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Conference

4th Private Banking Summit
Competitive Growth Strategies in Private Banking

Date: 30th and 31st August 2005
Place: Renaissance Hotel, Zurich

For the minutes:
Carita Riesen, President, Swiss Bankers Network, Au-Zurich

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Presentation 1: International private banking: Competitiveness and growth

Speaker: Dr. Teodoro Cocca, Senior Researcher, Swiss Banking Institute, University of Zurich, Zurich

Key Findings:

- Framework for conference at macro level: new markets, competitiveness and value chain models; at micro level: growth, profitability and operational efficiency
- Hot issues in private banking in Switzerland last 12 months: growth; EU-Tax: Money flees Europe for Far East; global mergers accelerate; Hong Kong vs. Singapore?; light touch regulation; Switzerland's steady restructuring; high net worth individuals (HNWI) are getting different; demand for independent advice; how open is «open architecture»?; electronic relationship manager; pricing in private banking?
- Net new money 2004 CHF 108 billion against CHF 75 billion in 2003. CHF 79 billion for the big three UBS, CS, HSBC. Biggest winners Banque Syz (20%), Banque Piquet (16%) and Clariden Bank (15%); biggest losers Cosba (-2%), Banca del Gottardo (-2%) and Julius Bär (-1%). Performance attribution of net new money 2004 -6% (offshore), -0.5% onshore
- Profitability (gross margin) is back on track (0.80%); return on equity (20%) is improving but lagging 1998-2000 levels, Swiss banks best capitalized
- Operational efficiency: cost income ratio slightly improved (0.65) but still average, total revenue per employee (CHF 550'000) improved and still highest in Europe, gross margin per employee increasing, stakeholder income per employee improving and still highest in Europe
- Investment performance has improved (performance at US banks still higher), Switzerland ranks second just after USA, risk-adjusted Swiss performance good

Conclusion: Profitability back on track, operational efficiency average, overall organic growth low, investment performance good average, some private banks are highly competitive

Quotation:
«Swiss banks report record earnings.»

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Presentation 2: Middle East development scenarios for private banks: The new Eldorado? Practical example: Dexia initiatives in the region

Speaker: Philippe Jouard, Member of Dexia BIL Executive Board, Head of Dexia Private Banking, Luxembourg

Key Findings:

- 80% of total world wealth for individuals with + USD 1 million is believed to be held by Gulf Cooperation Council residents. Number of HNWIs estimated to exceed 650'000, of which 500'000 in Saudi Arabia. Expected growth rate of financial wealth 9% p.a.
- Most of Middle Eastern wealth (approx. 80%) is kept off-shore. Strong growth of off-shore funds especially in Switzerland, increasing on-shore wealth in the region. Over-crowded off-shore banking environment, emerging on-shore financial market
- Second and third generation are different to first generation: from off-shore to local project management and development crave, not really motivated by pure financial instruments, credit in high demand as well as partnering moneys in joint ventures
- Adapting to the new needs by adding Shariah funds, international private equity opportunities, hedge funds offerings, credits, real estate, project management, third party distribution and white labeling, project finance, banking ventures & institutional world

Conclusion: Local presence (e.g. partnership) is critical; Offshore banking services are still the key; Understanding the entrepeneurial culture and need for opportunities is important; Credits are important; the Family Office concept becomes a Family Investment & Project Office

Quotation:
«Be ready to go on-shore if you are serious about the region.»

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Presentation 3: Strategic growth opporunities in private banking in Asia (practical example)

Speaker: Eduardo Leemann, CEO, AIG Private Bank Ltd., Zurich

Key Findings:

- 63% of HNWIs (2.7 million people with more than USD 300'000 in liquid assets on-shore in 2003) in Asia-Pacific are in Japan, highest concentration In Hong Kong (>6% of adult population) but highest growth potential is in China (0.8 million HNWIs in 2003 forecast +73% for 2008), followed by Taiwan (0.19 million HNWIs in 2003, forecast +68%) and Hong Kong (0.32 million HNWIs in 2003, forecast +45%). Forecast Japan 26%
- Existing players are well positioned to profit from the development, position for new entrants difficult. Opportunities for off-shore market (Hong Kong and Singapore - of the foreign banks present in the region, most have representations here), niches, partnerships with local banks (China, South Korea). 150'000 non resident Indian millionaires world-wide (USD 360 billion assets) – is Dubai the future booking centre for such funds?
- Asian HNWIs demand global service, new products, prefer greater involvement, are less patient, family plays a role, are more conservative and more cash intensive, do not plan for retirement
- 43% of Asian private banking clients rate performance highest when choosing a private bank. 79% of Asian private banks clients prefer large global banks ("Swissness" is not important). 18% rate experience of private banker highest aspect of client – private banker relationship
- AIG private banking strategy builds upon AIG's long presence as life-insurer in the region (AIG is the largest life insurer in South-East Asia), AIG has extensive asset management network in South East Asia, has 48 mainly locals in representative offices in Hong Kong, Singapore and Shanghai and focus on performance and products

Conclusion: Although position of new entrants in this growth market difficult, opportunities exist

Quotation:
« Family Office services is the biggest opportunity in South East Asia »

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Presentation 4: Keynote speech: The future of (Swiss) private banking

Speaker: Raymond J. Baer, Chairman of the Board of Directors, Julius Baer Holding Ltd., Zurich

Key Findings:

- Of the 338 banks in Switzerland, 90% control only 10% of assets -> consolidation has to take place
- Is Switzerland an ageing giant? Swiss banks control 1/3 of global off-shore market, but increased competition, pressure on margins, too high cost of regulatory compliance, declining loyalty among clients are current problems facing Swiss private banks
- How to bridge the gap from ageing giant to growth markets? Off-shore remains attractive. "Swissness" sells on a global scale but has to be adapted when going abroad. Size matters but offers no guarantee for success. Target markets have to be carefully chosen: do I have a brand, how do I adapt the Swiss model, be open to outsource. On-shore game is for the big global players only, mid-sized private banks have to decide on on-shore strategy chosen (JB: Germany and Italy). Niche opportunity in an ageing market: Family-Office services will become more important
- Singapore is set to outpace Switzerland in terms of relative growth as an off-shore centre by 2007 (IBM survey 2005), but growth is not so fast (2001 USD 250 billion, 2003 327 billion off-shore assets) and the same features are requested from Singapore banks as from Swiss (brand, customer service, performance, products and price)

Conclusion: Asset management remains a growth industry, off-shore banking is booming, Switzerland is both, a legacy market and a synonym for contemporary private banking virtues, "Swissness" sells but service captures, and regulators have to recognize that it competes in the global market

Quotation:
«I am extremely bullish for Private Banking as growth of world emerging markets good, and bullish for the Swiss case – but not for all market participants »

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Presentation 5: Market trends and regulatory developments – Consequenses for Swiss private banks

Speaker: Prof. René Kästli, Member of the Swiss Federal Banking Commission, Berne

Key Findings:

- Global economy still growing; Asset growth mainly in Far East and Eastern Europe; On-shore banking growing; Legal actions to improve other off-shore centers; EU-Tax lowers performance; Financial centre Switzerland loses attractiveness relative to others
- Impressive growth of new international regulations (BIZ, FATF, IOSCO, IAIS, IWF, Sarbanes-Oxley, Financing of Terrorism, EU Financial Sector Action Plan). Switzerland has to impose such international standards in an adapted way to avoid black-listing (compare Liechtenstein's black-listing in 1999, as a result of which they lost 30% of AuM)
- Close to 30 Swiss regulatory projects in June 2005, but Switzerland remains international average on general. Above average only in money laundering/financing of terrorism and capital requirements. As result of over-regulation new approach on regulatory projects agreed between SFBC and SBA: high level meetings and agreement on priorities. Principles set for new projects: Ask if regulation necessary (will market solve the issue); Differentiation (one size does not fit all); Average shall be the target; Think in alternatives; Run pilot projects; Cost/benefit analysis
- Consequences of the trends: High and rising cost for private banks (besides regulation salaries); lower earnings as a result of low growth in the off-shore business; margins under pressure; small entities are relatively more vulnerable; trends toward bigger banks, independent asset managers might not be able to comply
- How to cope: Make or buy decisions (trading, corporate actions, compliance); specialising on parts of the value chain; optimize business (is product or customer profitable); professional controlling, risk-adequate pricing

Conclusion: Regulations will put further pressure on financial center Switzerland, but survival is highly probable

Quotation:
«Private Banking in Switzerland will stay attractive, but hard work is necessary to keep that up»

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Presentation 6: Panel Discussion

Participants: Dr. Theodor Cocca, Senior Researcher, Swiss Banking Institute, University of Zurich, Zurich; Niklaus C. Baumann, Managing Partner, Baumann & Cie, Private Bankers, Basel and former President of the Swiss Private Bankers Association, Geneva; Eftychia Fischer, Global Head of Trading and Treasury, EFG Bank, Zurich; Georges Gagnebin, Vice Chairman, SBC Wealth Management AG, Zurich, and Chairman of the Board of Directors, Ferrier Lullin & Cie SA, Geneva; Philippe Jouard, Member of Dexia BIL Executive Board, Head of Dexia Private Banking, Luxembourg; Ray Soudah, Founder, Millenium Associates Ltd., Zug

Key Findings:

- All participants welcome the new policy change at SFBC to discuss future regulations with SBA; supporting regulations are regarded necessary and good for the business. Proactive steps by regulatory authorities to encourage consolidation to deal with compliance is sought by Mr. Soudah, most other participants agree that there are too many banks, and that the costs for compliance are high, but that consolidation encouragement is not an issue for the regulators, but for the management (and shareholders). There should be room for small (niche players) as well as big banks in the market (Gagnebin). Of pure economic rationality there should have been much more mergers, but as profits are back on track, pressure for mergers is off, a huge bear market might be the catalyst for a bigger consolidation (Fischer, Soudah)
- Will there then be value-chain “mergers” instead of bank mergers? This is already done at Dexia (Jouard); new business models have to be found: trading, etc. will not improve the relationship with the client and can thus be out-sourced (Gagnebin); Only 10% out-sourcing in Switzerland, out-sourcing is a worthwhile alternative to consolidation (although growth is not solved by out-sourcing) (Soudah), investment product out-sourcing is a viable alternative (Fischer)
- Bankers show herding behaviour, will there be a lot of wrong decisions made in this desperate search for growth? For the new markets most banks are too small or too late, in addition many of the new growth areas you cannot access: there are no banks to buy (Soudah); Relationship management (not the product) is the door to growth: 1/3 of the bank’s revenues now come from Asia (Fischer), Niche products have a market (Baumann), leave on-shore banking to the big and don’t go into markets you do not understand (Gagnebin)

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Presentation 7: Industrializaion in Private Banking – heresy or opporunity (practical example)

Speakers: Dr. Urs Monstein, Member of the Executive Board and COO, Ehinger & Armand von Ernst AG, Zurich; Dr. Pius Bienz, Partner Financial Services, Accenture AG, Zurich

Key Findings:

- Insufficient AuM growth, decreasing profitability, difficulties retaining existing clients and missing strategies to attract new clients ask for new business models in private banking. Accenture research on high-performance banks has revealed that success factors for sustainable out-performance are differentiation on the outside (what makes a bank unique, e.g. relationship management), simplification on the inside (standardize products, processes & systems) and execution mastery (prioritize execution on two levels: manage risk of change programs, stick to culture operationally): four alternate business models: “Differentiated”, “Industrialized”, “High Street” and “No Frills”
- Industrialized banks focalize on their strength by reducing the depth of production. Differentiation through client satisfaction and loyalty, focalization through best-in-class products and simplification through cost efficiency
- The new industrialized wealth management operating model separates the client advice and the underlying investment decision. The client relationship is the USP: to understand the client needs and even predict these. It allows a stronger focus on client retention while efficiently taking investment decisions. In industrialized banking “open platform” covers the whole investment management value chain, not only the products
- Need for an interim business model whilst implementing the new model: Focus business model on either Sales & Advice, Asset Management or Operations; Simplify the operating model: standardize products, processes & systems, identify and get scale; differentiate and position for growth: product, service brand, business model.

Conclusion: Industrialization means a combination of simplification and focalization in the inside whilst differentiating on the outside. In industrialized banking “open platform” is not only related to financial products but covers the whole investment management value chain

Quotation:
«The question is not if but when we will be confronted with industrialization in banking »
«First decide how you want to do the business, and then look for the platform»

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Presentation 8: Manage operations cost effectively through outsourcing (practical example)

Speaker: Arthur Bolliger, CEO, Maerki Baumann & Co. AG – Private Bank, Zurich

Key Findings:

- Process optimization is a key challenge as pressure on margins increase. Finding the right mix of make, buy and sell products and processes to optimize cost and income. Make when volumes are high, specialist knowledge exist and costs under control, outsource where in-house production too expensive, in-source where specialist knowledge and cost leadership prevail. Target to reduce fixed costs in order to be less vulnerable
- MBC decided to offer in-sourcing thanks to high productivity of back-office employees: MBC implemented fully automated processes (STP) very early, has ability to integrate electronically networks fast and at low cost, reduces its own costs by buying services wherever possible, and eliminating of manual work wherever possible
- Outsourcer decides on support needed: great flexibility from specific support (e.g. Brokerage & Custody) to full service and security processing
- MBC offers three typical packages: ASP (order management applications, trading applications, teller, safe and card applications, Legando Core applications and Infrastructure), BSP (asset management, brokerage operation, custody operation, financial instruments maintenance and back office operations) and Street Side (Broker and depositary)
- Process cost reductions of 30% and higher quality as a result

Conclusion: Outsourcing reduces investments in development of standardization development and cost of integrating new products as well as increases quality

Quotation:
«My dream is an independent transaction bank in Switzerland»

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Presentation 9: Special Guest: Why I am a client of a Swiss private bank

Speaker: Emil Tedeschi, Chairman and Chief Executive Officer, Atlantic Grupa Ltd., Zagreb, Croatia

Key Findings:

- Banking needs of entrepreneurs: in the early stage classical corporate banking (flexibility, pricing, lending power, speed) is needed, in the developing days corporate finance (strategic advice, creativity –important!- experience/track record, M&A, bond financing) and later on private banking needs (boutique approach important, enhanced discretion, product access, costs, performance, reliability, down-to-earth, special skills, one-stop-shop).
- Important for private banker to understand and respond to needs of entrepeneur, e.g. help with finding business to buy in the company's internationalization process.
- Trust and willingness to solve problems is important
- One-stop-shop is important: besides traditional PB services, tailor made solutions are requested, whereby a network of specialist should be accessible. Taskforce or teams quickly assembled to fill the needs of the customer
- On-line access is not that important (discretion!) but sometimes helpful
- Succession and inheritance issues are issues that will become important (Mr. Tedeschi is 38 years old)

Conclusion: Private banker should understand and respond to needs of the entrepeneurial client

Quotation:
« Private banking is all about individuals, about tailor-made services »

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Presentation 10: New impulses for global estate management: the GEM concept (practical example)

Speaker: Bénédict G.F. Hentsch, Co-Founder, GEM Global Estate Managers S.A., Geneva, and Chairman, Banque Bénédict Hentsch & Cie S.A., Geneva

Key Findings:

- According to the IBM European Wealth and Private Banking Survey 40% of affluent clients are attracted by private banks with an own brand and that are part of a larger group, as a range of different services are needed, partners of private banks as owners of a business are additionally perceived as equals. 70% want single provider to co-ordinate their financial affairs
- GEM was founded in 2004 in response to this challenge: to be a one-stop-shop for affluent clients and entrepreneurs. GEM's ambition is to propose a global understanding based on a multi-dimensional approach to the client's wealth. Six autonomous entities 100% owned by GEM provide the services needed: Ambrosetti (strategic reorganization of family business, creating family governance rules and drafting family protocols), Banque Bénédict Hentsch (pro-active management of client assets with best-in-class products), FidFund Management (creation and administration of Swiss based funds), Pennone & Partners (tax consultants and accountants), Sarrau & Associés (international tax and legal consultancy) and Simon Studer Arts (art consultancy). Real estate management, portfolio administration, family-office dedicated private equity offerings and philanthropic and charity management are planned
- Key issues that GEM addresses: a comprehensive analysis of the client's net wealth (financial assets, real estate, art collections, family business), a comprehensive risk analysis and determination of client's main objectives. A "Report" is produced, which enables families and entrepreneurs to monitor the entire wealth and organize it
- Following this analysis three proactive steps follow: Govern & Organize (family pact), Structure & Administer (optimize wealth, facilitation of wealth transmission, etc.) and Manage & Monitor

Conclusion: With a one-stop-shop the affluent/entrepeneurial client reduces business risk, personal risk and estate/portfolio risk

Quotation:
« We have to put back the customer in the centre of our attention »

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Presentation 11: Integral wealth management and corporate finance services: Distant cousins or twin brothers? (practical example)

Speaker: Dr. Thomas Bächtold, Senior Vice President, Pictet Family Office, Pictet & Cie, Geneva and Zurich; Dr. Eduardo Schindler, Founder and CEO, 2thepoint, Zurich

Key Findings:

- Financial assets are concentrated in a small number of persons/families: 10% of the number of HNWIs own 60% of all assets. Family business owners represent 70% of GDP and 80% of all companies
- The family business is by far the largest asset class of wealthy families: 59% family business, 41% financial assets + real estate
- Problems of family business owners: up-to-date valuation of the company, when and at what price to sell, what is the right legal structure, how to take non-operational assets out of the company, how to prepare for succession, how to pay out children, etc.
- Many families experience asset conversion that demands corporate finance capabilities at least once. Many enter new businesses after they sold out the family business
- Decision to outsource corporate finance capabilities: give clients more comprehensive service coverage and broaden the relationship; no need for hire & fire; gather bankable assets as a result of M&A transactions; access related business opportunities from the business network of outsourcing partner. Today only 3 banks have in-house corporate finance capabilities in Switzerland. An in-house corporate finance capability could cost up to CHF 2 million per year. How to select partner: open architecture (best-in-class)

Conclusion: Corporate finance capabilities are needed when dealing with family businesses, as many families experience asset conversion at least once

Quotation:
«Most wealth are created with family businesses»

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Presentation 12: The future belongs to niche players (practical example)

Speaker: Jean-Pierre Cuoni, Chairman, EFG Bank, Zurich

Key Findings:

- Four founding partners (private bankers) together with a strong partner (EFG) founded EFG Bank with the vision to be a pure private bank and with one focus: to satisfy the client. Development of AuM: CHF 5.3 billion in 2000, over CHF 36 billion in 2005 (including recently announced acquisitions), 50 client relationship officers (CRO) in 2000 now 180 in 33 different countries (including recently announced acquisitions), presently over 16’000 clients
- EFG Bank has a CRO centered business model that offers a platform for the CRO to make him able to service the client. Product strategy is open architecture. Top management are private bankers, staff own 36% of the shares in the company. Global footprint & infrastructure: 33 offices world-wide (decentralized marketing, local people, local products) but one global operating platform. Risk profile of EFG Bank: low risk, only secured lending, very limited proprietary trading.
- Only experienced private bankers are hired as CROs. The CRO has a global marketing mandate, no restriction on size, tailors offerings & price and is the business manager of his profit center. The CRO has a contractual participation in his profit center of 15% to 20% of the respective net contribution. Objectives for all CROs CHF 30 million new money per year.

Conclusion: A CRO centered model aligns the interests of the clients, the CROs and the bank and its shareholders

Quotation:

« Put the Client Relationship Officer in the middle of your endeavours!»

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Presentation 13: Keynote speech: A successful international expansion strategy in private banking – BNP Paribas (practical example)

Speaker: Francois Debiesse, Chief Executive Officer Private Banking, BNP Paribas, Paris

Key Findings:

- With the development of new wealth markets, rebalancing of offshore/onshore wealth distribution, HNW demand for wealth management in multiple bookings and competition in local markets now driven by global players, international capabilities are crucial to catch growth opportunities
- Crucial points to consider before expanding: Where (market potential, brand awareness and critical size) How (organically, through acquisitions or partnerships) and What type of organisation (centralized, de-centralized)
- BNP's business mix is balanced with a solid position in France and traditional international private banking centers and sizeable exposure to dynamic markets securing long term growth. Open architecture, dedicated support teams, international holding company and common IT/operations platforms with three hubs (Luxembourg, CH and Asia) form the basis. Key regions for development: Europe on/off-shore (onshore: France, Netherlands, Hungary, Belgium, Spain, Italy, Portugal and Greece; off-shore: Switzerland, Monaco), Middle East (JV with international retail bank), Asia (organic growth in Hong Kong & Singapore, on-shore operation launched in Taiwan, representations in 6 cities in India), Latin America (Miami, Brazil)
- A mix of organic growth (i.e. CRO recruitment programs, new products, productivity gains), internal partnership (limited acquisition cost) and external development (i.e. add-on acquisitions) allow for profitable growth
- Organisation is flexible to allow local dynamism

Conclusion: Balanced business mix between profitable and growth centers

Quotation:
« India could be more interesting than China»

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Presentation 14: How to prevent the outflow of assets – The art of customer loyalty at Coutts Bank von Ernst Ltd. (practical example)

Speaker: Thomas Schmidt, Member of the General Management Committee and Head of Private Banking, Coutts Bank von Ernst Ltd., Zurich

Key Findings:

- Client retention is seen as 2nd biggest challenge in the industry, to improve client retention 4 measures have been introduced at CBvE:
- Team approach: encourage more than one contact point at the bank (deputies, specialists)
- Retain private banker through remuneration and training (cultural fit in the organisation is a prerequisite)
- Improve investment performance (fee based advisory service, mutual fund based discretionary management based on best-in-class funds, funds of hedge funds, independent structured products, research from best-in-class providers)
- Introduce client information systems ("SMART" client system) to better understand client needs and to achieve a superior standard of relationship quality
- Next steps: Define pre-warning indicators/patterns (monitor outflows, register complaints, cancellation of services, etc.)

Conclusion: Team approach, introduce client information systems, improve performance and retain private banker to prevent client retention

Quotation:
«1 lost client = 5-7 new clients »

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Presentation 15: Client added value through a structured advisory process (practical example)

Speaker: Adrian F. Leuenberger, Member of the Executive Board and Head of Private Banking International, Bank Leu Ltd., Zurich

Key Findings:

- Most clients prefer a relationship with a reputable institution with a consistent and professional advisory service. A professionally structured investment process is thus a competitive advantage for the financial institution
- Client requirements are identified and recorded in an investment profile, personal investment preferences and scope of service are identified and a specific investment proposal is provided (can be produced within 2 hours for walk-in clients). Investments are monitored within agreed service parameters and necessary actions (“warnings” are automatically generated) discussed with client; personal investment strategy is regularly assessed. Software development for generating investment proposals and monitoring: InvestNET
- Value added for the client: simple and transparent tool, feels understood, advice in line with need and risk-profile
- Value added for client advisor: perfect tool for meetings, increase in efficiency, support to reach targets
- Value added for bank: increase in client satisfaction, point of differentiation, reduction of advisory risk

Conclusion: A structured advisory process matches client’s needs, gives continuos client experience and more possibilities & capacities for individualizaion, assures quality and service, ensures an efficient advisory process, mitigates risks and differentiates

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Presentation 16: Sell the advice! The internet as a communication tool fo modern HNWI – Case study Bankverein Werther Ltd. (practical example)

Speaker: Jens O. Bernecker, CEO, Bernecker & Cie. GmbH & Co. KG, Duesseldorf

Key Findings:

- Due to squeezed margins at banks, the need to sell investment products has overcome the desire to serve the customer, but banking is a service industry
- Stockguard is the new approach towards full service: the first interactive portfolio advisory service provided solely via the World Wide Web. Stockguard monitors individual portfolios on a daily basis, observes market activity and relate these to customer needs and draws conclusions and relays these to the customer
- The product is the advise not the transaction, is aimed at active investors and sold for EUR 6 per trading day
- Experience: Not only income stabilized in weak markets as advice was sold on a subscription basis; through active advice portfolios became active (turnover increased from 1.6 to 2.4); performance improved, advisory risk decreased (everything is documented)
- By using the internet exclusively the bank was able to maximize profitability per advisor (250 portfolios/advisor; aim is to have homogenous portfolios); initial acquisition through newsletters, now through word-of-mouth

Conclusion: By selling the advice first the bank quadrupled its income stream from commissions

Quotation:
«We only guarantee that we care, and consumer loyalty is immense»

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- **Asset Management 2006**, Trends and developments in Switzerland, 21st November 2005, Credit Suisse Communication Center, Zurich (conference is held in German)
- **TRUSTS**, The Hague Convention and its implications for Swiss Banking, 7th December 2005, Swissôtel, Zurich (conference is held in German)
- **Basel II**, Best practices in the implementation of Basel **II**, 7th December 2005, Renaissance Hotel, Zurich (conference is held in German)
- **Customer Acquisition & Retention in Private Banking,** 25th January 2006, Renaissance Hotel, Zurich (conference will be held in German)

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