of services of sold, AUM increase, etc.). | There is risk – depending on the actual structure – that the target structure is so complicated or complex that it no longer serves as an incentive scheme for the employees.<br><br>Another problem with specific targets is that the banker might become indifferent and unresponsive once the targets are met. | The main advantage is that the focus is no longer purely on revenues. Other performance criteria play a role, thus broadening the focus of the banker. | Suitable for Banks where th performance of the Bankers is highly dependent on the infrastructure and brand recognition of the bank. |
|---|---|---|---|

## 5. What do we really know about the correlation between income level and integrity?

It is obviously unreasonable to accuse people who have an ambition to become well-remunerated of having a low level of integrity. Many high-earning individuals are people of the utmost integrity.

By interfering in how the Banks remunerate their Bankers, it is assumed that we exactly understand how income level (or way of remuneration) is correlated with the integrity level of the bankers. Reality is that this territory is pretty murky:

- **There are indeed many examples where it is clear that people go the extra mile, just because of the handsome financial incentive that is waiting for achieving the target**
- **At the same time, during the Olympics we see thousands of sportsmen who have given their everything for many years even though the financial upside is close to zero. They did not need a financial incentive for their motivation**
- **We can give numerous examples of people who have become completely indifferent to their environment and clients due to the lack of incentive. We all have experience dealing with these kind of people: the annoying, disengaged bureaucrats, who simply don't care**
- **There are many rich individuals who donate a substantial part of their wealth to charity. They worked hard to amass their wealth and now give it away**

- **The charity sector is huge: it is a sector that attracts thousands of people who in most cases are not driven by monetary motives but by a sense of purpose to be meaningful in an altruistic manner. Does this contradict the belief that people are predominantly motivated by money?**

- **In certain circumstances – e.g. with regards to the remuneration of politicians or policemen – it is even considered important by some to offer high salaries in order to reduce the likelihood that they fall for the temptations of corruption**

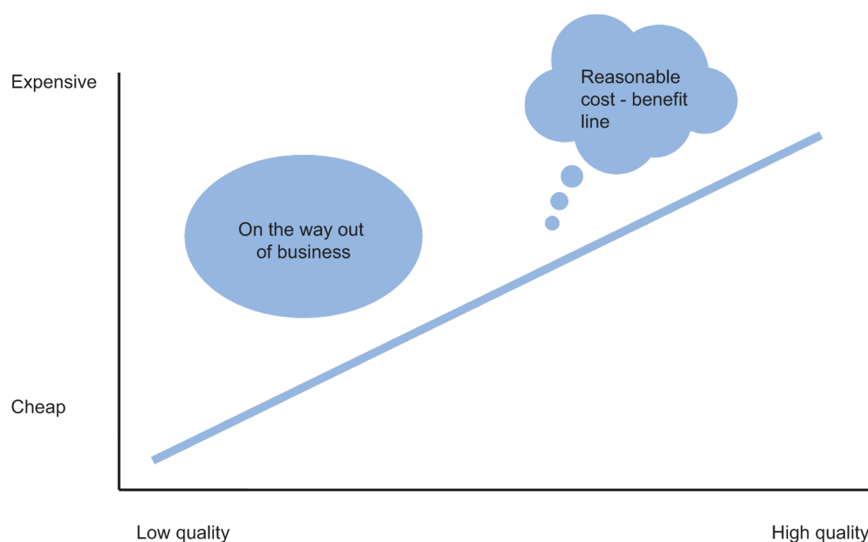
Again, many examples illustrating the confusing relationship between money and behavior. Bankers are like people, they are different from one another: among the bankers we find the ones who have strong career ambitions (longing for status), who look purely for richness (driven by greed), who obtain their pride from being best in class (the "professors"), who are sincerely concerned about the well-being of their clients (the "altruists"), etc.

The Banking community is not a homogenous world. In that sense, the Bank population is a perfect reflection of society as a whole.

Therefore, rather than saying we should control the remuneration of bankers – especially the variable part - in an effort to encourage sincerity, we rather emphasize the logic of the following simplistic graph.

If we accept this, an expensive, well-paid banker is no longer a greedy "blood-sucker", but an outstanding individual who adds value to both the clients and the bank and whose talent is scarce.

And it is the responsibility of the Banks to (publicly) define what makes such an outstanding individuals (see also under point 1).



## 6. Not easy to align the interests of the Bank with the interests of the clients when the Bankers are demoralized.

We have made this point several times: demoralized bankers will not be able to deliver high quality services. By treating bankers like irresponsible, greedy, unethical individuals and blindly assuming that their obsession for money and personal gain outweighs their desire to provide an honest, quality service, we send a wrong (see below) and demoralizing signal. That is too negative and not necessary.

By allowing Bankers to be well rewarded, **provided** that they are top quality professionals – which requires an explicit definition (see point 1) – the entire remuneration discussion is put in a much more positive perspective; a perspective that most likely motivate bankers to be good.

## 7. How greedy are the Private Bankers really?

It is our intention to better align the interests of the banker with the interests of the client. Do we have an idea of how many bankers are blind for the interests of the clients as a result of greed? Or: how big is the problem really? In our experience the vast majority of the bankers have the best interests of their clients at heart.

They know and understand that short-term excessive revenue generation comes with a high risk to lose the client. Most individual bankers take a long-term view on the relationships they maintain with their clients.

Frankly speaking, the problem rested most of the time with the management. The managers were the ones bringing their bankers into a difficult position, whereby they had to choose between their career and bonus on the one hand and the best interests of their clients on the other hand. And under that pressure, many bankers have indeed succumbed.

If our intention is to eradicate all accidents and forms of abuse of trust and vow to continue regulating until this mission has been accomplished, we have a problem. No matter how many rules and regulations we shoot at the banks, accidents will continue to happen. Acts of insincerity will continue to exist. There is even a possibility that the number of accidents increase when the bankers become more disengaged.

On the other hand, we cannot agree more that regulation appears to be necessary as many Banks have proven – in their striving for profit maximization – that they have not been able to regulate themselves.

However, the regulatory ambitions shouldn't lead to too much stress in the industry. As mentioned before, a murder incident also does not mean the end of the career of the Chief of Police.

Let's relax a bit.

## Conclusion

If we would be forced to summarize the above considerations in one sentence, then we would probably say: quality and integrity – the two key ingredients for a truly high-integrity Private Banking service – are much more dependent on the culture in the organization than on the level and/or way of remuneration (or, more general, on the number of rules and regulations).

Culture is the determining factor for behavior. If you work in an environment where you don't respect management or where you witness how others are enriching themselves or just focusing on self-survival strategies, the driver to stay in the company will be most likely money only.

If you work in an organization you like, with management and colleagues you respect, you will attach a high value to the non-monetary returns of your job.

Reflecting on the above considerations, we feel we can draw the following conclusions with regards to the importance of culture:

- **If the culture is right, it does not matter that the Bank is a profit organization. The clients know and understand that, as long as they receive a service characterized by quality and integrity**

- **If the culture is right, the Bank will only reward those bankers that add value to both the bank and the clients**

- **If the culture is right, the Bank understands and manages the risks that are inherent with the chosen remuneration structure**

- **If the culture is right, integrity is a virtue (and not a burden)**

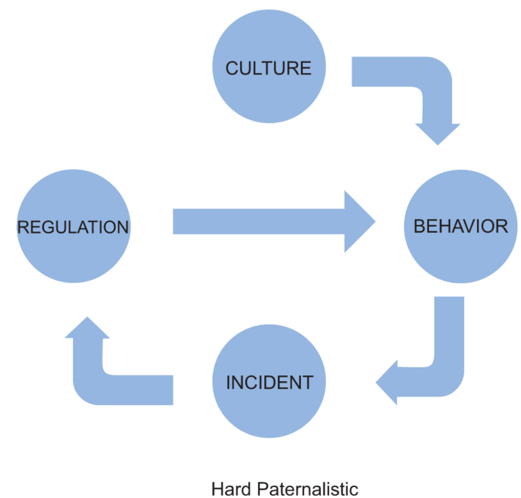
- **If the culture is right, doing what is right gives energy**

- **If the culture is right, money is not the only driver**

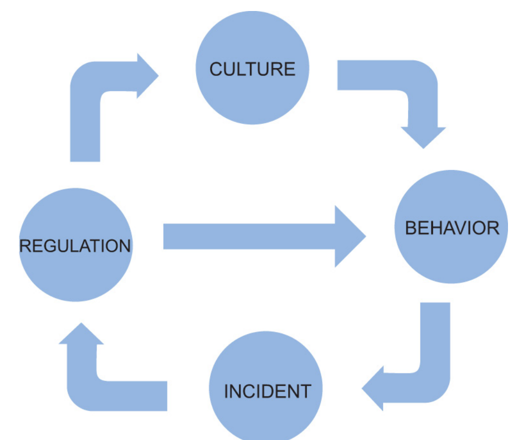
- **If the culture is right, the number of unhappy clients will be minimal**

Once the culture is right there will be no "accidents" anymore? As we mentioned earlier, we will never witness a system without accidents.

So, no point having sleepless night over the eventual occurrence of such accident. But if they happen, deal with them properly in line with your fiduciary responsibility and learn from it.




Hard Paternalistic




Soft Paternalistic

## The Culture Audit

One way to focus on the culture is by conducting a regular "culture audit". For a Bank to be truly acting in the best interests of the clients, it is essential that the Bank adopts a culture that is conducive to desirable behavior. Culture is like an eco-system: it determines what grows and what doesn't.

Therefore, rather than solely focusing audits on the degree in which rules and regulations are complied with, a key annual audit should be one that is focused on the culture in the Bank. The basic driving question behind such culture audit is: to what extent are quality and integrity leading values in the Bank?

Such audit would be focused on (in random order):

- **The hiring practice**
- **The disciplinary measures (if applicable)**
- **The remuneration practice (bankers and managers) and the management of the inherent risks**
- **The criteria of what makes a banker a high-performer**
- **The (ongoing) education efforts**
- **The career development patterns**
- **The target setting and target monitoring process**
- **The revenues (where do they come from?)**
- **The 'criticism tolerance'-level**
- **The product approval process**
- **The client onboarding process**
- **The client complaints (nature of complaints and way of handling)**
- **The marketing material/client communication**
- **The business plan**
- **The measures/initiatives taken to ensure a high level of integrity**

By probing management and key employees of the Bank (Compliance, Operations, Private Bankers, HR) on these and similar questions, you will have a good idea whether this organization is capable of accepting a fiduciary responsibility. So the key question of this audit is NOT: "does the Bank comply with the letter of all rules and regulations?", but instead: "what can a client of this Bank expect?"

Add to that a mystery shopping exercise and you should have a good idea of the degree in which the Bank takes its fiduciary responsibility. The better the score, the lesser the need to become "hard paternalistic", as it is safe to assume that the Bank understands its role and responsibilities. That could save quite a bit of time as it reduces the need for detailed and lengthy procedural audits.

# Chapter 9
# IT MAKES SENSE TO APPLY COMMON SENSE

Laws, policies, regulations – in short rules – all serve a common purpose: aim to provide order, structure, safety, transparency, justice and fairness. As – certainly in a democratic environment - none of these words have a negative connotation, rules must therefore be good. We are happy with rules.

Rules typically prescribe how to behave or how not to behave and disciplinary action is the typical response to non-compliance with the rule. Generally speaking, people follow rules; either out of sympathy with the rule/rule-maker or out of fear for the anticipated disciplinary action.

All very simple. However, the challenge with most rules is that they require a level of interpretation. To make rules credible and really effective, they need to be implemented according to their spirit; not to the letter. And to give full appreciation to the spirit of a rule, we need to apply a healthy dose of common sense. To live the spirit of the rule – rather than the letter – requires knowledge and true understanding of the original purpose and intention of that rule. Only with these qualities will we be able to use empathic common sense whilst not compromising on the intention of the rule.

In our view, common sense is more than a nice-to-have. It is essential as it contributes to a sensible, healthy living environment; an environment where people take initiatives, do more than the absolutely necessary, feel comfortable with exceptions, etc. Common sense is one of the main differentiators between robots and people. Or to put it highly dramatic: the presence of common sense is fundamental for the preservation of humanity.

If you agree with this statement regarding the importance of common sense, we should raise some alarm bells: common sense is losing ground! Increasingly we witness how organizations - and individuals in these organizations - rather stick to the letter than to the spirit of the rule. That is a dangerous trend. What causes this decline in common sense? We can think of a few reasons:

### 1. Size

The larger the organization the more people you will employ who **might not** be as driven and inspired by the original purpose, mission and values of the organization. Especially, if the organization lacks a commonly shared commitment to a vision, people in that organization might become disengaged. In that case, serving clients in the best interest of the organization is no longer a number one priority throughout the entire organization, thus affecting the urgency of being client oriented. Large, "soul-less" organizations can do without you: one banker more or less, no difference and one client more or less, no difference.

In short: for large organizations it is much more complicated to make staff at all levels feel involved and engaged, therefore running the risk of unwillingly creating high levels of indifference. Usually that does not cater for a fertile soil for common sense.

## 2. Lack of empowerment

The more you limit the responsibility of individuals in the organization, the higher the likelihood that common sense will suffer. This is obviously closely linked to, but not to be confused with size. In all organizations there is a need to implement a structure, otherwise it becomes too difficult or inefficient to manage and control.

However, once the structure affects the empowerment of staff – e.g. by too narrowly defining areas of responsibility – it becomes difficult for anyone in the organization to take a logical, common sense decision as most likely for that decision you need to enter the territory of one of your colleagues.

If the structure does not allow for selected senior, experienced, knowledgeable and empowered individuals to balance the operational risk of deviating from the letter of a rule **on the one hand** with the commercial risk of not deviating from that rule (but instead applying common sense) **on the other hand**, the organization has an issue.

**Note:** very often "deviating from the letter of a rule' is not the equivalent of 'breaching the rule"!

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## 3. Fear

People who are scared – e.g. scared for being disciplined for non-compliance with policies or, worst, scared for losing their jobs – will tend to avoid taking risks. Playing it safe often goes at the expense of common sense.

You rather stick as much as possible to the rules, so that you don't give anyone an "excuse" to blame you.

Obviously this is especially the case in low-trust environments.

## 4. Technology

It is extremely difficult to program common sense as by definition you require judgment in order to apply common sense.

Computers are strictly rule-based – no matter how impressive and even incredibly flexible systems can be. The more organizations rely on computer systems for their day-to-day business conduct, the more likely that it will go at the expense of common sense.

In an environment where people are not expected to think, people will most likely not think. In other words, technology should always be a tool and nothing but a tool.

## 5. Too many rules

How many rules do we need to create the perfect world? Winston Churchill once said: **"If you have 10,000 regulations, you destroy all respect for law."** What he is saying is that it is clearly not the quantity of regulations that determines the success of governance.

If it becomes too complicated, the rule-framework will have a paralyzing effect. It creates apathy and indifference, which does not help to foster common sense.

## 6. Unhappiness

Staff can be unhappy for many reasons: poor management, poor working conditions, long working hours, etc. The more unhappy the staff is (for whatever reason), the less likely that they will go all the way to make their clients happy.

In other words, the more unhappy they are, the less likely that they are willing to apply common sense in the best interest of clients and organization.

Certainly if all six of these reasons apply concurrently then it is obvious that common sense becomes an "endangered species". Common sense creeps higher and higher into the organization until – worst case – the CEO is the only person left in the organization who is able and in a position to apply common sense.

It is clear that in this case the distance between common sense and client is such that the client does not experience any sensible form of common sense anymore. And, as mentioned, this is not only frustrating for clients, but also for those in the organization who directly deal with those clients.

For people in the front line it is humiliating to (have to) send signals to their clients that in their respective organization they are unimportant and not capable of having any impact on the conduct of the organization whatsoever.

There is an opportunity here: as many Private Banks suffer from this phenomenon that common sense is losing ground, creating a setting where noticeable common sense becomes part of the service delivery offers the potential of being a significant differentiating factor. In other words: push down common sense from the top to as close to the client as possible.

Close the gap between client and common sense.

Analyze what it takes for your organization to delegate common sense and do what is necessary to implement an effective common sense program. This will not just create happy clients, but also a high level of job satisfaction in the organization.

Happy with rules?

Absolutely, as long as common sense rules.

Chapter **10**

# TOP 15 PRIVATE BANKING MANAGEMENT FEARS

Private Banking is a great profession, but is not without risk (as we have witnessed in the past decennium). Everyone who has managerial responsibility in a Private Bank is not only concerned about the (degree of) profitability of the business, but also about the many potential "landmines" that are hidden and may suddenly explode in one's face.

Every such explosion automatically attracts the attention of senior management as well as the regulator. This is not the kind of attention you are looking for, as more often than not such an explosion in your area of responsibility is explained in terms of "lack of oversight" or "lack of control". And who was supposed to deliver this oversight and control? You. In other words: your career is at stake.

Based on personal experience and conversations with peers in the industry, we are pleased to herewith present the first **Private Banking Management Fear Top 15**, which is a compilation of nightmares that in varying degrees hunts every Private Banking manager:

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| No. | The Nightmare | Ways to Prevent |
| --- | --- | --- |
| 1. | *Internal Fraud*<br><br>The worst nightmare is to discover that one of your staff – a person you trusted – has committed an act of fraud (e.g. stealing from dormant accounts, submit false claims, forgery of documents, etc.). This is shocking because it not only costs money and shakes the reputation of the Bank (assumed that the outside world gets to know about it), it also highlights a lack of control and last but not least it is painful to realize that your judgment failed. Who says it won't fail with other colleagues? (You might end up becoming rather paranoia). | The best way to prevent is:<br><br>- To make an inventory of all areas where fraud is possible (try to be exhaustive)<br>- To define controls to reduce the likelihood of fraud in these areas<br>- Introduce (and promote) a whistle blowing policy (emphasizing that whistle blowing is not aimed at betraying colleagues but at protecting colleagues against themselves) |
| 2. | *Breach of Regulation*<br><br>A breach of a regulation is crossing a dangerous line. If you are not even able to comply with rules issued by the regulator, it casts serious doubts about your overall ability to control your business.<br><br>For example, if by accident you enter into a short-sell transactions whilst short-selling is absolutely forbidden or when your client transaction advices don't meet the minimum regulatory standards or when the client statements are sent out too late or when you breach your capital requirement limit, etc. | Ensure you have a competent and alert Compliance Department. |



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| 3. | *Unauthorized Trading*<br><br>Unauthorized trading comes pretty close to internal fraud. Once again, a trusted colleague takes the initiative – for whatever reason – to execute transactions for the account of the Bank or a client without any approval from the respective account holder. The offender does not directly benefit from unauthorized trading, but indirectly there is a benefit (status, higher bonus, job security). Most offenders of unauthorized trading feel comfortable that they can achieve impressive returns. | It is important to:<br><br>- Assess how easy/difficult it is for bankers to commit this offence<br>- Have a well-controlled order processing procedure<br>- Monitor the performance of portfolios<br>- Monitor the authenticity of transactions (e.g. by checking the original instruction)<br>- Ensure that clients receive transaction advices/portfolio statements. |
| 4. | *Accept the wrong clients/business*<br><br>As a Private Banking manager you manage relationship managers, who each have many clients. Having many clients does usually not count as a valid excuse for having a client in the books who appears to be involved in money laundering (which these days includes tax evaders).<br><br>In general, accepting a client means de facto that the Bank is happy to start a partnership with this individual. As a result, when this individual happens to be wrong or highly controversial, the Bank's reputation is at stake. The damage could be significant. | Every Bank should ensure to have a thorough client acceptance procedure. Furthermore, the Bank should review the clients on a regular basis (clients can over time turn from good to bad).<br><br>Furthermore, the "behavior" of the account should at all times be compared with the original purpose of the account (e.g. monitor transaction patterns). |
| 5. | *Unsuitable selling*<br><br>Especially after all the negativity of the past few years, it would be very damaging for a Bank to still be accused of selling unsuitable products and services to its clients. This would seriously tarnish the reputation of the Bank. | To avoid unsuitable selling, it is crucial that:<br><br>- The Bank hires high quality relationship managers<br>- The Bank provides ongoing professional development (training)<br>- There is a well-documented description of the risk-return profile of each client<br>- There are proper records to prove that adequate care was taken at the time of recommending the investment. |
| 6. | *Fail to meet the financial targets*<br><br>A managerial career does usually not only depend on the number of "accidents", but also on the extent to which financial targets are met. If these targets appeared too stretching, high levels of stress may be experienced. | It is important for every manager:<br><br>- To continuously monitor financial progress against expectations<br>- To (be able to) explain why the actual results differ from the expected results (in other words: which assumptions were incorrect)<br>- To understand how the overall market is performing<br>- To inform superiors timely when it becomes clear that the targets are unachievable (don't be a wishful thinking ostrich). |

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| 7. | *Incorrect news in the media*<br><br>If news in the media about the Bank is incomplete, incorrect, un-nuanced or defamatory, it will prove to be extremely harmful for the reputation for the Bank. In extreme cases, incorrect adverse news could even be catastrophic (e.g. when it creates a run on the Bank). | In view of the importance of the public perception of the Bank, it should be clear to everyone in the Bank that only dedicated (well-trained) spokespersons are allowed to address the media. All other staff should be prohibited to entertain (even casual) questions from journalists. |
| 8. | *Market downturn*<br><br>Market downturns tend to give lots of stress. Not only to the clients, but also to the Bankers who are dealing with the clients on a day-to-day basis. Portfolios can show poor performances, thus potentially generating fierce criticism from clients. | Banks cannot avoid market downturns. However, Banks can be prepared:<br><br>- Have a well-diversified and well-documented investment strategy<br>- Ensure that proper record-keeping takes place, so that the Bank can always prove to have acted reasonably and fairly and that proper care was provided<br>- Prepare clients at all times – not only during the bad days - that dealing with downturns is part of asset management. |
| 9. | *Staff problems (e.g. hiring the wrong people, staff departures)*<br><br>The success of a Private Bank depends largely on the staff the Bank is working with. However, when the good ones resign for "better" opportunities elsewhere or when expensive new colleagues don't deliver what was promised, the development of the business will potentially suffer major setbacks. | To manage and avoid staff issues, it is crucial to:<br><br>- Ensure that the hiring process is professional (incl. reference checks)<br>- Create and maintain an environment of respect (normally people leave bosses; they don't leave companies)<br>- (Make an effort to) understand what drives your top performers. |
| 10. | *Costly operational error*<br><br>A whole year of solid performance can be offset by one silly operational mistake (e.g. oversold position, misunderstood transaction, etc.). It is extremely frustrating to lose large sums of money by a moment of avoidable sloppiness. | Although it is not possible to entirely eliminate the chance for an operational error to occur, there are in general two ways to at least significantly reduce the likelihood of such error to happen:<br><br>- A high level of automation<br>- "Four eyes" principle. |
| 11. | *No differentiating positioning/ strategy*<br><br>If a manager struggles to meet targets or to attract high caliber professionals, the manager will reach levels of despair when he realizes that he is not able to answer one simple question: why would a client open an account with you and not with the competition? What makes you special? | To survive in a fiercely competitive environment every manager has to be able to answer the question how the Bank differentiates itself from its competitors. If the manager cannot answer this question with conviction, there most likely is no reason why a client should come to you. |
| 12. | *Lack of proper recordkeeping*<br><br>If a client complains about a certain investment, the first thing you do is to look in the records – e.g. call report – to see how and why this investment was made. If there is no evidence on record to prove that this investment was deliberate, intended and properly explained to the client, the Bank has potentially a serious credibility issue. | The Bank has no choice but to convince the relationship manager that they have to behave like doctors and lawyers when it comes to record keeping. Relying on memory and good faith (alone) is in the context of today outright unprofessional. |

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| 13. | *No access to infrastructure*<br><br>A breakdown of the telephone, internet and IT systems represents a huge challenge to the business, even to the extent that it could cost the Bank dearly (both in financial and reputational sense). | The avoid – or at least limit the damage of - a system breakdown, Banks typically take the following measures:<br><br>- Extensively test new systems<br>- Have a well-tested business recovery plan<br>- Closely monitor the infrastructure and ensure an instant alert at the time of malfunction<br>- Ensure high level service contracts (with focus on response time) |
| 14. | *Problems with the mail/"client reporting"*<br><br>It is extremely disturbing to realize that clients have received the statements from other clients. It affects one of the core values of the Private Bank: confidentiality. From an outsiders perspective this represents a clear lack of control over crucial processes. Certainly not good for the reputation. | These days the mailing function should be automated and as far away as possible from human intervention. |
| 15. | *Inappropriate behavior employees*<br><br>One way to have the reputation of the Bank damaged is by having staff who don't behave appropriately (e.g. write silly stuff in social media like Twitter and Facebook, borrow money from colleagues and/or clients, hit the headlines for drunk driving, etc.). | The most effective way to limit this risk is to hire professionals (see also point 9).<br><br>Furthermore, it is important to continuously remind staff how their personal conduct – even during out-of-office hours – impacts their and, more importantly, the Bank's perceived level of professionalism. |

All of the above have an impact on the reputation of the manager and obviously on the reputation of the Bank.

It is very worthwhile to once in a while take some time from your busy day-to-day management life and to reflect on each of the above nightmares.

If something goes wrong you might be able to explain why you overlooked a certain risk, but never forget: there is a huge difference between an **explanation** and a **justification**; explanations don't save your skin!

# EPILOGUE

Private Banking is an industry under pressure. But at the same time offers this industry excitement and tremendous potential. To live up to its potential we all have a role to play: regulators, bank managers, Private Bankers and clients.

We have to reflect critically on what went wrong.

We have to analyze where we are today.

We have to define why Private Banking has been, still is and will continue to be a relevant industry.

We have to (make an effort to) understand which factors will determine the future development of our business: what will separate the men from the boys?

We have to ensure that Private Banking is fun and exciting, thus attracting and retaining motivated top talent.

Only if we make a sincere effort to address these – and similar – questions, will we be able to succeed as individual practitioners, as banks and as an industry as a whole.

We hope that this **Sonam Private Banking White Paper** represents a constructive contribution to the necessary discussion about the Private Banking industry; an industry that undoubtedly requires some level of re-engineering. It certainly is not our intention to "inform you how the world works or should work".

All we try is to encourage an honest reflection and discussion, ultimately leading to a fun and exciting industry, which is in the long-term interest of all stakeholders: clients, Banks, Private Bankers and regulators.