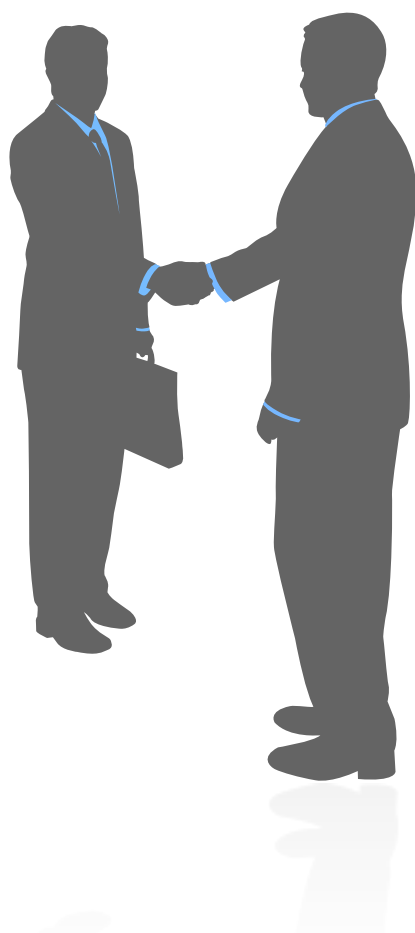




A Comparison of Advisory Processes in Private Banking

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Content

Advisory Processes in Private Banking..... 3

What is an advisory process?.....3

Bank first or relationship manager first?4

Comparing six advisory processes..... 5

Conclusion..... 8

About Arvetica..... 13

Advisory Processes in Private Banking

An increasing number of banks spend substantial amounts of money to define, implement and advertise advisory processes. Yet, some banks seem reluctant to the very idea of having a single bank-wide advisory process and will probably never follow that trend. Why is that? For what reason do some institutions put so much effort into defining and rolling out advisory processes, while others do not bother?

This whitepaper is a brief introduction and comparison of advisory processes in private banking. First, it describes what they are and what they aim for. Second, it provides a high level overview of the advisory processes of six banks, which are publicly available in marketing brochures or from conference presentations.

What is an advisory process?

Managing client relationships in private banking is not an easy task. Following clients through all stages of their financial life, accommodating to their changing needs, family issues and business concerns are complex tasks. This explains why advice in private banking is increasingly referred to as an art, the “art of advice”. However, to think of advice solely as an art offers limited improvement and growth perspectives for financial institutions. Many of them look at advice as both, an art and a process, similar to the investment process. In general, a process is a way to organise, structure and to some extent standardise activities. An advisory process is simply the process focusing on client-facing activities of a private banker or relationship manager. What does that exactly mean in a private banking context? Can a relationship between a client and an advisor be standardised? And with which advantages?

In his book *The Wise Advisor*¹, Jeswald Salacuse describes the seven typical steps of a successful advice process:

1. Get to know your client
2. Define the problem
3. Determine your client's objectives
4. Identify the options
5. Evaluate the options
6. Decisions by client on a course of action
7. Assess the results

According to Salacuse, whether buying a car, asking a doctor, a lawyer or a banker, the process of giving advice is fundamentally the same. Furthermore, advisors who share their process with their clients will

¹ Salacuse, Jeswald. *The Wise Advisor*. Praeger, 2000

achieve better results. If clients understand the advice process, they are in a position to provide a greater contribution to the solution. Let's have a closer look on how banks structure these typical advisory steps.

Bank first or relationship manager first?

Wealth management firms, especially after they reach a certain size, demonstrate a lot of interest in articulating and implementing bank-wide advisory processes. However, this is not the case for all banks. There are two fundamentally opposed schools of thought: (1) Institutions where banks and their brand predominate, we call them *Bank First* (BF) and (2) institutions where relationship managers and their relation with clients predominate, we call them *Relationship Manager First* (RMF) (Figure 1).

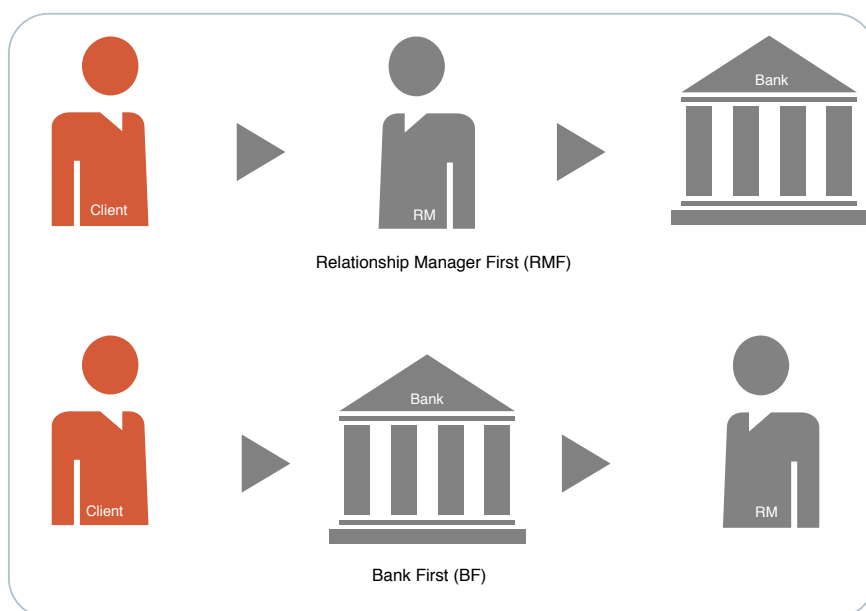


Figure 1: two client ownership models

Typical RMF institutions, such as, for example, EFG International, consider that advisors are the real owners of a client relationship (similar to independent asset managers). They don't want to interfere with clients and relationship managers. They allow them a certain freedom to run their business within reasonable and legal boundaries. The purpose of RMF institutions is to make a banker's life as easy as possible and allow his client relationships to flourish by removing or at least limiting all unnecessary irritations from his daily business (e.g. bureaucracy, sales targets, internal politics). In such a context any attempt to standardise an advisor's behaviour is likely to be counterproductive. As a result, RMF institutions let their relationship managers organise their approach to advice on an individual basis.

On the contrary, when a prospect meets a banker from UBS or Credit Suisse, two typical BF institutions, he will be presented with exactly the

same advisory process throughout the bank's global presence. BF institutions consider that their institutions own the client relationship and not the advisor. The latter is seen as an ambassador of the brand. Because these banks want to offer the same brand experience across their institution, they define how things should happen at the client front.

BF institutions standardise parts of their client-facing activities through bank-wide advisory processes for the following reason:

1. To create the same *bank-wide private banking experience* in which the relationship manager is an executor of the bank's brand image and in which the *client relationships belongs to the bank*
2. To *raise the average level and quality of advisory skills* among relationship managers within their (usually large) institution by *standardising certain activities*
3. To establish a *common language, approach and ways of working* throughout the institution

Whether advisory processes help BF institutions achieve these goals depends on how effectively they manage the implementation of bank-wide advisory processes. There are many obstacles to that, for example, to change people's behaviour they have to receive clear messages from the top, relationship managers have to commit to the new rules, compensation models have to be aligned and new support tools have to be implemented to assist RMs during the different steps of the advisory process.

Comparing six advisory processes

Those banks that have implemented an advisory process largely advertise it in their marketing material. So what does an advisory process look like in private banking? How do they compare among the different banks?

To describe that we analysed the publicly available descriptions of six advisory processes of six different wealth managers (cf. originals and sources, which are available at the end of this article). These processes are all from banks, which we consider being BF institutions. Figure 2 compares their advisory processes according to the 7 generic steps of an advice process described by Salacuse and outlined previously. The steps are regrouped in four high-level categories, which are "understand", "define", "implement" and "control".

		BERENBERG	CLARIDEN LEU	CREDIT SUISSE	PICTET	UBS	VONTOBEL
Understand	1. Get to know your client	Analysis >	Client needs > Investment profile >	Needs analysis > Financial concept > Investor profile >	(Analysis) Analysing tax and financial circumstances > (Safe-guarding and growing assets) Financial planning >	Understand >	Clarify needs > Collect data >
	2. Define the problem						Prepare personal analysis >
	3. Determine your client's objectives						
Define	4. Identify the options	Strategy > Tactical allocation >	Investment proposal >	Investment strategy >	Investment strategy > Investment proposals >	Propose >	Define detailed strategy >
	5. Evaluate the options					Agree and implement >	
Implement	6. Decisions by client on a course of action	Realisation > Control	Portfolio management	Implementation	Managing the assets >		Implement measures >
Control	7. Assess the results				(Control) Reporting	Review	Regularly review strategy and measures >

Figure 2: overview of six advisory processes in private banking

The advisory process of UBS focuses on *activities* and strongly differs from others. None of the terms used directly relates to financial issues or investment technicalities. Activities are described at a more abstract level by using verbs like “understand”, “propose” and “review”. UBS tells a story from a *client* and *relationship perspective* by using a *sequence easily understandable* by both, clients and relationship managers. The advisory process of UBS is clear, concise and very well articulated. This is particularly appropriate for developing *large-scale understanding* and *fostering new behaviours*. Investment technicalities are hidden at lower levels and the steps of the advisory process are described by using situations a person can directly relate to: my financial advisor listens, proposes, etc. That demonstrates a consistent effort to communicate using the *client perspective*. Of course one could also argue that such an approach is too generic and does not communicate banking expertise at first sight.

Credit Suisse describes its advisory process by using *sequential outcomes* such as “needs analysis”, “financial concept” and “investor profile”. Except for the last step, which is not an outcome but a *phase* labelled “implementation”. The approach of Credit Suisse's is more *banking-specific* than the one of UBS. It provides a closer description of advice in a banking context. Each step is briefly described using both

the client's (you) perspective and the bank's (we) perspective. Similar to UBS, Credit Suisse stresses its client focus by visually representing *client needs* at the centre of its process. Being banking-specific has a great advantage over being generic, because it makes things more concrete. Yet, there are also drawbacks. For example, steps are more difficult to understand and remember for potential clients unfamiliar with the private banking and investment terminology. Particularly the second step, labelled "financial concept", remains relatively vague without further explanations.

Likewise, Vontobel, Clariden Leu, Pictet and Berenberg have also chosen a banking-specific approach vs. UBS's more generic approach.

Vontobel's process we came across was most likely developed for *internal use*. The steps of their advisory process are described by using *activities* to be performed by relationship managers, such as "collect data" or "prepare personal analysis".

Clariden Leu describes three straightforward *outcomes* ("client needs", "investment profile" and "investment proposal") in its advisory process and one *activity* ("portfolio management"). The four steps of their process are clear although the description in their client brochure remains without further explanations beyond the mentioning of the 4 steps.

Berenberg depicts 5 *high level phases* ("analysis", "strategy", etc.) and visually integrates the *roles* of both, the client's and the bank's perspective. Both perspectives are represented on the same diagram (cf. originals and sources, which are available at the end of this article). Unfortunately, the visual representation is puzzling and not as self-explanatory as UBS or Credit Suisse's advisory wheels.

Similar to Berenberg, Pictet's process is a mix of three high level phases ("analysis", "safeguarding and growing assets" and "control"), which each contain one or more outcomes (e.g. "investment proposals") or activities (e.g. "managing the assets"). This alternation of activities and outcomes makes the process more difficult to remember. The content is also surprising. While all banks initiate their advisory process by an open initialisation step ("client needs", "understand", "needs analysis", "clarify needs"), Pictet narrows it to "analysing tax and financial circumstances". It seems as if they wanted to differentiate from their competitors on that particular point. Yet, clients have multiple other reasons to engage in a relation with a private bank.

Conclusion

To summarise, there are two competing approaches in defining what happens in (investment related) client facing activities in private banking: (1) *Bank First* (BF) and (2) *Relationship Manager First* (RMF).

For RMF banks (e.g. EFG International) any attempt to standardise relationships are likely to be counterproductive. Relationship managers enjoy a freedom within reasonable and legal boundaries to structure and manage their client relationships on an individual basis. On the contrary, BF institutions consider that the institution owns the client relationship rather than the advisor. The latter is considered an ambassador of the bank's brand. These institutions define a bank-wide advisory process and cascade it throughout their entire organisation in order:

1. To create the same *bank-wide private banking experience* in which the relationship manager is an executor of the bank's brand image and in which the *client relationships belongs to the bank*
2. To *raise the average level and quality of advisory skills* among relationship managers within their (usually large) institution by *standardising certain activities*
3. To establish a *common language, approach and ways of working* throughout the institution

The advisory processes outlined in this paper are approached from *different angles* (Figure 3). They are either more generic (UBS) or more banking-specific (all others). Some focus mainly on activities (UBS, Vontobel), others mainly on outcomes (Credit Suisse, Clariden Leu). Finally, there are banks that prefer to articulate steps in multiple dimension and high level phases (Pictet, Berenberg).

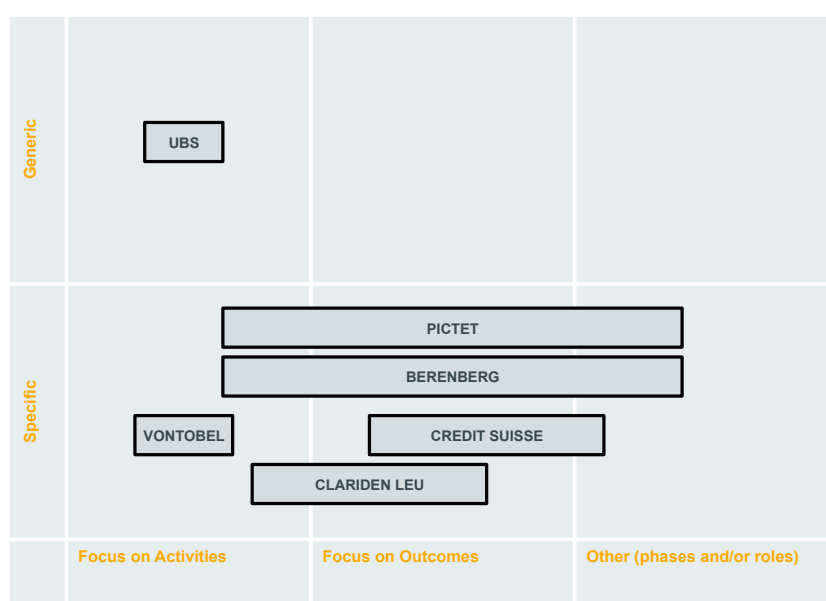


Figure 3: high-level comparison of advisory processes

Advisory processes are by nature tools that aim to structure and increase *mutual understanding* between clients and relationship managers over time. Whether these tools are useful to a bank depends on the *size* of an institution, its *culture*, its *people* and the *conditions* in which they are deployed. Nevertheless, whatever the context, a *sound design* of an advice process is a very important factor to foster its adoption. Elegantly designed and self-explanatory processes have a greater advantage over complex ones. The same applies to advisory processes in private banking, some are more self-explanatory and elegantly designed than others. They are easy to understand and easy to remember because they use a consistent wording, clear visual descriptions and they do not alternate dimensions. In that regard, we think UBS has done an excellent job in designing its advisory process.

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Advisory processes

Berenberg

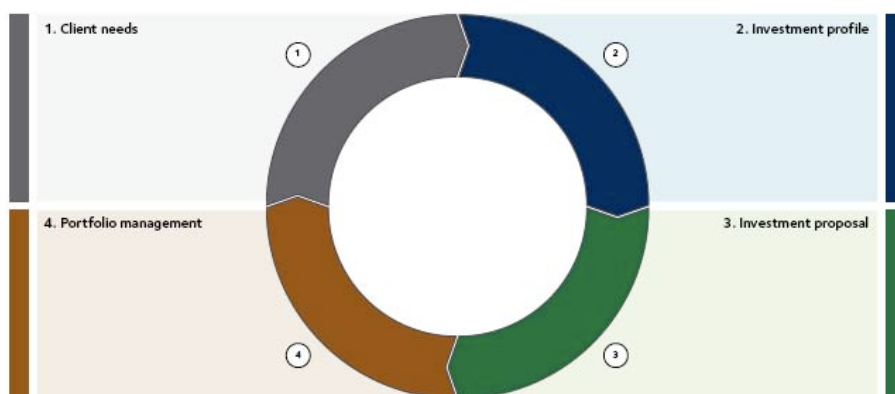
Meeting Customer's Expectations

Privatbankieren seit 1826 gegründet 1826
BERENBERG BANK
Joh. Berenberg, Gossler & Co. AG



Source: 6th Private Banking Summit, September 2007, Zürich

Clariden Leu



Source: Clariden Leu marketing brochure

Credit Suisse

The Credit Suisse advisory process in Private Banking Five steps to security and prosperity

1. Needs analysis

An analysis of your needs and objectives sets an initial framework for the advice we provide.

5. Implementation

Credit Suisse Private Banking provides professional support in implementing your selected strategy and managing your assets.



2. Financial concept

We use the results of the needs analysis to compile a personal financial concept together with you.

3. Investor profile

Get to know your personal risk profile in order to make investment decisions that are best suited to you.

4. Investment strategy

Taking your investment profile as a basis, your personal advisor will develop the right strategy for you.

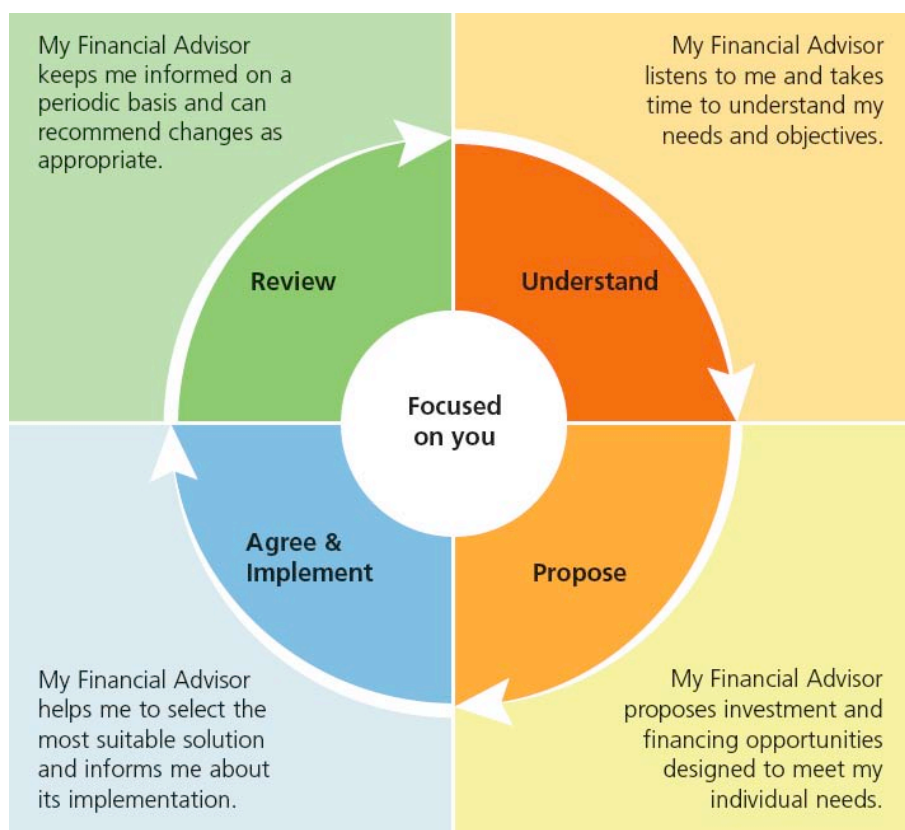
Source: Credit Suisse marketing brochure

Pictet



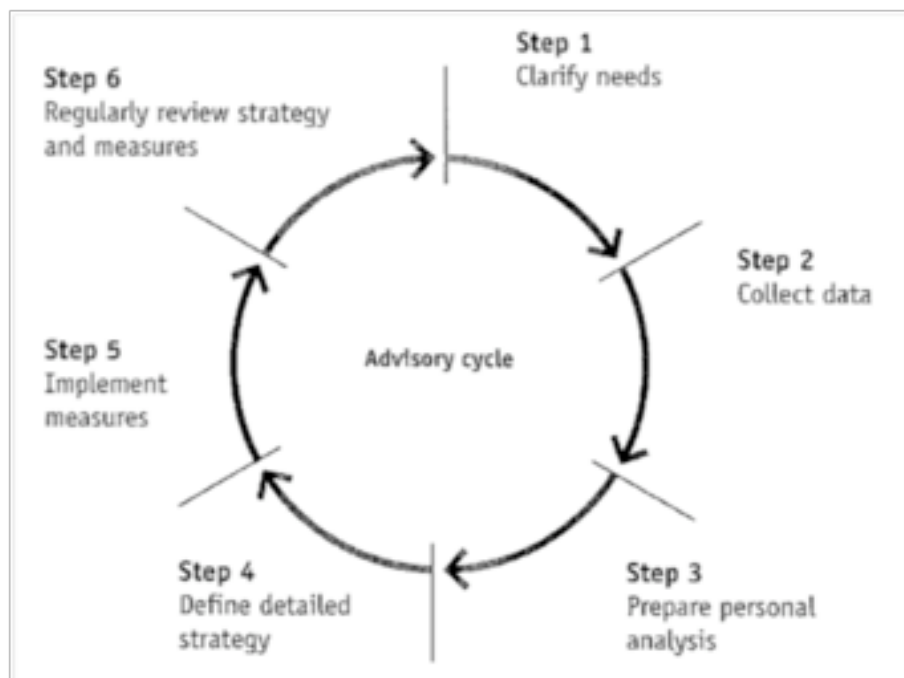
Source: Pictet marketing brochure

UBS



Source: UBS marketing brochure

Vontobel



Source: 6th Private Banking Summit, September 2007, Zürich

About Arvetica

Arvetica was founded in 2005 in Geneva, Switzerland: the heart of Swiss private banking. Our focus is strategic management in the private banking and wealth management sector. We help our clients to identify, implement and manage projects with the goal of achieving competitive advantage.

Our team issues from the world of private banking and assembles a range of skills and international experience covering strategic management, project management and scientific research.

Our name takes its roots from [Arte]:[Helvetica], bringing together the art of innovation with the Swiss values of precision, reliability and quality.

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