Building on mutual trust

Lombard Odier Singapore chief Vincent Magnenat says at the heart of the Swiss private bank lies its strong alignment with clients' interests

By Genevieve Cua

PHOTOS: ARTHUR LEE

SWISS family-owned private bank Lombard Odier, Geneva's oldest private bank established in 1796, would appear to have much in common with the wealthy families it serves.

It is itself a multi-generational family business, and managing partner Patrick Odier at the helm is sixth-generation private banker. It thus proffers a wealth of insights about sustainable wealth management and how families can navigate the challenging and often sensitive issues of transferring wealth, managing a business and still keeping familial ties strong and cohesive.

Says Vincent Magnenat, chief executive of Lombard Odier Singapore: "We have strong DNA. We're one of the oldest private bankers in Switzerland with over 200 years. We went through 40 crises, and we're financially strong. We position ourselves as a bank with strong alignment with our clients. Our shareholders are also managers."

Just last year, the bank released its first ever set of financial results. In its latest results for the first half of 2015, it reported 209 billion Swiss francs (S$300.4 billion) in client assets; assets under management of 155 billion Swiss francs; and profits of 70 million Swiss francs. It is strongly capitalised with a Basel Tier 1 ratio of 22.7 per cent. This is almost three times the minimum Basel III requirement and nearly double the capital required by the Swiss financial regulator. It has no external debt and is rated -AA by Fitch.

Amid the shakeout in the Swiss private banking industry, which has grappled over the past few years with a number of issues including bank secrecy, Lombard Odier has joined the ranks of larger family-owned banks which have modified their traditional structure into a "corporate partnership". The managing partners, however, remain both owners and managers. As such, they continue to underwrite the group's financial solidity, said a source. Banks that are not publicly listed do not need to release detailed financial results.

When this change was announced in 2013, managing partner Mr Odier said that the structure allowed the bank to retain the benefits of a private partnership "such as our independence, strict sense of responsibilities and our long-term management outlook while ensuring that our interests remain aligned with those of our clients".

Mr Magnenat says the partners are fiduciaries of clients' assets, and "are therefore able to maintain a long-term vision and to develop mutual trust with their clients".

Lombard Odier remains a "pure play" private bank, with no corporate or investment banking services, he says. "We accept that we can't be everything to everyone. If you come as an employee or client, you know what we stand for. That makes a big difference today in the market."

Mr Magnenat, who has been a private banker for more than a decades, says the practice of private banking has changed since he joined the industry in the mid-1990s, even in Switzerland. "Bankers used to sit at their desks waiting for clients to come. The big change we see is that now bankers have to go out, to be sexy in a sense, to go with a value proposition or work with connected people. This means to engage more with clients, and not be just reactive."

This change has intensified since the 2008 crisis. "If you combine the elements – the cost of doing business, regulations, the cost of relationship managers (RMs) – the new environment is really one where the value proposition is the key element for the success of private bankers. In the past, the key was the link with the RMs."

Clients themselves are changing, he says, as wealth begins to be transferred to the second or third generations. He believes Lombard's strength lies in its investment services – about 50 per cent of its AUM in Asia is in discretionary portfolio management (DPM) services where clients entrust portfolio investment decisions to the bank. In Asia, most other banks' assets in DPM is less than 10 per cent. The bank does not disclose a geographical breakdown of AUM.

"We're in a region where most clients have more than one bank, and that's different from Europe. We want to be accountable and deliver investment performance. As a client you will have parts of your portfolio – a bucket for advisory, perhaps one for private equity and one you give to a manager to make sure it grows. Maybe today that (latter) portion is 20 or 30 per cent. I'm personally convinced this will grow to 60 per cent."

Lombard's DPM service takes a risk-based approach to asset allocation rather than the traditional approach where asset weightings are fairly static and chosen based on economic views and assumptions about future risks and returns. Risk-based investing bases exposure decisions on assets' current risk profiles and the external dynamic risk environment.

It aims, for instance, for a stable portfolio. This means that the higher the risk of a particular asset, the lower the weighting. The approach also requires active rebalancing rather than an adherence to a pre-defined weight for each asset. The bank believes the approach makes portfolios less vulnerable to emotional decision-making and poor timing.

Portfolios of at least US$10 million can be fully customised. "(Traditional) asset allocation is based on convictions. Risk-based investing is based on the facts of the market. We define the risk that clients are ready to take rather than the performance he wants. This is an approach that has grown through the years. We started with our pension funds in 2008, and then on external pension funds and institutions." Lombard has implemented this for Asian clients for around three years.

He is optimistic about growth. "Lombard Odier private banking in Asia secured its best levels of net new money to date in 2014 and had a similarly strong year in 2015. We are confident of achieving even better in 2016, in terms of net new money and appetite for our DPM offering."

Family services are seen to be yet another strength. It is an area where the bank taps the expertise of its managing partners. For instance, Anne Marie de Weck, lauded as one of just a few female partners in the male-dominated Swiss private banking world, comes to Singapore twice a year to speak with families. Mr Magnenat believes counselling families on their objectives and governance should be the first step in any client advisory.

"The major point is family governance, that we understand what they want to achieve and how we can help them with that governance. It's not about having a trust or a family foundation. It is to understand the family's objectives and then we think about the structure. Trusts are one answer, but not always the answer. It can be a will, a document where we put rules and define the way you should manage the assets to reach the objectives.

"The objective is to have money for everyone... Some may want to give everything to their children immediately. Some say I don't want to give to the next generation, but to the grandchildren. Then you define how to manage the money... We start with the governance."

He adds: "In the past, RMs will open accounts for clients, then make sure they fund the accounts, then try to sell them something. This isn't the approach we want."

He believes Lombard's investment in technology gives it yet another strength. "The partners were visionary. Over 20 years ago, they started to invest in our own systems which today make the difference in organisation, to reduce costs on the operational side, and to raise the quality of reporting for clients." W

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