

Private Banking:

The Privilege

It may seem silly to say that not everyone can have a private banker. Obviously, such things cost money, and not everyone can afford the cost. More to the point, as in all services that are founded in privilege, if everyone had access to private banking services, then the lack of exclusivity would vitiate the desirability of the services anyway. In this way exclusivity and the privilege of wealth reinforce each other, as they have done from time immemorial.

Value for Money?

If you subscribe to a private banking service; what do you get for your money? The answer can be as various as the question; private banking can be dispensed by international giants or by small but sophisticated units - your money; your choice. There are advantages both ways; a large multinational bank can offer service units in many jurisdictions, it can offer plush premises at home, and it can offer dedicated counselling.

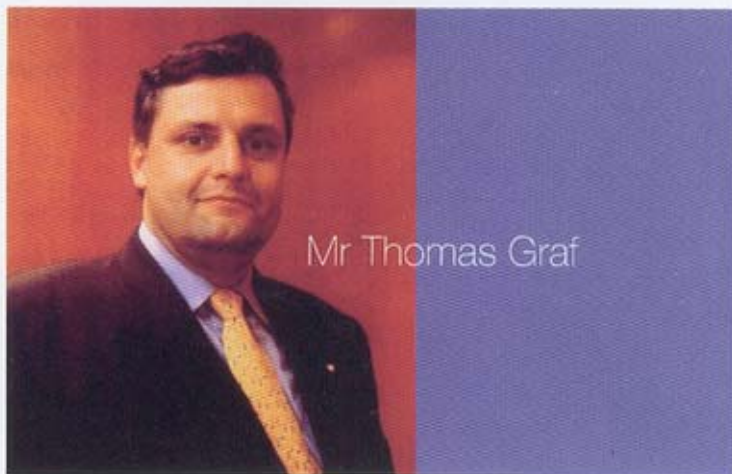
Aye, but there's the rub. However dedicated that counselling may be, it cannot be wholly so. You can't take the multinational out of the national. The choice comes down to dealing with an individual or dealing with various individuals. At the end of the day, most people who can afford it prefer a cosy and very personal relationship with the same people all the time, and they prefer that those people know all about their business. This formula is hard to find in a big bank, so small is once more beautiful.

What services can one expect to be offered? Firstly and most importantly, one will be offered an expert financial counsellor. This is where the trust comes in. This individual (or team) will be responsible for maximising several things; gains on your investment portfolio, the best possible deal in terms of estate planning and trust fund initiation...and your own comfort and sense of security. The adviser will also be responsible for minimising your tax liabilities, making sure that probate situations are moved in your favour, ensuring that all financial arrangements are worked out for housekeeping, travel, schools and so on.

In short, a private banking arrangement can make your life easier in general, and help your financial affairs to prosper in particular. The general rationale behind the theory is that you would not perform your own surgery - you'd be mad to do so; no training - so likewise with specialised stuff like banking, where one mistake can undo much good.

Switzerland's Money-Mountain

One kind of privileged banking service is that which is offered by a private bank such as the Banca Del Gottardo. This is a Swiss bank, based in the Italian-speaking part of Switzerland, that has had - via its Hong Kong representative office - a substantial presence in Asia Pacific for more than two years.



The bank's main *raison d'être* in Hong Kong is to provide wealth management services – principally in the Eurozone and the US – to local people. In doing so the bank becomes a sophisticated device for choosing investment opportunities in other jurisdictions, the effect being to mitigate against any spiking in purely regional risk – such as we saw here in 1997 – by taking the investments onto a global plain, and averaging the risk against the rest of the world.

What could such a comparatively small organisation offer its clients in a world dominated by the big boys? Hong Kong-based Thomas Graf, chief representative of the bank here, explained more, "Private banking is very much a people thing, and it will always remain so. This means that relationships come before anything else. A high degree of personalisation is a prerequisite for a private bank." Actually, Mr Graf is a very smooth operator, and what he's *really* saying here is that his bank is a very exclusive private club.

Understanding that, why should a client choose the Banca Del Gottardo as his or her special financial companion when many other banks, brokers and other advisers and intermediaries all want a slice of this business? One answer is that the bank is small enough that it can move pro-actively and fast, "Flexibility is very important," continued Mr Graf, "We are able to take a client's investments into any area he cares to choose. We can then follow through with multiple and sophisticated investment packages that would perhaps strain the abilities of a private or non-specialised office."

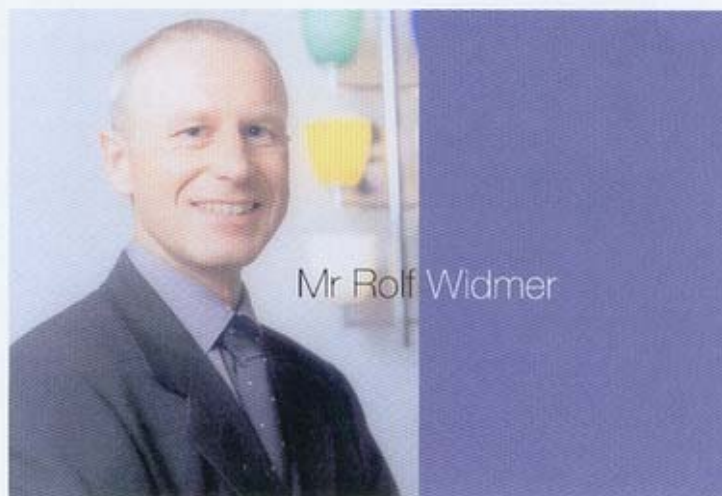
There is more; managerial autonomy and control are both truncated in favour of rapid response. Mr Graf again, "If I get on the phone to my boss in head office, and I get an authorisation from him to proceed in a certain direction, then I have full autonomy from that point on. That's because my boss is already a member of the Bank's executive board, a situation you wouldn't have in a larger, more hierarchical organisation."

What criteria define whether a client is acceptable? In other words: how rich? Despite direct questions, that information somehow never became available, and one might suspect that it never would, but then again Mr Graf does admit that his organisation is quite 'clubby', "Most of our clients come by word-of-mouth recommendations from existing clients. That means two things to me: one; it's an extremely cost-effective way of merchandising our services, and two; if a client recommends us to another, then obviously he likes what we have to offer, and what we've done for him."

However, the bottom line to this type of relationship is that trust is what matters, and although the bank can offer an unusually wide array of services such as tax planning, trusts, whole estate planning and so on, in the end – as Mr Graf is aware – it's the clients' irrational human feelings about their private banker that really count.

A Bank Fit for Princes

Of course, the Gotthard bank has its peers, and one such is the well-known LGT Bank in Liechtenstein. Founded in 1921, and largely owned by the princely first family of Liechtenstein, the bank opened its Hong Kong office in 1986, providing a highly personalised investment and banking service to individuals. LGT has a strong tradition of a discreet, disciplined and consistent approach to private banking.



"There is no investment bank behind us, whose recommendations we have to follow, or whose products we have to sell. Independent analysts over time have been shown to deliver better results, and that's something we subscribe to," says Rolf Widmer, the bank's senior representative in the Asia-Pacific region.

The current management team took over five years ago and has demonstrated its skill and tenacity by increasing the Asian assets under its management by more than 230 per cent and growing the client base by over 200 per cent during that time. Despite difficult market conditions in 2000 the bank continued to grow, adding an estimated 10 per cent to both assets under management and total number of clients.

The bank also responded to the volatile nature of the markets in 2000 by adopting a new investment approach, focusing on downside protection products, principally by

the use of an innovative risk management tool called 'shortfall risk', derived from modern portfolio theory.

These techniques obviously work because the strength of the bank has also been recognised by the rating agencies: in May 2000, Moody's Investor Service came up with an Aa3 rating for LGT and Standard & Poors rated it AA- in 1999. LGT, as Rolf Widmer proudly announces, is the only independent private bank with a rating from both agencies.

The Hong Kong office has developed a strong franchise among high-net-worth individuals. By focusing solely on private clients LGT is distinct in that it avoids any potential conflict of interest with possible affiliates and so is able to provide independent advice. In other words, the bank would rather deal with people than corporates.

Through its subsidiary, LGT Investment Management (Asia), the bank provides discretionary portfolio management services and active management advice. The best managers are sought in each asset class providing LGT's clients with a high standard of fund management. So the bank actually remains responsible for the actual strategy of asset allocation - but delegates by allocating funds to the best investment managers worldwide.

LGT's investment philosophy is one of very strong diversification across all asset classes. Taking bonds as one example, a traditional bond portfolio may invest in investment grade bonds, spread across various maturities, focusing on interest rate risk. Rolf Widmer sees things differently, "We look at bonds in a very different context. There are numerous types of bonds, such as mortgage backed securities, collateralised bond obligations, government bonds, emerging markets bonds, distressed bonds, junk bonds and so on. These are all bonds, but they all behave very differently," says Widmer. "so instead of a portfolio of double or triple A bonds, we also allocate money to maybe a distressed asset fund manager or someone who manages US mortgage-backed securities. The result is a broadly diversified portfolio with little correlation." This, of course, is another way of mitigating risk away from single sectors.

Responding to the recent huge wave of interest in alternative asset classes by high-net-worth individuals, LGT recently offered its Asian clients the strength of its European operation in the areas of hedge funds and private equity. In the first three quarters of 2000, the share price of LGT's Castle Alternative Invest AG increased by 27.8 percent. Its Castle Private Equity AG performed even better with an increase in share price of 67.8 percent.

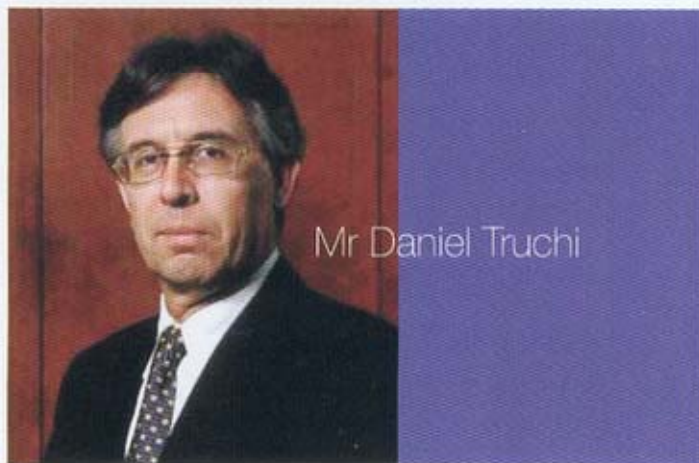
These are the sorts of reasons why the likes of Mr Widmer and Mr Graf will always have a powerful appeal to high-net-worth individuals; they can perform well, they can turn on a dime, and they can take the weight off your back. Not the overall responsibility and benefits of wealth, but the niggling day-to-day time-consuming problems associated with its management.

When Bigger can be Better

There is something to be said for banking with one of the big boys as well. They do have plenty of resources, often very specialised, and a high-net-worth individual going for this type of private banking option would very likely be from the company officer or entrepreneurial classes, and very much at home with sophisticated financial techniques.

M. Daniel Truchi, head of private banking at SG Private Banking (Asia Pacific), described how SG - a rapidly-expanding global bank with a strong regional presence and a Singapore base - sees the private banking universe. "First of all we really need to establish what exactly private banking is," he said, "and the answer is that everyone has their own definition. Every relationship is bespoke or tailor-made: no mass approach is possible. What we do in essence is to provide one stop banking for high net worth individuals who probably want to have access to global products. We do this in a personalised and individually tailored manner."

How is it a challenge for a bank to provide these services? M. Truchi again, "Firstly, there is a need to provide dedicated services for individual requirements. Such a service may be simple, or it may be quite tricky to create, but what is important is that the customer - through the single window of his customer relationship officer - can access the financial technology, expertise and research that we can



offer. And this expertise doesn't come out of nowhere; it's the result of massive investment and the painstaking collection of the best skill sets. Through the application of this expertise an individual client can access all markets and all instruments."

This is where SG – part of the France-based world-spanning Société Générale banking operation – scores over its smaller cousins, because SG itself is recognised as one of the top ten equity houses in Asia, offering in-depth coverage of key sectors and markets, and a complete range of innovative and integrated services ranging from equity advisory to sales, distribution, and trading through a network of local stock exchange memberships.

Further, SG is also one of the largest issuers of derivatives products in Hong Kong and a world leader in equity derivatives. "We can offer third generation derivative products," said Truchi, "and this is something that we have changed and improved over time; these are superb instruments that can give performance as well as capital production."

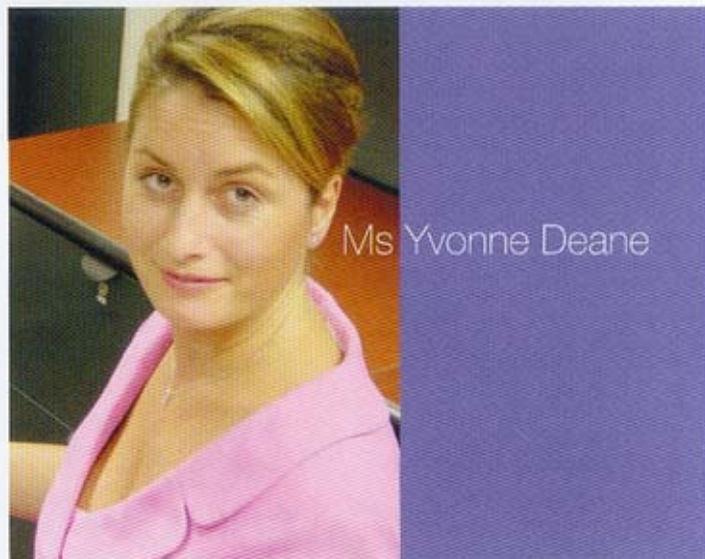
The company also offers the in-house SG Trust (Asia) Ltd, a licensed Singapore public trust company, it is wholly-owned by the SG Group and has wide banking and trust experience as well as strengths in the fields of law, and corporate and investment banking. These are the types of areas where larger operators such as SG banking are able to offer more services (and more sophisticated ones, at that) from within their own resources.

Keeping the options open

There is a further option, and it's one that is appealing to increasing numbers of internationally mobile Hong Kong professionals, and that is going offshore. Yvonne Deane is the newly-appointed general manager, Asia, of Abbey National Treasury International Ltd, the Hong Kong representative office for Abbey National Offshore, a Jersey-based offshore bank.

Deane is currently re-packaging financial products which were initially tailored to the requirements of expat workers, but which have found a surprising resonance with some Hong Kong professionals who are principally seeking a flexible international banking service.

Deane explains, "We can offer a client several things. Firstly, an efficient international banking service with a flexible suite of account options. This is headquartered in Jersey, where the final disposition of any tax liability is the responsibility of the account-holder. As well as these services



we can also offer complete peace of mind because all of our offshore assets are guaranteed by Abbey National plc, an AA-rated British bank that has been around for more than 150 years. Finally, comes a very important and straightforward point: our interest rates are among the best in the business."

Deane's slightly wry delivery neatly underlines Abbey National's value-for-money strategy. A lot of people – many of who move around a lot – don't really need anything too fancy in the way of banking. Multi-currency multi-channel access is important to these independent and active people, and so is the final choice of disposition of their assets. What they do want for such a comparatively straightforward service however, is the best possible price.

On this score, Abbey national does well. Interest on GBP100,000 deposited with the popular card-bearing 'Offshore Gold' account – which also offers checking accounts in up to three main currencies, the Euro, the US\$ and Sterling – has been mounting at an annualised AER (annual equivalent rate) of 4.32 per cent. GBP 1 million placed on deposit with the similarly-popular 'Offshore 180' 180-day notice account yields an annualised AER of 5.20 per cent.

Abbey National Offshore has an international network of representative offices in the Isle of Man, Gibraltar, Dubai, Portugal and Hong Kong, and also specialises in raising mortgages in the UK and Iberia. Here too, Yvonne Deane maintains interest rates are more than competitive with Abbey-arranged Sterling and Euro mortgages available at very favourable rates.