Neue Zürcher Zeitung

Special Print from “Neue Zürcher Zeitung”,
Tuesday, May 16, 2000, No. 113,
Supplement Private Banking, p. B19

Translated from German

True to the Client and True to Oneself

Do the Horizons of the Client and the Banquier match?

Hans-Rudolf Schmid*

The author of the following article likens the banquier‘s work to the one of a bridge-builder. Trust based relationships are essential to preserve a long term horizon. The banquier must focus on the ultimate interest of his client (Editor).

At the high end of the market for wealth management the banquier seeks to be close to his client in wealth related affairs. What matters most in this quest is the banquier‘s own horizon. Two questions arise from this. First, wich meaning of horizon is used here? A narrow or wide horizon can be applied to diverse areas such as geography, economy, society, culture, psychology and to the axis of time. In the context of the preservation and accumulation of large fortunes the time related horizon is of special importance: looking back there is historic evidence; looking forward one must deal with the lack of knowledge. A long historic horizon and a wide horizon in other areas are valuable tools for those who are interested in the long-term future. Second, why is the focus on the horizon of the banquier rather than the horizon of his client? It is the horizon of the first that is primarily in jeopardy.

About the Hare and the Tortoise

The client who is of interest to the banquier has a natural bias towards a long horizon. His or her fortune is sizeable compared to future charges for consumption and other cash disbursements. Typically, the client acquired his wealth through work or by inheritance and feels responsible for it. He wants his wealth to be taken care of for generations to come. Yet, even this client is exposed to temptations which in effect shorten his horizon. Borrowing from Aesop‘s world of fables, the advantage of the hare over the tortoise often seems to be all too compelling. Yet, the basic interest of the truly wealthy person is to win the marathon rather than the dash – and, according to Aesop, the victory in this discipline goes to the tortoise.

On the side of the bank it is plainly more difficult not to lose sight of the client‘s long horizon. A typical bank employee is not, but would like to become wealthy in his own right. He or she is often exposed to strong incentives towards maximising the bank‘s profit in the short term. A deviation from the norm may cost him his career. Placement power and quarterly performance are rewarded. Instead of using his own and independent value judgement he is likely to succumb to the all-powerful pressure to track an index or some benchmark. He can barely afford to buck a fashionable trend which is expected to drive market prices for a few quarters. The indisputable advantage of a short-term orientation is the measurability of its results. It is in the nature of things that a long-term approach eludes quantitative accountability for a long period of time. What remains is the qualitative assessment and, with this, personal trust necessarily moves to the heart of the relationship between the banquier and his client.

Three Challenges

The bank that wants to remain a private bank is facing the following challenges:

1. The banquier dedicates himself to his client’s core needs in the realm of finance. He assists his client in his endeavour to give a face to his fortune. He advises his client on what he should hold and how he should hold it. The “what” is the portfolio management, and the “how” is the administration of structures such as trusts and also the rendering of family office services. The client demands change over time with shifting threats and progress. The banquier has to adapt his services accordingly. During the depression

and the ensuing World War II the fear of losing everything was paramount. To shift assets to a safe haven had priority. The seventies brought inflation and increasing tax burdens. The preservation of real values became the main concern of the wealthy. Over the last twenty years the client has become more demanding as financial markets experienced a development which over all was extraordinarily benign. Due to technological progress information evolved from a scarce commodity to a surplus good. Today, the client's chief concerns are adequate appreciation of his wealth and guidance in information processing. The ability to build and maintain emotional bridges from the client to what he owns is an important key to success.

2. A private bank must strive to breed banquiers who "live" the long term horizon and are thereby able to see beyond their own interest the well-understood interest of their client. These individuals have an independent mind and cannot be chained to the bank. They stay with the bank if the culture of the house is healthy and strong. The independent judgement of the banquier shall be schooled and tested for a string of years. He shall be given the opportunity to develop his abilities to the full in the lap of the bank. Leadership is provided essentially by way of personal example set by the bank's culture carriers - mostly senior banquiers. Internal control is informal and personal. Purely quantitative control instruments are just as insufficient as they are between client and bank. In general, the financial industry does not show much respect for the finer points of this process towards higher maturity. The trend towards industrialisation in private banking has an impact on the labour market, and increases the challenge for every private bank committed to the long term view. The bank which masters this challenge will meet growing demand for its services.

3. A private bank must organise itself so that it can deliver the discussed content on a continuous basis. Most importantly top management must be personally involved in the investment process and must personally carry client relationships. Internal management responsibility must not absorb more than one third of its time. Furthermore, the organisation – in particular at the front – must be flat. These two elements assure that the individual banquier is not administered but led. They make clear that his need for far-reaching autonomy with respect to his client specific investment behaviour is understood by top management and anchored on this level. As there is no multi-layer hierarchy, formal career opportunities are limited. The banquier grows with his clients and stays with them ideally until his retirement.

There is an important constraint associated with these organisational elements. They limit the size of the bank in terms of head count. Following these principles one can only lead approximately two hundred people. The business is not scalable and therefore hardly interesting from an industrial point of view. In this light acquisitions and mergers appear to be problematic. Often they are an imposition on the clients who are transferred without being consulted. Grown cultures on either side of a transaction are changed abruptly. Another important rule is that the banquier should only serve a limited number of clients. If he is serious about his bridge building effort he invests part of his time in the development and examination of his own convictions and is committed to a time-intensive exchange with his client. As the number of clients grows, he quickly exhausts his capacity and his relationship with the individual client is weakened. It becomes increasingly difficult to nurture the trust needed to maintain a long term horizon. The question may arise how growth can be achieved while observing these principles. The answer lies in the size of the individual client.

Clarity and Simplicity

The bank's stability is just as important as the mastering of the discussed challenges. Ownership and strategy of the private bank shall be clear and simple. Uncertainty due to a sudden shift in power tends to unsettle or even discourage banquiers and clients alike. Their strength to maintain a long term horizon is thereby eroded. Of course, a private bank may be active successfully also in other investment banking areas. It may trade securities, advise companies on capital market related issues, or offer a range of investment products. However, it must not forget the essence of private banking, if it is committed to remaining a private bank.

* Dr. Hans-Rudolf Schmid is
Member of the Executive Committee of
HSBC Guyerzeller Bank AG, Zurich.