HELP! I'M RICH

YOUR COMPASS TO A VALUE-ADDING PRIVATE BANKING EXPERIENCE

KEES STOUTE

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Contents

Foreword

"You don't know who is swimming naked until the tide goes out." The truth of this famous Warren Buffett phrase became painfully clear during and immediately after the financial crisis in 2008. To a large extent, private banking had evolved into a sales industry. To drum up revenue, private bankers were instructed by their managers to sell. Targets and *key performance indicators* (KPIs) drove the business—not clients.

As long as the markets went up, nobody questioned this and it did not pose a serious issue. Almost every product seemed to perform well, so who cared whether clients were properly advised?

Then the tide went out. Most of the bankers who had sold the products were nowhere to be found and their clients were left behind.

Disillusioned

It appeared that many of the loss-making investments in clients' portfolios should never have been recommended in the first place. The public was incensed. The assumed duty of care was sacrificed for the desire to increase revenue. The verdict: Hang those immoral and greedy bankers out to dry.

This might seem somewhat exaggerated but it was, in a nutshell, the post-crisis sentiment. Apart from the fact that the entire financial system seemed on the verge of collapse, public faith in the integrity of the industry dwindled, reaching a historic low.

That triggered regulators from all over the world into corrective action. The credibility of the financial services industry needed to be restored. The banks had created a mess and now it was up to the regulators to sort things out and make sure that history would never repeat itself. In fairness, most banks took responsibility for what happened and initiated programs to improve the situation. A commitment to increasing *quality* and *integrity* levels resulted in myriad new regulations, rules, guidelines, policies, procedures, and so on.

However, the combination of a highly skeptical public and a never-ending stream of new policies, no matter how justifiable, affected morale in the industry.

Adding Value

For any service to be *value adding* at least two conditions need to be met:

1. The service provider must have an unwavering belief in the added value of its own service offering, as demonstrated through a high level of passion.
2. The service recipient must have an open, welcoming, and inviting mindset.

When we look at the private banking industry we still fail, generally speaking, to be confident that both conditions are met. That creates a serious impediment toward the development of a truly value-adding industry. It is mainly a shame because this situation deprives high-net-worth individuals (HNWIs) of the support that the industry is capable of offering in managing and organizing their wealth.

Private banks employ many high-level professionals who have what it takes to alleviate the typical wealth-related concerns that trouble the rich. It is often sad to see so much of that talent go to waste due to a lack of faith among clients and lack of motivation among the providers.

It is first and foremost in the best interest of HNWIs that the value-adding potential of the industry gets unlocked. Most rich people *need* professional help to address specific concerns. Regulators and banks need to continue to work hard to restore trust in the industry. A lot has been done, but a lot more is still required.

However, as outlined by Kees Stoute in this book, the rich also ought to play a constructive role. By increasing their knowledge of what to expect from their private banker, clients not only increase their own level of trust in the industry, but further boost the morale of the true professionals working within it, and thus contribute to the further development of a value-adding private banking industry. As the rich stand to gain the most from this, it would be time well spent to read the insights in this book.

What I particularly like about this book is that it is primarily targeted at private banking clients, even though the ulterior intention is to contribute to increasing the added value of the private banking industry as a whole.

It is difficult to find a better professional than Kees Stoute to produce this book. With over 20 years of experience in the private banking industry, 12 of which as CEO for MeesPierson Asia and EFG Bank in South Asia, respectively, he is an industry veteran. Through his input at the Private Banking Industry Group—a consultative forum that was established by the Monetary Authority of Singapore (MAS)—his frequent and active participation in seminars and conferences, as well as his written contributions, Kees has consistently displayed an outspoken and passionate drive to contribute to the improvement of the quality and credibility of the industry as a whole, not just the institutions he has worked for.

In Singapore, Kees also became a strong advocate of the Financial Industry Competency Standards (FICS), which in 2011 led to EFG Bank Singapore attaining the FICS Inspire Special Mention Award at the IBF FICS Annual Conference. Kees himself became one of the first in Singapore to be certified as Financial Industry Certified Professional (FICP Role Model 6).

This dedication gained him an enviable reputation among former colleagues and competitors alike. We were honored to present Kees in 2012 with the inaugural *Hubbis Recognition of Excellence in Asian Wealth Management Award*.

His mission to contribute to the overall good of the industry has been further invigorated since he founded Sonam, a private banking training and consultancy firm, culminating in this book.

I recommend this book to every rich individual who needs help managing and organizing his or her wealth, but whose skepticism toward the value-adding potential of private banks forms an obstacle to seeking professional advice. As it sets a benchmark for the private banking industry in a way, this book also deserves a position on the shelf of highly recommended books for private banking professionals.

Michael Stanhope
Founder and Chief Executive Officer
Hubbis
June 2014

Acknowledgments

The idea for this book was born during one of the wealth management courses that I conducted for children of clients of a private bank. Each of them, ranging in age between 19 and 27 years old, is destined to lead a wealthy life. This course made me realize one important lesson: Thanks to the basic knowledge these children gained about wealth management and, as a consequence, the higher level of appreciation for the potential added value of a private bank, they will in future be able to extract maximum value from the relationship with their private bankers.

True *private banking* is not about selling financial products to the rich; it is about addressing concerns and solving wealth-related problems. That is precisely what makes private banking such a fulfilling profession. With the current levels of skepticism toward the financial industry, it is more important than ever to emphasize this message: Private banks add real value. I am not saying this out of sympathy with the private banks, but because I believe that ignoring this message may lead to missing out on experiencing this added value for the wrong reason (i.e., ignorance).

As I said, to really benefit from a relationship with a private bank it is important to obtain a basic level of knowledge about private banking.

That is the premise behind the wealth management courses for the next generation wealthy that I deliver and that is the premise behind this book. As such this book intends to serve as a compass to value-adding private banking, simply by enhancing the level of knowledge to serve as foundation upon which a healthy and enjoyable relationship with a private bank may develop.

This book would not have been possible without the help of many individuals. First, I would like to thank my wife, Priscilla Teoh, who not only supported and encouraged me throughout the entire process, but also designed the concept of the cover of this book. Second, I'd like to thank my brother, Marco Stoute, for adding the light touch to the book in the form of cartoons. Third, I am grateful to Hubbis, and then in particular to Michael Stanhope and Andrew Crooke, for their invaluable input and support. Furthermore, I would like to express my gratitude toward the various Wiley professionals who have guided me throughout the process, ultimately leading to the production and distribution of this book. And obviously I wish to thank the industry specialists and friends who in one way or another contributed to the content of this book: Gosse Bosma, Mark Bouw, Bart Deconinck, Hugh Ellerton, John Grist, Eduard Holtz, Sander Maatman, Hélène Van Meerbeek, Yorgos Mersinis, Harmen Overdijk, Pieter van Putten, Peter de Ruijter, and Jeroen Stuart. Even though they have been a tremendous help, it should be stressed that any errors in the text are mine. Finally, a big thank-you to my children, Carijn, Costijn, and Thijn, for allowing me to spend a large portion of what would normally have been "their time" on producing this book.

Kees Stoute

About the Author

Cornelis Johannes ("Kees") Stoute (Westbroek, Netherlands) is the Director of Sonam Pte. Ltd., which he established in 2012, focusing on private banking training and consultancy. Prior to that, he was the Managing Director of EFG Bank in South East Asia, which is the Swiss private banking subsidiary of EFG International, one of the larger pure-play private banking groups in Switzerland. Kees has a distinguished career spanning the academic, IT and operations, and private banking sectors, and has been based in Asia for almost 19 years, of which most of the time has been spent in Singapore. In 2011, he became one of the first in Singapore to be certified by the regulator in Singapore (IBF) as Financial Industry Certified Professional (FICP Role Model 6) and the inaugural winner of the Hubbis Recognition of Excellence in Asian Wealth Management Award in 2012.

Hubbis (Hong Kong) specializes in providing market practitioners in Asian Wealth Management with online content and training. The company provides various content, events, and consulting services to private banks, wealth management firms, product providers, and industry vendors. Their website, Hubbis.com, which has more than 30,000 subscribers, is a highly functional and relevant online content portal for anyone who wants to become successful in Asian wealth management. The site is mainly focused on developing people skills, product knowledge, and understanding of the business of wealth management in Asia.

Part One

INTRODUCTION

Help, I'm Rich! You might claim that this title does not seem to make much sense. Having money means being more independent. Being more independent means that you don't need to rely on others. So why send such an SOS to the world when you are rich?

As many rich individuals can testify, being rich comes with challenges—challenges that are very much related to and often caused by the very fact that you are rich. As most of these challenges are not unique, it makes a lot of sense to benefit from the good and bad experiences of other people who are in a similar situation.

Private banking is the industry that collates these experiences and as such has become specialized in helping the rich to address these many typically wealth-related challenges and concerns. However, for this industry to be able to deliver its value-adding potential, there has to be a firm trust base, and that is precisely what seems to be lacking to a large extent.

Apart from highlighting why and how private banks *should* add value to the life of the rich, in this introductory part of the book we elaborate on trust as well as on ways to develop trust. If you understand our view on how trust in the private banking industry can be developed, you also understand why this book has been written.

Chapter 1

Toward a Trusted and Value-Adding Private Banking Industry

Client skepticism toward the financial sector has reached an all-time high, while morale in the private banking industry has reached an all-time low. That has made it more difficult than ever for the private banking industry to offer a truly value-adding service.

As the rich are supposed to be the main beneficiaries of the impressive knowledge and professionalism in the industry, it is of the utmost importance that faith in the industry be restored quickly.

Regulators and banks are working hard to do their part to increase credibility. However, clients also need to play an important role as they stand to gain the most from a well-respected, professionally functioning private banking industry.

By proactively increasing their knowledge of the typical private banking service offering, they will understand much better what to expect and therefore will be better prepared to deal with a private bank in such a manner that they can get the most out of the relationship.

The areas of expertise where private banks typically add value are:

- Investments
- Credit
- Life insurance
- Wealth structuring
- Psychology of wealth

"Only three more levels, and I am done." Thirteen-year-old Tom is playing his favorite computer game. For the past two months he steadily worked his way up from level 1 to level 22. The game ends when the player successfully completes all 25 levels. Tom is excited. He is so close. None of his friends has yet reached this far. Imagine how cool it would be to reach the last and final level.

Two weeks later, Tom achieves the impossible. He is now officially a master of the game. With some smart moves and a healthy dose of logical thinking, he has conquered level 25. He feels proud of himself, and experiences a euphoric high.

Another week later, Tom feels a bit down. By successfully finishing his game, he effectively lost his favorite pastime. His feelings of pride and euphoria have given way to a sense of emptiness. The immense satisfaction of being the "King of the Game" lasted a remarkably short time. What can he do now?

This paradox of achieving a dream, followed by the realization that normal life then returns, is like a sobering hangover. Achieving a dream does not grant you eternal access to a dreamlike world. Instead, the bitter truth is that by achieving your dream you lose a source of inspiration.

Becoming wealthy is another such dream. To become financially independent and be able to do whatever you like appears to be a commonly shared goal. The entire lottery industry, for example, is built on this premise. But then, when one day your dream comes true, life goes on. More often than not we see how gradually the euphoria of financial success gives way to serious wealth-related concerns, worries, and even anxieties, such as:

- The fear of losing money by (over)spending, paying taxes, making the wrong investments, divorce, and so forth
- Being sure of having enough money to financially support you for the rest of your life
- The fear of looking or feeling stupid by missing out on obvious investment opportunities
- Transferring wealth and the business to the next generation
- Being able to raise kids in a way that they are inspired to live a purposeful life and are motivated to excel
- How to protect and keep up the reputation that has come with the wealth
- How to distinguish between real, sincere friends and phonies
- How to go about achieving philanthropic goals, being involved in charity in a "right" way, and making sure every dollar has the greatest impact
- Maintaining maximum privacy so as to avoid feeling uncomfortable when too many people know about this financial situation
- Theft, robberies, blackmail, kidnappings—the rich being obvious targets

Dealing with these and similarly difficult concerns is a consequence of being rich. To really enjoy your wealth and lead a happy, fulfilling life it is first and foremost important to make yourself aware of the concerns, worries, and anxieties that, generally speaking, come with wealth. And you will need to address the causes of the concerns, worries, and anxieties that keep you restless.

That is easier said than done. Fortunately, there is an industry specializing in addressing your wealth-related concerns: private banking.[1]

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[1] With *private banking* we refer in this book to *all* industry players contributing in one way or another to the management of the wealth of high-net-worth individuals (HNWIs). The most obvious players in this respect are private banks and independent asset managers (IAMs).

Over the years the private banking industry has built tremendous knowledge on every aspect of managing wealth. Based on experience with thousands of other rich families, it has the knowledge to help you protect, grow, share, transfer, and enjoy your wealth. Problem solved: For most of our wealth-related concerns, worries, and anxieties, there are private banking professionals to help you cope. They can help you to continue to live your dreams.

Or not: Haven't we learned from the financial crisis in 2008 and its aftermath that private bankers are nothing but "wolves in sheep's clothing"? To what extent can I genuinely trust that my private banker will help me to cope with my wealth-related challenges?

Shaken Confidence

The financial crisis has been explained by many critics: Encouraged by technological developments radically shifting the paradigm of efficiency and scalability, by a continuously increasing competitive environment, by a global trend to focus on profitability and short-term shareholder value, and by excessive bonus pay structures, the interests of clients gradually moved to the background, and in their place, unwarranted, irresponsible risks were taken instead. As a result, the entire financial system was on the brink of collapse.

It is not our intention in this book to explain the crisis. A lot has been said and written already. What is important to us is what the crisis meant for the clients of private banks.

Instead of the private bank being the safe harbor, the place to address the various concerns of HNWIs, the sector seemed to turn into a source of even more concerns and anxieties. How sure can you be that your bank has the ability to survive? How much can you rely on the advice of your private bankers? Are their recommendations serving their interests or yours?

We all know the stories. Take Mr. Melvin Connaly. In 2005, at age 68, he sold his company. He made US$3.5 million from the sale. He invested most of this money with his private bank. The bank then invested this in options and futures. The bank encouraged him to take a loan to be able to invest even more in these financial instruments. Mr. Connaly trusted the bank and followed the advice.

It took precisely four years for his money to evaporate, while the bank had made a few hundred thousand dollars in revenue from what were effectively gambling activities. Luckily for Mr. Connaly, the Court ruled in his favor and the bank had to compensate him in the amount of US$3 million.

Many Mr. Connaly–type stories have discredited the private banking industry. In addition, everyone knows about subprime mortgages, is familiar with Madoff, and has been shocked by the Libor fixing scandal. So how can we uphold trust in the financial sector?

In old movies, it might have appeared rewarding to rob a bank. Now that there is hardly any physical money left in the banks, the only way to rob the bank is through employment, it seems. The clients are merely sources of revenue: As a banker, the more you milk them, the more effective you are. By excessive focus on the upside, most bankers don't even realize how lethal their products might turn out to be for their clients. This pretty much summarizes the public sentiment toward private bankers.

The crisis, followed by all these kinds of stories and experiences, has severely undermined the confidence in the financial sector.

In an article published in the *Public Opinion Quarterly*, Lindsay A. Owens describes how confidence levels in the United States have plummeted, reaching levels that we have not seen in the past 40 years.[2] In 1970, approximately 40 percent of the respondents of the financial confidence poll indicated having *a great deal of trust* in the financial sector. This dropped to below 10 percent in 2011. The number of people with hardly any confidence in this sector increased from below 10 percent in 1970 to 42 percent in 2011. The article was written in 2011, three years after the crisis.

This observation is in line with the findings of the 2014 Edelman Trust Barometer, which refers to an annual trust and credibility review by research firm Edelman Berland.[3] Their trust index shows that globally,

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[2] Lindsay A. Owens, "The Polls—Trends: Confidence in Banks, Financial Institutions, and Wall Street, 1971–2011," *Public Opinion Quarterly* 76, no. 1 (Spring 2012): 142–162.

[3] "Edelman Trust Barometer," *Financial Services Industry Results, 2013 and 2014*, www.edelman.com.

roughly 50 percent of the people have (some level of) trust in the financial sector. It should be noted that among the various financial services sectors, financial advisory and asset management have the lowest scores, in some European countries even as low as 21 to 23 percent (according to the 2013 report).

Although the confidence problem does not seem to carry the same weight in every part of the world, the fact remains that according to the Trust Barometer the financial sector as a whole emerges as the least-trusted globally. That is not good, to put it mildly, for a business that more than any other sector should be based on trust.

No matter how self-inflicted this situation, the effects of low confidence are potentially harmful. Not only for those private banking professionals who work hard to make an honest living—which in our experience applies to the vast majority—but also for the clients (i.e., the ones who distrust the services).

What would happen if we didn't trust the legal system and as a result we created and enforced our own rules? Anarchy and chaos would be unavoidable. What would be the result if we didn't trust medical specialists and therefore resorted to self-surgery? Life expectancy would most likely plummet.

The same applies to private banking. If due to distrust of the banks and other service providers we decide to manage our own wealth, we demonstrate a risky underestimation of the value that a private banking professional can add. Qualified and sincere private banking specialists do actually add value. The many years of experience in managing and structuring wealth have taught us valuable lessons. Ignoring this added value is potentially harmful for your wealth.

We mentioned it already: Being rich comes with typical wealth-related challenges and concerns. Most of these can be effectively addressed with the help of experienced professionals. However, a fundamental lack of faith in the soundness and professionalism of the industry will raise an impenetrable barrier, effectively blocking the development of trusted relationships, thus suppressing the value-adding potential of such relationships. Clients will end up collecting ideas from various sources and then follow their intuition in deciding on a course of action, most likely at the lowest possible fee.

For the private banking industry to be able to unlock its full value-adding potential, confidence in the sector is a prerequisite. Current levels are too low. This not only is a threat to the professional standards in the industry, but also represents a serious risk to the financial health of the rich.

The key to success, which is in everybody's best interest, is to develop and maintain an industry that can be trusted.

Building Trust and Confidence

If we agree that trust and confidence are indispensable ingredients for a truly value-adding private banking industry to flourish, how, then, can we build trust to the required level?

Before we elaborate on this question, we first need to define the concept of *trust*. For that we refer to Maister, Green, and Galford, who define trust in their bestselling book, *The Trusted Advisor*,[4] as the result of credibility times reliability times intimacy, divided by self-interest:

$$\frac{\text{Credibility} \times \text{Reliability} \times \text{Intimacy}}{\text{Self-Interest}} = \text{TRUST}$$

1. *Credibility*, simply put, refers to perceived competence. Competence judgments depend on content expertise—qualifications, experience, and so on—and presence, meaning how we look, act, react, and talk about our content. An impactful way to convey credibility is to demonstrate that you understand your clients' needs better than they do.
2. *Reliability* is about whether clients think you are dependable and can be trusted to behave in consistent ways. Judgments on reliability are strongly affected by the number of times you interact with a private banker: We tend to trust the people we know well.
3. *Intimacy* refers to the willingness and openness to talk about personal, difficult, and sensitive issues.
4. *Self-Interest* (or self-orientation) refers to the perceived level of care: The more a private banker demonstrates that he really cares about the client, the lower his perceived self-orientation or self-interest.

[4] David H. Maister, Charles H. Green, and Robert M. Galford, *The Trusted Advisor* (New York: The Free Press, 2000).

Agreeing that these are the four ingredients of trustworthiness, how can we build and develop trust?

Following a frequently used typology of trust, we identify three levels of trust:[5]

1. Deterrence-based trust
2. Knowledge-based trust
3. Identity-based trust

Deterrence-Based Trust

Deterrence-based, or rule-based, trust is the most fundamental, basic level of trust. It means that the behavior of other people is to a large extent predictable thanks to rules and regulations. The likelihood that the other abides by the rules is high due to the anticipated repercussions of not complying.

With regard to private banking, the regulator is the main actor when it comes to increasing deterrence-based trust levels. In almost every jurisdiction, often in an internationally coordinated fashion, the regulator has indeed taken firm steps in an effort to regain the confidence that was lost by the financial crisis. Therefore the focus has been very much on minimizing conflicts of interests and increasing quality.

This can be highlighted by a few examples:

- In most jurisdictions, the bonus structure has been scrutinized. It is no longer deemed acceptable that a private banker who generates significant revenues by taking excessive risks in his clients' portfolios be rewarded with a large bonus.
- Private bankers have to document why they have given their clients certain advice. This is to ensure that there exists a proper trail, proving that the private banker provides suitable advice (i.e., advice in line with the recorded risk appetite of the client), as well as advice that aims to serve the best interests of the client (e.g., MiFID II).
- In many jurisdictions, full price transparency has been enforced. In some jurisdictions, hidden provisions (e.g., kickback fees from fund

[5] See, for example, Randy Conley, "Three Levels of Trust: What Level Are Your Relationships?," June 6, 2011, leadingwithtrust.com.

managers) are now prohibited. Price transparency enables clients to understand the private banker's interest in the products and services offered (e.g., MiFID II).

- Private bankers have to make much more effort to explain the risks of their products and services to their clients as well as to ensure that their clients understand these risks. These risk explanations have to be recorded, either through voice-log or in writing.
- In many jurisdictions, individual private bankers are forced to meet certain minimum certification requirements, followed by an obligation to continuously develop their knowledge and skill base. This is to ensure that the overall professional standards of the industry are sufficient to allow the public to rely on the services of the regulated and licensed private bankers.
- In some jurisdictions, private bankers have to pledge a professional oath, declaring that at all times they will place the interests of their clients above their own interest.
- As known cases of internal fraud cause great harm to the private banking industry as a whole, regulators have enforced more explicit directions in an effort to reduce internal fraud through guidelines, rules, and regulations.
- To bolster the soundness of banks, they are forced to hold more and better-quality capital. A greater loss-absorbing capacity should provide greater confidence in the ability of banks to survive periods of stress, whenever they occur (e.g., Basel III).

The regulators have responded to the financial crisis with great resolve. The public may expect the banks to implement all the new rules and regulations, as otherwise substantial penalties may be imposed on the banks or even their license to conduct their business may be at stake. This is why we consider this "deterrence-based" trust: Banks will comply out of fear for the consequences of not complying.

In a way, this is a negative way to foster trust, which to a certain extent explains—together with the high levels of skepticism of the general public—why the morale in the private banking industry has been low since the crisis in 2008.

A second important contributor to higher levels of deterrence-based trust is the legal system. The more the public can rely on the courts that private bankers will be disciplined in case clients are victims of fraudulent, insincere, and (blatantly) incompetent behavior, the higher the public expectation that private bankers will undertake all possible endeavors to provide a fair, honest, and high-value-adding service.

Knowledge-Based Trust

The second level of trust is *knowledge-based* trust. The idea is that trust increases with the increase in knowledge about the other. In other words, the more knowledge you have about the other party, the better you know what you may—and may not—expect.

The main actor with regard to the development of knowledge-based trust is the client. The importance of this trust level is illustrated by the results of the previously mentioned 2013 Edelman Trust Barometer (see footnote 3), where it appears that the informed public scores higher on trusting the financial services industry than the general population.

The main benefit of increasing knowledge about private banking and the added value that a private banker is supposed to deliver is that it improves your ability to assess the *credibility* of potential service providers, thus reducing the overall time needed to develop a trusted relationship. As an aside, it is appealing and morale-boosting for professionals to work with informed clients, which further improves the overall service levels.

It might sound somewhat unfair: The client is the main victim of the trust and confidentiality crisis in the financial services sector, so why would we expect the client to work to help restore this trust and to contribute to boosting the morale in the industry? This is a good question, and one that forces us to repeat: because it is in the best, personal interest of clients that they are able to have a high level of confidence and trust in a passionate, highly motivated financial services industry, as this sector does have the capability to deliver high-level, high-value-adding services.

Identity-Based Trust

The final level of trust concerns *identity-based* trust. This is the level where you dare to become vulnerable, knowing that the other party won't take advantage of you. This type of trust takes time to develop.

During that time, the other party has to demonstrate a consistent ambition to be honest, fair, responsible, and transparent.

The main actor "responsible" for developing higher levels of identity-based trust is the financial services sector itself: no more bank scandals; a problem-solving attitude instead of a narrow product focus; no hidden charges or fine print. The private banking industry has to consistently demonstrate it has a sincere resolve to accept its fiduciary responsibility, which refers to the acceptance that the interests of clients must never be compromised by the self-interest of the private banker. In the words of *The Trusted Advisor*, private bankers can contribute to increasing trust levels by higher levels of credibility, reliability, and intimacy, and by reducing the level of self-orientation.

Table 1.1 combines the three levels of trust with the four ingredients of trust in a single table.

Why This Book?

Everybody has a role to play in restoring and improving trust levels. This book is primarily written for private banking clients and their children, with the intention of contributing to an increase of *knowledge-based trust levels*. That is the only level of trust where clients have a (proactive) role to play. Sufficient basic knowledge about the potential added value of private banking service providers helps rich families to perform their *duty* to increase overall levels of trust in the private banking sector.

To be rich is a blessing. But to really enjoy this blessing in the long run, professional help is usually indispensable. The dilemma here is that to rely on professional support, you first need to be able to trust the professionals. Regulators and the private banking sector play a crucial role here. Although essential, that is not sufficient.

We firmly believe that the more knowledge you have about the service offering of a private banker, the more you will be able to benefit from the relationship. Knowledge deepens your understanding of what to expect and makes you more aware of the opportunities that a healthy relationship with a private banker represents. *As a rule, knowledge tends to improve—usually over time—the value received from a product or service.* The more you know about cameras, the higher the likelihood that you'll find

Table 1.1 Three Levels and Four Ingredients of Trust

Level of Trust	Main Actor	How?	Focus on Trust Ingredient	Desirable Behavior Stems From:
Deterrence-Based Trust	The Regulator	More and more effective regulation to protect the interests of the clients.	Credibility	Fear of consequences
	The Legal System	Consistent court rulings in favor of clients, who have fallen victim to fraudulent, insincere, and incompetent bank behavior.		
Knowledge-Based Trust	The Client	Gain a basic understanding of how wealth management professionals should be able to add value in order to (a) raise realistic expectations and (b) increase the ability to discern between true and phony professionalism.	Credibility	Lack of alternatives
Identity-Based Trust	The Bank	Demonstrate over a long period of time a consistent ambition to serve the clients' best interests by being honest, reliable, fair, and transparent.	-Credibility -Reliability -Intimacy -Self-orientation	Respect for clients

the camera that suits you best, from both a functionality and a cost point of view. The more you know about cameras, the higher also the likelihood that you will be able to discern between the competent and the incompetent camera salesperson. The same applies—and probably even more so—to private banking.

After having read this book, you should not only have a better appreciation of what a private banker could mean for you, but you will also be able to have a meaningful, more engaged conversation to ensure that the service provided is really the service you need.

In a way, it kick-starts—or, if you already have a relationship, deepens—the relationship, which is in the interest of both your adviser and yourself as it enhances the likelihood that you'll receive a service that truly suits you.

In other words, being more informed and prepared serves two purposes:

1. It enhances your knowledge, thus allowing you to get the most out of the relationship with your private banker.
2. It motivates and appeals to the professional, thus encouraging her to give her best to impress you.

Both are important to you.

When we talk about increasing knowledge, we refer to the areas where private banks typically add value:

- Investments
- Credit
- Life insurance
- Wealth structuring
- Psychology of wealth

These are therefore the areas that we will discuss.

We start in Part Two with the area of expertise that is generally perceived to be the core activity of private banking: *investments*. Step-by-step we guide you through the seemingly mysterious world of investing. Why would you invest in the first place? How do you invest in a way that suits you? What are the risks that the investment manager deals with, and how does he manage these risks? What are the asset classes and financial instruments that you can invest in?

Managing assets is a complex process. An effective conversation with your private banker, leading to a value-adding investment service offering, requires at least a basic appreciation of this process.

In Part Three, we elaborate on *credit*, a second area where the private banker adds value. Generally speaking, lending is one of the key banking activities. Apart from providing some basic overall insights in the world of lending and borrowing, we explore and discuss the reasons why rich individuals borrow. We separately highlight the risks involved in borrowing as well as some technicalities with regard to the relationship between lender (i.e., the private bank) and borrower (i.e., the client).

In Part Four, we discuss a third area where most private bankers play a valuable role: *life insurance*. We take the view that a basic understanding of the life insurance industry—what is the general use of life insurance, and what are the available types of life insurance?—is useful before exploring and understanding the rationales for using life insurance by the rich. As the average private banker is not an insurance specialist, we also look at which role they usually play and how they add value with regard to life insurance.

Through life insurance, people intend to create some level of future certainties in an otherwise uncertain world. The same applies to *wealth structuring*, which we discuss in Part Five in terms of the various purposes of wealth structuring as well as the various wealth structuring tools and vehicles. We also discuss which value-adding role you may expect from your private banker.

A final topic we discuss, in Part Six of this book, concerns the *psychology of wealth*. Raising children in a wealthy environment has proven to be challenging. We explore these challenges and provide some specialist insights into this intriguing topic. And once again, we discuss how private banking specialists may be of added value with regard to the psychology of wealth.

It is essential to get the most out of your relationship with your private banker. For the industry to be truly value-adding, it is on the one hand important that clients are open and receptive to the services of the private banks, and on the other hand that the private banking professionals have the passion and the drive to excel and provide the service that their clients need. This book aims to increase your knowledge level, thus implicitly increasing your (knowledge-based) trust in the industry and motivating your private banker to shine.

Part One

Conclusion

The private banking industry has tremendous potential to add significant value to the lives of the rich. Ignorance and skepticism, among other factors, create a dense fog, blurring our ability to recognize this potential.

In this introductory part we have explained how increasing knowledge about the value-adding potential of a private bank helps to unlock this potential. That also explains why this book has been written and why in the remainder of this book we elaborate on investments, credit, life insurance, wealth structuring, and the psychology of wealth, that is, the areas where private banks typically add value.

Are you rich? Don't worry; help is near!

Part Two

INVESTMENTS

Once you have money, you have to invest. It seems almost as evident as "if you want to live, you'll have to breathe." Private bankers are lining up to help you to invest your money wisely. Unfortunately, there are so many service providers, so many different approaches to investing, and so many different financial products to choose from. And then there are these annoying cocktail parties, where you have to listen to those wise Midas-type guys who seem to transform everything they touch into gold. It is confusing. What am I missing? What am I doing wrong? Climbing Mount Everest seems so easy compared with crossing the jungle of the investment world.

In this part, we follow a step-by-step approach to unmask the secrets behind investing. This approach doesn't make investment necessarily an easy thing to do, but it will help you to be much better prepared for your meetings with investment advisers.

The first step is to begin with the right question. Rather than asking, "How should I invest my money?" we recommend you to first spend some valuable time understanding *why* you should invest. As long as you don't know why you invest, don't invest.

We assume that everyone agrees we should not invest just for the sake of it, nor just to amass as much wealth as possible or to legitimize the existence of our banks. Investing should have a purpose for you. Why would you invest? We address this question in Chapter 2.

Only once you grasp the rationale of investing does it make sense to have a closer look at the investment process itself. It should be noted that with regard to investments, it is not sensible to take a *one-size-fits-all* approach. As you can't approach investments in generic terms, the second step in the process toward investing is to define your personal financial situation as well as your investment personality. The more accurate this definition, the higher the likelihood that you will invest in a manner that really suits you and your situation. This second step, better known as *risk–return profiling*, is the subject of Chapter 3.

The main objective of the risk–return-profiling step is to understand how much risk you are able and willing to take, and how this relates to the expected return. As a rule, the more risk you are prepared to take, the higher the expected return. However, the reverse also applies: The more risk you take, the higher the potential loss. This explains why it is essential to have a basic understanding of investment risks as well as of the ways these risks can be mitigated. That is why in Chapter 4 we focus on investment risk.

We are still not ready to invest. Chapter 5 addresses the importance of discipline. To ensure investment decisions are not dependent on your mood or on the mood of your investment manager, you agree on a certain approach. These are effectively the rules and principles guiding the investment process, thus making it more transparent and predictable.

As an investor you have different options. You can make your own investment decisions or rely to a greater or lesser extent on the expertise of specialists. Whatever you decide, you'll have to select an institution to work with. In Chapter 6 we share considerations with regard to deciding on your desired level of involvement in the investment process, as well as on the selection of the most suitable service provider.

Once you have walked through these steps you should be well-equipped to get the most out of the investment management relationship with your private banker.