



Art of giving exceptions

Citi Private Bank's Bassam Salem shares how segmentation of clients contributes to the bank's profitability

BY GENEVIEVE CUA

PHOTO: ARTHUR LEE

BEIRUT-BORN Bassam Salem was expected to join his family textile business when he felt the tug of banking.

"When I made the decision not to join my father in the business, I knew the only industry he liked was banking. So I thought if I told him I was joining a bank, the blow would be easier.

"He didn't talk to me for three years."

Today, his father would be proud. Mr Salem is Citi Private Bank's chief executive for the Asia-Pacific, a veteran with some 35 years of experience under his belt. Most of those years were with Citi, where he says he did "every job in private banking", ranging from research analyst and forex trader, to equity trader and fund manager. Rising through the ranks, he eventually took on senior roles, including private banking head for the Asia-Pacific region, among other positions.

Competitors took notice and in 2000 he was roped in by EFG as a partner and chief executive for the Middle East and India. In his decade there he managed the investment division, helped its listing on the Swiss stock exchange, and launched EFG's Middle East business in Dubai. He has now come full circle, rejoining Citi in 2011, thanks to some persuasion by former Citi Private Bank chairman Deepak Sharma who has since retired.

"Deepak said – I will be retiring. I can't think of anyone else to run the bank. You have known it for a long period, longer than I... By that time EFG was a mid-sized bank. The fuss of doing a startup was behind us. I came back to Citi five years ago and it has been a lovely story to rebuild and restructure."

He believes clients' trust in banks – which was shaken following the 2008 crisis – has remained intact for Citi. "At no point did I meet clients who said, 'I lost money because of banks; the private bank did not manage my assets properly...' I'm not a fool. I know in society at large, banking has not restored its image."

He recalls that his son Alex, 23 and a lawyer, challenged him on the *raison d'être* of banking. "(Alex) said – what do you do as bankers? What do you manufacture; what's your value add to society? I said, come let's walk the streets in Hong Kong. I said to him I financed this building. When I was a fund manager I bought the bonds of this company; I invested

in shares of this company when they went public.

"I truly believe that we as bankers – and Citi in particular – are very strong catalysts in the growth of Asia. These companies hired people; the people had mortgages. We're part of the fabric of society."

Citi itself was founded in 1812 as City Bank of New York. The group has been in Asia for more than a century.

Mr Salem believes he serves five stakeholders. One is Citi shareholders from whom his mandate is to make money. Bankers put up a brave front, but profitability is the single biggest challenge facing private banks in Asia which lack scale. The last few years have seen a series of mergers and exits, a trend which is likely to continue as banks take stock of their Asia presence. This year alone saw key developments including the shuttering of BSI Private Bank and Falcon Private Bank for money laundering. In April, Barclays sold its Singapore and Hong Kong business to Bank of Singapore. In October, ANZ sold its wealth management and retail business to DBS.

Profitability

Says Mr Salem: "I'm always very proud that we have a very profitable private bank in Asia. Our cost to income ratio last year was 57. The industry is reportedly at 80 to 85. The industry exaggerates because people report on their direct expenses. But there is a lot of cost allocation from head office. I think if you include all costs properly, I truly believe a lot of people don't make money."

Citi Private Bank in the Asia-Pacific has assets under management of about US\$210 billion.

Other stakeholders comprise regulators, clients, colleagues and employees, and society at large.

He doesn't tiptoe around the issue of profitability. "The reason banks don't make money is that they don't have a unique selling proposition (USP). Too many are trying to do the same thing. A consultant told them – Come to Asia, this is where the money is."

But operating costs such as premises are higher here than elsewhere in Zurich or London, he says. Hiring costs of

mid-career bankers are also high, with no certainty that they can persuade clients to move accounts.

Part of Citi's profitability stems from its careful segmentation of clients. Private bank clients are to have investible assets north of US\$10 million. In most other

banks the minimum threshold for a private client is US\$1 million.

Citi's consumer bank includes Citigold, defined as clients with assets of S\$200,000 to S\$1 million, and the Citigold Private Client Group, comprising those with assets of between S\$1 million and S\$10 million. Private bank clients, on the other hand, are part of the institutional client group.

"I started my career in 1981 at the Bank of Boston. At that time you needed US\$1 million to have a private bank account." That amount adjusted for inflation and the devaluation of the dollar is likely to be worth US\$10 million today, he says.

"Our clients are quasi institutions. Why are we so profitable? Because each of my bankers are worth 10 in the industry in terms of revenue. Our focus is on the high end."

Strict segmentation also leads to greater pricing discipline. Price discretion – or the flexibility to offer clients discounts and other preferential pricing – is a lot more limited for retail banking.

"Every segment has a competitive advantage and is very profitable. If we put everything under one umbrella which is what the industry does, you will have a banker whose client is worth \$100,000 or \$500,000, seated next to a banker with clients worth \$1 billion. He will see that banker getting unique pricing for his client and he will ask for the same for his clients. That doesn't work."

Price discretion is what he calls "the art of giving exceptions". "We analysed clients over a period, and when we really felt those clients would never meet our targets – they are great clients for Citigold – we move them to consumer bank. I always say private banking is the art of giving exceptions. We give exceptions all the time for the right clients."

He believes another aspect that sets Citi apart is its training. A good number of top level bankers who have risen to head private bank operations in Asia cut their teeth at Citi.

"I have to make sure I give (colleagues and employees) an enjoyable environment, an opportunity for them to learn, grow and have a meaningful private and business life. I like investing in people. I'm proud of all the people I hired in my career, prouder still if some are even more senior than me.

"Everything I know I learned from Citi. You learn more on the job than you do at university or MBA. You have to make sure the leaders with you train people over and above the official training and curriculum." **W**

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