Dissertation

How did the Financial Crisis of 2008 affect the Corporate Governance and Regulations in European Private Banking?

Master of Business Administration (General)

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1. Introduction

Banking System has been around from centuries in various forms. From the barter system to today’s transactions, we have come a long way. In 600 BC, coins were first used in the ancient kingdom of Lydia, which is now Turkey. The earliest English check was found in 1689, and in 1966, Barclaycard introduced the first credit card. A year later it set into use the first cash machine, and in 1987, Barclays introduced the first debit card. Since then the growth has been fast, with the introduction of online banking, mobile banking, contactless cards etc. (Barclays, 2017). Banking has surely come a long way since it began and still has a long way to go.

Charles Darwin’s theory of evolution states that adaptation is the key for survival in a permanently altered environment. A lot of changes takes place in the real world which permanently changes the way things work. The changes are for the better and are often corrections or alterations of the previous methods to avoid the same mistakes occurring again. This fundamental theory of nature is applicable to the financial sector as well. A lot of occurrences can be explained, understood and predicted with the help of this theory.

The financial crisis of 2008, was one such incident which called for a major reform of the global banking system. The crisis left the whole banking system altered, both the private banking and retail banking (Newtone Associates, 2014).

Private Banking originated in Europe, around 1920-1930, where the wealthy families had personal banks to manage their finances and assets (Bank, 2013). As and when the times changed, Retail Banking Evolved for Commoners, and banking became a service which everyone could access, whereas Private Banking and Wealth Management became a privilege only wealthy people could avail.
Private Banking is a suite of services offered by the banks to High Net Worth Individuals (HNWI) and Ultra High Net Worth Individuals (UHNWI) to grow and manage their assets. These services offered to HNWI with at least 2 million USD investible assets. The private bankers manage around 75-100 of the clients in this sector. The UHNWI are clients with over 30 million USD investible assets. Each private banker manages around 15-25 clients in this sector (Lee, 2013).

The banks were making humungous revenues and the bankers were getting huge amounts of money as salary and bonuses. The boom was too good to last, as the greed and light touch regulation and the innovation of financial markets were too much for the financial system to handle and it finally collapsed in 2008 (Love For Money, 2013). The Private Banks were assisting money laundering, and tax safe havens with offshore accounts to maximise the returns of their clients (Monahan, 2015), and hence lost a lot of its freedom in the process.

The world economy coped with the crisis in numerous ways and is finally in a state of equilibrium now, but the banks are still trying to find their equilibrium trying to adjust to the new rules and regulations imposed (Pavoni, 2014). The reasons for the financial crisis was many and the implications on the private banks were heavy, in terms of internal control, regulations and corporate governance, which are discussed in the next section.

This research covers the era of Private Banking before and after the Financial Crisis, and how the Crisis affected the Private Banking Sector. To completely understand the effects of the Crisis on Private Banking, it is important to know the factors leading to the financial crisis, as the banks were soley responsible for the crisis.

CASE FOR THE RESEARCH

There have been a large number of researches carried out in the field of private banking, financial crisis, banking area. A lot of journal articles have been written since the financial
crisis about the reasons for the crisis. In the Cambridge Journal of Economics, James Crotty has extensively explained the reasons for the crisis and the need for a new financial architecture (Crotty, 2009). An article in The Bankers Journal, by Stephen Timewell, written in 1999, has all positive vibes about the Private Banking growth (Timewell, 1999), little did he know about the storm coming in less than a decade. Yuri Bender, also seems to share Timewell’s opinion of the rise of Private Banks in his article (Bender, 2007). The journals published aftermath of the crisis however sang a different tale. While some journals explained the uncertainty of the implications of the crisis (Banker, 2009), some stated the reality (Bender, 2012). A journal by Mikeal Petitjean shows a critical review of all the bank failures and the regulations needed (Petitjean, 2013). But most of these works are carried out in general to the banks, and private banks are mentioned briefly.

The clients looking for private banking and wealth management services choose the banks they trust and this is achieved by high performance from the bank. This service is a cream layer and mere marketing strategies do not attract the clients to the bank. The client requires to hear from other clients about the efficiency and trust in bank to invest in the bank. To achieve the high levels of performance, the banks must identify and mitigate the risks involved. Hence, identifying the risks and how they were verified or can be verified in these areas play an important role in the process.

The most important part of the process is the client on boarding process, where the background checks of the client is performed. This includes verifying their details, validating their source of assets, ensuring that the money is clean and there is no black money involved so that the bank is not used for any money laundering activities. These processes are crucial part of risk management, and if wrong the decisions are made during the process, it can lead to high risks for the bank. Technology can help immensely in these areas to mitigate the risks. Yet only 14% of the banks are digitized (PWC, 2013).
The crisis affected a lot of people all over the world and it was mainly accountable to the banks. This means the banks were doing something wrong. Most of the problem was with the investment banks, and they played with the investors’ money. Hence the banks had to undergo reforms with regulations to ensure the client’s assets are safe. This will protect the banks from taking huge risks as they now must adhere to the regulations.

A detailed study of how the Crisis affected the Financial Crisis, and how it changed after that with respect to regulations, corporate governance, and internal governance has not been published. Private Banking is often neglected compared to retail banking as it is not as widely used as retail banking. Hence the research in this area is comparatively less. It is also less due to restricted access to the private bankers to carry out the research. This research fills the gap between the other researches.

RESEARCH AIM

The aim of the research is to understand the factors of the financial crisis which was solely dependent on the banks, and how have they been rectified in the private banking since then. It aims to provide a clear insider view of the functioning of the private banks with a bird’s eye view of the processes involved from professionals working in the field. With the research, a complete understanding of the Private Banking Sector can be understood.

RESEARCH QUESTION

How did the Financial Crisis affect European Private Banking and how has it changed with respect to corporate Governance and Regulations?

Sub Questions:

• How was Private Banking before the Crisis?
• How did the Financial Crisis affect the Private Banking sector?
• What were the measures taken to recoup with the crisis?
• What are the changes in Private Banking after the Financial Crisis?
What changes are needed in this sector for future enhancement?

The research question helps in understanding the regulations, structure and corporate governance in Private Banking before the Financial Crisis hit the market. It also explains the magnitude of the effects on Private Banking due to the crisis and the measures taken to deal with it and the evolution of Private Banking since then. It gives a chance to understand the areas which needs attention from the people working in the Private Banking field, thus helping in future developments.

2. Literature Review

Literature Review is the secondary research of this paper, where all the relevant research, findings and opinions on the matter is discussed. All the relevant information of the changes in the European Private Banking after the Financial Crisis with respect to the corporate governance and regulations are discussed below, with clear explanations.

2.1 Literature Introduction

Banking has evolved with time, and has been around in different form from centuries. Wall Street would be the most recognizable banking area in the early years, but London soon caught up and is now one of the most recognized banking communities. The banks collectively contribute to over 500% of UK’s GDP now, and they are second only to Switzerland’s banking, and larger than the US itself (Richard Davies, 2010). The banks have gone through with phases of deregulation in the 1980s, which led to its rapid growth, which was finally put to halt with the Financial Crisis of 2008, after which it was followed by the regulation phase. Various theories were used to rationalise the incidents which happened over the period, like the Efficient Market Hypothesis, Behavioural Finance etc.

This section contains the areas the research would throw light on. It is divided into 3 sections. All the research carried out here is secondary research with analysis. The introduction about
private banking and how it was before the crisis and how the crisis affected it and how has it changed since then is detailed.

2.2 Private Banking

2.2.1 What is Private Banking?

Private Banking is a suite of services offered by the banks to High Net Worth Individuals (HNWI) and Ultra High Net Worth Individuals (UHNWI) to grow and manage their assets. These services offered to HNWI with at least 2 million USD investible assets. The private bankers manage around 75-100 of the clients in this sector. The UHNWI are clients with over 30 million USD investible assets. Each private banker manages around 15-25 clients in this sector (Lee, 2013). Originated in Europe by bankers maintaining the wealthy families, it soon turned into a full-fledged essential business. A broad way to classify the clients is by 3 categories – HNWI, Very High Net Worth Individuals, Ultra High Net Worth Individuals (J, 2002, p. 5). An illustration of the same is shown below.

<table>
<thead>
<tr>
<th>Client band</th>
<th>Financial assets (mln USD)</th>
<th>Number of HNWIs (thousands)</th>
<th>% of clients</th>
<th>Value of the market (trillions USD)</th>
<th>% of total value</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Net Worth Individuals</td>
<td>1-5</td>
<td>6,225</td>
<td>83</td>
<td>7.8</td>
<td>27</td>
</tr>
<tr>
<td>Very High Net Worth Individuals</td>
<td>5-30</td>
<td>1,204</td>
<td>16</td>
<td>12.0</td>
<td>42</td>
</tr>
<tr>
<td>Ultra High Net Worth Individuals</td>
<td>&gt; 30</td>
<td>52</td>
<td>1</td>
<td>8.9</td>
<td>31</td>
</tr>
</tbody>
</table>

**Market Size** - The HNWIs and UHNWIs have been increasingly growing since the past few years, which demands the need for growth in the Private Banking Sector too. According to the 2016 Wealth Report by Capgemini, the HNWI numbers and the wealth invested by them has grown consistently since 2009.
The wealth of HNWI in Europe has increased by 4%, which is lesser than the increase rate from 2010-2014, which was 7.2% (Capgemini, 2016). The total population of HNWI in...
Europe is 4.2 million, and their wealth is 13.6 trillion USD and ranks 3\textsuperscript{rd}, after Asia-Pacific and North America (Capgemini, 2016).

One of the most common confusion is the difference between money managers in institutions (i.e. mutual funds, insurance, pension funds etc.) and private bankers. Private Banking has very little resemblance to the former, as it is more complex, comprehensive and customized to the needs of individuals (Harold Evensky, 2011). Whereas, money managers are focused, institutional and standardized.

Private Banking can widely be classified as an aggregate of 4 steps:
1. Client Relationship – Every wealthy individual invests and trusts the services offered to them by two factors, the trust the bank holds, and more importantly the private banker who manages them. The private bankers are the face of the bank and hence hold more importance in gaining and retaining the client’s trust. There have been several cases where the clients have moved banks with their private bankers. Hence this forms an important part in private banking.

2. Client Profile- This part involves all the background checks on the client, to understand the motives of the client so that the services are not being misused, and process such as KYC (Know Your Client) etc. Understanding the client requirements and catering to them specifically is very important, and what forms private banking.

3. Investment Policy – Formulating an investment policy considering the client’s requirements that maximises the returns and agreed by the client.

4. Portfolio Management, monitoring, and market review – understanding the risk levels that a client is ready to take, managing and implementing changes, monitoring market conditions, and risk management falls under this category (Harold Evensky, 2011).

2.2.2 Private Banking Before the Crisis

The banking industry had been growing consistently before the financial crisis, with light regulations and high innovations (Love For Money, 2013). Alan Greenspan, former, Federal Reserve Chairman, played the part of the catalyst in the scenario, with his belief in the Free Markey Hypothesis. He opposed every view of members wanting regulations imposed, as he believed and stated that – “Heavier supervision and regulation designed to reduce systemic risk would likely lead to the virtual abdication of risk evaluation by creditors. The resultant reduction in market discipline would, in turn, increase the risks in the banking system, quite the opposite of what is intended.”, in his speech in October, 1999 (Buttonwood, 2017).
banks could not have asked for a better period to make profits, with the government’s approval. His theory that the banks would have their self-interest in protecting shareholders’ equity and value seemed to fail the reality immensely (Andrews, 2008). These factors encouraged the private banks to not give much importance to the due-diligence, avoid the transparency with the clients, and bad investments just for personal gain of the bankers (Timewell, 1999). It had a huge customer base, and the banks would advise them to invest in assets which the bank would personally not invest in. The moral ground was missing in the field. Peter Charrington, global head of Citi Private Banks, says that Citi’s strength and reputation is the main strength of the private banking business (Monahan, 2015). This is true as the wealthy people would want to park their money only in trustworthy hands. Hence reputation will play an important role in gaining clients. UK’s HSBC bank was caught in the drug money laundering act and had to pay a huge sum of 1.9billion USD as fine (Monahan, 2015). A lot of the private banking services before the crisis was used for money laundering, tax evasion services before the crisis, as the due-diligence was neglected, the regulation was low and the corporate governance was weak. Offshore accounts were over-used to form tax safe havens, creating losses for the home country. Hence Private Banking was a boon to the wealthy people as their money would make the bankers do what they want without having to worry about the regulations. The identities of thousands of wealthy offshore clients of a major Channel Isles private bank have been leaked to the International Consortium of Investigative Journalists (ICIJ), and is up for investigation, on exploiting the tax havens and bribing the British Government who has been against the tax havens (Journalists, 2014).

2.2.2.1. Tax Havens

Tax Havens also known as the secrecy jurisdictions, provide an out for wealthy individuals or institutions to evade taxes, avoid financial regulations and criminal laws and provide secrecy in more than few ways to protect them (Havens, 2016).
Private Banking under no tight regulations made use of these tax havens to create secret bank accounts for wealthy individuals to abate taxes, and thus made more income by increased deposits. Bank secrecy obligations and offshore accounts offered by the banks indirectly encouraged the clients to carry on illegal activities and money laundering (Michiel van Dijk, 2007).

The Private Banks believed that the responsibility of obliging to the tax regulations was up to the wealthy individuals and not the banks holding the assets. The private bankers turned a blind eye to the regulations that need to be followed by the individuals and only offered them the services the client was interested in and helped them evade taxes. This resulted in various private banks, including HSBC’s Swiss Private Bank holding undeclared accounts of clients, owing to the bank’s secrecy policies benefitting the clients (Times, 2015). A lot of banks including UBS came under the heat for harbouring undeclared accounts and forced it to close its Swiss based operations for US clients, resulting in losing almost 70 clients (Simonian, 2008).

High Bonuses

The Executives made significant sum of money before the Crisis, not through their base salaries, but through the bonus culture, paid at the end of the Fiscal year (Murphy, 2012). Ireland Bankers went through the phase which rained money too. In 2000, the 6 key players in the Ireland’s banking industry – Sean FitzPatrick, Bill Barret, Peter Killen, Willie McAteer, Tiarman O’Mahoney and John Rowan- had their total take home money increased from EUR 3.1 million to EUR 3.9 million, a leap as big as 26%. These increases did not stop there, they skyrocketed every year. In the year 2003, FitzPatrick took home EUR2.3 million. All the non-executives’ directors got over EUR1million (Ross, 2009). Basically, the bankers were getting paid to take risks, higher the risks they take, higher the bonuses they get. This bonus culture was red and rosy and seemed to work at that time, and certainly kept the
bankers happy. The Executive Directors had huge money in their bonuses, and not just them, all the employees had a huge bonus to look forward to. The graph below represents the fair share of bonuses.

2.3 The Financial Crisis and its Causes

The Financial Crisis of 2008, was the biggest crisis after the Great Depression in 1930s. The total losses incurred in the Financial Crisis was 10% of the world’s total annual income, that is almost $15trillion (Yoon, 2012). Everything seemed green and rosy until the Northern Rock announced that it had received emergency financial support from the Bank of England on 13 September 2007 (John Goddard, 2009). Everything went downhill from there, with the demise of Lehman Brothers and other banks being rescued, and the people angry that the
banks were rescued from the tax payers’ money. The major hit in all these was taken by the clients availing Private Banking services as they were the ones who had a large share of money parked in the banks which were mainly used for investments or receiving good interest rates. The Great Depression had the World War2 to blame and intensify the crisis. But the financial crisis was solely based on the fool hardy behaviour of the banks which made the whole world collapse and some parts are still recovering (Denning, 2011). The Financial Crisis Inquiry Commission concluded and stated in its report of January 2011 that the Financial Crisis of 2008 was entirely caused by the failures in financial regulations and faulty financial governance of the financial institutions (Kevin Lee, 2015). Some of the main causes of the crisis are explained below.

The risk quotient which is not an option in banks got a green light in 1998 from the Glass-Steagall regulation which separated regular banks and investment banks, which made the banks more empowered to take risks with the investors’ money. The banks lowered the interest rates after the dotcom bubbles in 2000 to 1% which was meant for the improvement of the economy but instead proved hazardous (Loser, 2013). With the interest rates low, asset managers could not make much money through it, and hence used innovation and resorted to high-yield-mortgage backed securities. There were no adequate checks performed, low due-diligence as the fund managers depended on the credit ratings given by agencies such as Moody’s and Standards & Poor. These agencies gave AAA ratings to unworthy candidates and banks collaborated with them by giving them bribes to present the ratings they need. In 2006, 83% of the sub-prime loans were given to low and moderate income category (Yoon, 2012) In 2004, Securities and Exchange Commission changed the leverage rules for just 5 banks, Lehman Brothers, Goldman Sachs, Morgan Stanley, Merrill Lynch , and Bear Stearns, which allowed them unlimited leverage which was a very bad move. All the banks were highly affected in the 2008 crisis. High bonuses and salary of the bankers, based on their
performance encouraged the bankers to take higher risks fuelled by their greed. Unregulated Collaterized Debt obligations, securitization and other derivatives were misused. Alan Greenspan, chairman of the US Federal Reserve was very liberal with the ideas that the banks don’t need regulation and will regulate themselves, and discarded anyone’s view which didn’t agree with his, which in the end proved very costly to the world’s economy (Andrews, 2008). Over confidence that the banks were Too Big to Fail (TBTF) lead to the underestimation of the risks and thus neglected till it exploded (Kevin Lee, 2015).

The banks had no transparency or standardised corporate governance, due diligence, and these coupled with high risk taking and innovation and light touch regulations were a dangerous mix which did not end well. Some economists such as Nouriel Roubini and Peter Schiff warned about the crisis to come from 2004, but the claims were dismissed.

Due to the crisis, the clients lost faith in their private banks, as their assets were misused and they were used for the banks gain. This had a major impact on the reputation of the private banks. They underwent a lot of reforms after the crisis to gain back their reputation, some on their own, but majority by the government and regulatory committee.

The bursting of the housing bubble and the subprime mortgages are often considered as the main causes of the Financial Crisis, although one could argue that this is not entirely true. The root cause of the Crisis was the belief that the financial markets and institutes could regulate themselves (Sabato, 2010) and bling belief in certain theories like EMH. All of these factors are explained below.

2.3.1. Burst of the Housing Bubble

One cannot help but wonder how did the bursting of the housing bubble impact and have such a great effect on the financial institutes and markets? Isn’t the direct impact supposed to be on the real estate rather than on the financial institutes? There are two reasons why this mishap occurred, firstly, the banks placed a lot of asset, like securitized mortgages in off-
balance sheet records which would allow them to hold less capitals against them, thus allowing them to give out more loans. Secondly, the regulations allowed the banks to hold less capital against assets, if the mortgages were given AAA credit ratings (Viral V. Acharya, 2009). The combination of the above two reasons was a dangerous catalyst to the situation. The ratio of national debt to national income, over the period 2002-2007 increased from 3.75 to 4.75. Previously for the same amount to increase it had taken a complete 10 years. The house rates also grew at an alarming rate of 11% per year during this period (Viral V. Acharya, 2009). With such rapid increases, it must have been evident there was a bust coming up. And a lot of economists like Nouriel Roubini, Peter Schiff, Raghuram Rajan, Ann Pettifor, Steve Keen, Dean Baker, predicted the crisis beforehand and urged the government and the banks to take some actions, but in vain (Cooper, 2015).

Securitization – The banks consider the deposits as liabilities as they must be returned on demand, and the loans as assets (Carney, 2013). Hence the banks started coming up with various ways to lend out as many loans as possible, thereby turning a blind eye to the risks involved. The Basel regulations state that the banks must hold 8-10% of the capital they have given out as loans. But Securitization allows banks to underwrite them as capitals which still originate profits and sell them to other institutions. This would mean that they can erase the capital held against them of their balance sheets. To illustrate the impact of this, The US banking institutes can be used as an example. They held $7trillion in deposits, but the credit market involved $2.7trillion in bank loans, $3.3trillion in commercial mortgages, $2.6trillion in commercial loans, $1.6trillion in subprime mortgages, and so on. They had more loans than they could take on (Viral V. Acharya, 2009).

AAA Ratings- The private banking clients have some disposable income or money in hand, which they want to invest to get some additional income out of it. The banks come up with investment plans for the same. But what happens when the banks guide their
own clients wrong? The is exactly what happened from 200-2007. The banks would recommend the investments that they themselves would not invest in to their clients, which resulted in a lot of private banking losing a huge sum of money. Subprime mortages, Residential Mortgage Backed Securities(RMBS), Collaterized Debt Obligation(CDOs), which were in the high-risk tranches were sold as assured incomes to the investors. These loans issued with no down payment, no verification of jobs or income or assets, interest rates only, were called NINJA (no income, no job/assets) or LIAR loans. Even the NINJA loans were given AAA ratings by the rating agencies such as Moody’s, Standards’s and Poor, Fitch’s and the banks were happy to accept the ratings as they needed the ratings to sell them off (Roubini, 2008). Moody’s issued over 1,200 RMBS and 360 CDO in the year 2006, which was a huge jump from the year 2002, where it issued 540 RMBS and 45 CDO ratings (Coburn, 2011).

The capital that must be held by the banks for AAA rating loans were almost negligible compared to other loans. Due to the blind trust in the efficiency of the market, it was believed that the real estate investments were safe and legit as they had AAA ratings (Ross, 2015).

2.3.2 High bonuses and pay

Greed is inevitable to men. But greed is mixed with the ignorance, and that is a dangerous combination. This was what lead to fall of the banks. The banks were giving out high bonuses, despite not making as much revenues themselves. The confidence that the government is going to bail them out mixed with the sense of security owing to free regulations lead to these consequences. The Executive directors huge pay in Ireland was highlighted in the previous section, the high compensation offered to the Bank of Scotland’s non-executives directors, right before and even during the crisis is discussed here.
Sir Tom McKillop, in September 2005, was appointed as the Deputy Chairman of RBS, after he had held an executive role in AstraZeneca. His remuneration in 2007 was £750,000, in 2008 was £787,000, 2009 was £72,000. He was forced to resign after 2009, and went back to the pharmaceutical company, UCB where his remuneration as of 2011 is £54,000 (ERIKKA ASKELAND, 2011). Bob Scot, senior independent non-executive joined RBS board in January 2001. His remuneration in the years 2007, 2008 and 2009 was £160,000, £174,000, and £18,000 respectively. He then left the board in 2009 (ERIKKA ASKELAND, 2011). The near collapse of the RBS, which was saved by the taxpayers’ money was much spoken about after the figures of the salaries were revealed and faced major criticism. There have also been instances where the main board members of the banks have taken up second jobs, in other banks, and it has been debatable whether that is acceptable and usually gets mixed opinions (The House of Commons, 2010, p. 87).

2.3.3. Shadow Banking

The Shadow Banking played a vital role in the credit crunch in the financial crisis. All though whether it acted as a catalyst to the factors leading to the crisis or was one of the main factors itself is often debated upon. Photis Lysandrou and Anastasia Nesvetailova argue in their paper that Shadow Banking only amplified the effects of the crisis, but did not in any way contribute as a factor for the crisis itself (Photis Lysandrou, 2013). Yet the impact the shadow banking had on the crisis was huge and hence, can be considered as a factor itself.

The years that lead up to the crisis, the banks tried to move the credit risks off from their balance sheets in various ways to reduce the capital to be held by them as per the regulations in the Basel Agreements. They were successful in doing so as there were other agencies at that time who were willing to take on the risks at a very high cost from the banks. These agencies were called Shadow Banks, who were non-financial institutes, which were not regulated and unsupervised, which raised its income for short term, and operated with
high control and invested in long-term and illiquid assets (Maryse Farhi, 2009). Shadow banks include investment banks, money market mutual funds, repurchase(repo) agreements, asset-backed commercial paper(ABCP). They had no access to the liquid assets of either of the parties, and hence when the loan was defaulted, they had no way to balance the situation, which formed a major part in the credit crunch. Shadow Banking System was the one who created the Collaterized Debt Obligations(CDOs). The situation was considered serious when in 2007, BNP Paribas announced that it could not value its CDOs anymore which was held by its three hedge funds (Photis Lysandrou, 2013). The shadow banking grew steadily in the years leading upto the financial crisis and also over took traditional banking in the last few years as they were not regulated and had lot of cost effective methods as compared to the traditional banks (COMMISSION, 2011). The growth of the shadow banks can be seen in the graph below.
2.3.4. Opacity of Institutions

The Financial Crisis Enquiry Commission concluded that the failure of the bank regulations and the Corporate Governance was the main cause of the financial Crisis. The poor regulations and the corporate governance was backed by the opacity of banking, which let the investors have negligible knowledge on their investments. The investors did not have access to the private information of the loan recipients, about their credit worthiness to assess the risk themselves (Kevin Lee, 2015). They had to believe the ratings presented in front of them, and that in combination with the belief in Efficient Market Hypothesis, let to severe accumulation of unidentified risk. The increased opacity was ruining the banking discipline, and it was backed with confidence with the Too Big to Fail (TBTF) theory. Opacity makes way for an unstable banking environment where the investor mispricing of assets forms price bubbles as the participants are not provided with the right information to make informed and right decisions. The burst of the housing bubble, and the increase in AAA ratings, incapability to identify the risk before it was too late are all traced back to the opacity of the banks. Private Banking took a huge hit in this case, as the investors did not know that they were placing their bets in the wrong place. The banks sold them investments which they themselves would not want to buy (Love For Money, 2013).

2.3.3. Efficient Market Hypothesis

The Efficient Market Hypothesis states that the current value of stocks in the market are the fair values and depict the value for money and there is no way one can earn profits from the prices (Jonathan Clarke, 2014). According to EMH, which evolved from 1960’s by Eugene Fama, at any time in a liquid market, security prices fully reflect all the available information (Morningstar, 2016), hence implying that everyone has access to the information and the
prices are fool-proof. Efficient Market Hypothesis can be classified into 3 types – weak, semi-strong and strong (Borges, 2008).

The crisis lead to a magnificent game of blame, where the people resorted to blaming the theories, economists, government and markets for the disaster. EMH was singled out particularly due to its simplicity and the obvious evidence of failure of the theory. Market Strategist Jeremy Grantham called EMH “responsible for the current financial crisis” because of its role in the “chronic underestimation of the dangers of asset bubbles” by financial executives and regulators. The author of ‘The Myth of the Rational Market’, Justin Fox completely agrees with it (Ball, 2009). The main reason for the blame is simple- if the markets were so efficient and mirrored all the information about the market as it is, unbiased, then how did the asset bubbles and credit bubbles arise?

The Long-Term Capital Management (LTCM) fiasco and the dotcom bubble should have been evidence enough against the EMH. The weakness in the systems were exposed, the financial markets and the regulators had a chance to clean up. But instead, their faith in EMH was undeterred in spite of violations of EMH right under their nose.

1. Contradictory to the Great Depression, the Financial Crisis of 2008, was purely a product of the Financial Markets. No other factors played any role in it, other than inefficient markets, low regulations of banks and markets, inefficient risk assessments, and above all blind trust in EMH, thinking the markets are efficient, which led to unnoticed credit crunch, sub-prime bubble, housing bubble among other factors.

2. Alan Greenspan, rescued the institutions from the dotcom bubble by loosening up the monetary policies, thus not letting them realise the gravity of their errors, leading them to proceed to the next one, the housing bubble. The financial markets realised that the house rates are a great source of income, and the returns are more on
mortgages if the prices are continuously increasing. So, the markets increased the house rates, and decreased the interest rates so people could buy the houses, and when they can’t repay it, the house would value a lot more, which is easy way of earning money.

If EMH was true, how could they inflate the house rates and deflate the interest rates according to their convenience? This is a strong proof that EMH is not always right.

3. Institutes like Ameriquest gave loans without analysing the credit risk. This was negative-amortisation, where the loans had no interest in the ‘honeymoon’ period and after 2-3 years, the interest rates would be added up, making it incredibly high (Jonathan Clarke, 2014).

This is another case which proves that the market was not efficient, but deceiving, which led the markets into the credit crunch.

4. With the development of Collateralized Debt Obligation(CDO), and the blessings of ratings agencies such as Moody’s and Standard & Poors, NINJA(no income, no job or assets) were sanctioned with AAA credibility to everyone who had no credit credibility what-so-ever (Victoria Ivashinaa, 2010). All the checks were out-sourced to for-profit institutions, who gave the ratings and rates as desired, in exchange for a substantial sum of money.

This scheme would not have been so fool proof if it wasn’t for EMH. But the belief that markets are always efficient and the rates quoted are unbiased led to the growth in intensity of damage that would be inflicted.
5. George Soros, in his book, stated, “On a deeper level, the demise of Lehman Brothers conclusively falsifies the efficient market hypothesis.” The investment banking industry collapsed, with the demise of Lehman Brothers and the government refusing to rescue them, Bank of America acquiring Merrill Lynch, Goldman Sachs and JP Morgan seeking safety of government regulation, the financial market was under distress.

Though some would argue this is not the fault of EMH, but due to the high risks taken by banks for the greed of money, which is also true, they never would have taken such high risks if they didn’t know that the people were blindsided by EMH and would not check the credibility, instead just believe the statistics shown and the prices fixed. Another factor which encouraged them to take high risks was knowing that the government would rescue them.

6. Every boom and bust has its own unique reasons. But the crisis of 2008 has 2 factors that brings the end of EMH.

1. The scale and scope of the failure is larger than any other failure other than the Great Depression, with the loss of about 10% of the world’s annual income.

2. The crisis was solely accountable to the financial markets and institutes with no interference of any other factors.

7. EMH assumes that the information processed is costless, which is flawed.

8. EMH assumes that the markets are costless to operate, which creates differences in calculations.

9. EMH assumes continuous trading and hence ignores the liquidity effects.
The most important thing which was proved by the Financial Crisis and EMH was that anything can be altered and everything can go wrong when human’s greed is involved. Just plain theories cannot explain the complex world we live in, which is coupled with human’s complex love for money. Since the crisis, it was clear that strict regulations must be in place to have economic stability of the financial markets and thus strict and rigid regimes were put in place for the banks after that. Some believe that the Private banks profited from the crisis as the regulations help with the profits, while others think the due to the regulations maximum benefits cannot be obtained from private banking.

2.4 Private Banking After the Storm

The face of banking changed after the crisis. Private banking also had to undergo a lot of radical changes, which were welcomed by some and some did not like it. The field of regulations, corporate governance and internal controls are changed completely now for the private banks.

Corporate Governance – The most important reform that came around was the need to have two-tier board for private banks, the management and the supervisory. All the shareholders, directors, supervisory and regulators would be involved in the system, and hence this would increase the transparency. Group wide corporate governance for banks are incorporated, which means that the banks are often in groups, either as a parent company or subsidiaries. Risk taken by any bank in the group will affect the whole group, this will limit the risks taken by the banks. The Basel Committee recognizes this by this sensible formulation: “[T]he board of the parent company should: ... have appropriate means to monitor that each subsidiary complies with all applicable governance requirements.” (Basel-III, 2010). Basel Committee also calls for a less opaque and less complex bank structure, which would lead to more
transparency. It makes Know your Structure, Understand your Structure mandatory (Basel-III, 2010). Supervising the people in the bank is now an important part as the unsupervised management didn’t work out very well before. Hence all the involved people are supervised. Appropriate and set incentives are fixed, without exuberant incentives like before, hence the bankers will not take risks owing to the greed of money (Hopt, 2013). FCA has introduced European Market Infrastructure Regulation on derivatives which increases transparency and reduces the risks inflicted by the derivatives (Authority, 2015).

Know your Client (KYC) is an important process now which helps the bank carry out due diligence on the clients before on-boarding them. If they are from another country, say US, they should make sure they abide by the rules set by FATCA and by the rules of the place they are opening an account in. The banks are now categorised as ring-fenced and non-ring-fenced, where if ring-fenced, it can protect the investors’ money up to 75% (Wallace, 2015).

The most important part of the process is the client on boarding process, where the background checks of the client is performed. This includes verifying their details, validating their source of assets, ensuring that the money is clean and there is no black money involved so that the bank is not used for any money laundering activities. These processes are crucial part of risk management, and if wrong the decisions are made during the process, it can lead to high risks for the bank. Technology can help immensely in these areas to mitigate the risks.

All these procedures take a lot of money and hence the private banks are now facing trouble as it is a lot of investment from their side for the process which must be carried out regularly with every client (Banker, 2009).

Here is a list of regulations introduced after the crisis:

Apr 2009-Hedge Funds & Private Equity (‘AIFMD’)
July 2009-Remuneration & prudential requirements for banks (‘CRD III’)
Sep 2010-Derivatives (‘EMIR’)
July 2010 - Deposit Guarantee Schemes
July 2011 - Single Rule Book of prudential requirements for banks capital, liquidity & leverage + stricter rules on remuneration and improved transparency (‘CRD IV / CRR’)
Oct 2011 - Enhanced framework for securities markets (‘MIFID/R’)
Oct 2011 - Enhanced framework to prevent market abuse (‘MAD/R’)
June 2012 - Prevention, management & resolution of bank crises (‘BRRD’)
Sep 2013 - Shadow banking, including Money Market Funds
Jan 2014 - Structural reform of banks
Jan 2014 - Shadow banking: increasing the transparency of securities financing transactions

2.4.1. EU Regulations
The European Commission since the crisis has constantly aimed to ensure the transparency, integrity, efficiency and fairness of the financial markets. In the beginning the focus was more on setting up a common market for the EU to trade in, but soon after the crisis, it was clear that a robust regulatory structure was necessary for increased investor protection and to regulate and control the new trading platforms (European Commission, 2017).

Markets in Financial Instruments Directive (MiFID) (Directive 2004/39/EC), has been in effect since 2007. This administers the investment firms and banks with respect to investment services and financial instruments, and governs the operations of stock markets and other alternative trading platforms. This gave raise to lower prices for investors to invest in, and a lot of competition in the market, and the flaws were evident during the crisis. It was then necessary to revise the regulations and rules to overcome the loopholes present in MiFID. On October 20, 2011, the European Commission proposed the revision of the MiFID (European Securities and Markets Authority (ESMA), 2017). ESMA (European Securities and Markets Authority) oversees the regulatory in the European countries, whereas FCA oversees the regulatory in the UK. Financial
and MiFIR (Regulations), making alterations to the MiFID Framework. The regulations are put in place to protect the investor interest and hence the private banking clients were happy with the development. MiFID 2 regulates the securities markets by ensuring transparency in the financial markets, and improving investor protection and enhancing the conduct of business rules and regulating the competition in trading. MiFIR further empowers the investors by improving transparency by making it mandatory to disclose data on trading activities to the public, disclosing transaction data and history to the supervisors and regulators. These reforms in the regulations was previously set to be in effect from January 3rd 2017, but has now been extended to 3rd January 2018 (European Commission, 2017). All these steps were taken to ensure the market efficiency, which was seen to fail with respect to Efficient Market Hypothesis, and the burst of the housing bubble, and the opacity involved in the ratings provided.

The European Commission also addresses the Shadow Banking system which was a factor in the financial crisis, due to its unregulated nature as compared to banks. Shadow Banking now consists of 25-30% of the financial institutes and hence regulation becomes mandatory. The Commission set up a Communication on the shadow banking institutes, which maps out the road map for these systems, limiting its risk-taking capabilities and increasing the transparency, hence decreasing the risks it imposes on the financial markets (European Commission, 2017).

The FCA on 22 July 2013 introduced Alternative Investment Fund Managers Directive (AIFMD), which is a regulatory framework for alternative investment fund managers (AIFM) such as managers of hedge funds, investment firms, private equity trusts. This framework controls and regulates the management, administration and marketing of alternative investment funds (FCA, 2017).
Pay and bonuses were regulated too. Previously due to the high bonuses, the bankers took high risks. It was seen that the bonuses were particularly high in the investment and private banks. In one private bank, an employee with 8 years of experience was getting £90,000 as base salary, and £272,000 cash bonus, which is 3 times his salary! And in addition to that, they would get deferred compensation shares etc. worth £132,000 (The House of Commons, 2010). To curb this, Committee of European Banking Supervisors (CEBS) brought in a new rule for bankers pay. These rules are reviewed by EBA, to ensure that they are in compliance with the Capital Requirements Directive (CRD) (European Banking Authority, 2017). CEBS puts a slab that the bonuses can’t exceed the salary of the banker, and at least half the bonus has to be settled in form of non-cash payments (HayGroup, 2010).

2.4.2. Anti-Money Laundering Systems and Controls
The HNWIs and UHNWIs have a wide range of services offered to them and to provide these services to the clients, the bank often uses the help of third party to providers to facilitate the whole process. The ease with which huge transactions can be done, opening online trading accounts, ease of mixing clean and dirty funds, etc. make the Privat banking very attractive to clients who wish to launder their money. Especially when there are a lot of parties involved in the transactions, often the due diligence is missed by a party due to the pressure that the transaction has already been started by the other party. The Financial Crisis put pressure on the reforms needed in AML, but the 9/11 proved that was completely necessary. It was a perfect example of cross border crimes, funded and assisted by powerful and high net worth individuals. This made the U.S to maintain and conduct enhanced due diligence (EDD) for cross border accounts (Banu, 2016). To control the AML, strict measure of Know your Customer (KYC), due diligence, and evaluating risk profiles, politically exposed person, considering domicile risk, etc. are considered strictly. These are explained in detail further. Domicile risk is when the person is not a national of the country he is opening the account in
then extra due diligence is performed on him to ensure that he is not using offshore accounts to launder money. All these are not only mentioned in the current AML statutory and regulatory, but will also be an important part of the EU Third Money Laundering Directive (3MLD) (FSA, 2007). All these measures are summed up in the Wolfsberg Principles, which holds good for private banking. This principle was drawn up in 2000, and revised in 2002 (The Wolfsberg Group, 2012). In the United Kingdom, AML was revised in the year 2012, where along with the regulatory, Her Majesty’s Revenue and Customs (HMRC), was also considered an important body to keep the tax evaders in check and to ensure that the institute is trust worthy and can be relied upon (PWC, 2016). The fines issued for AML has increased drastically since the crisis, which also puts the private banks under a lot of risk while into such acts. The graph below shows the drastic increase in the fines.

![Figure 5. AML-related fines by the UK Financial Conduct Authority (2002–2014)](image)

Note: Fines before 2013 are levied by the Financial Services Authority
Source: Data compiled from FSA/FCA reports of enforcement actions.

2.4.3. **KYC, Onboarding and Risk Assessment Procedures**

Aftermath of the crisis, it was very evident that there had to be reforms in the corporate governance of the private banking sector and hence a lot of processes had to be changed. This
did affect the cost and time taken for each process significantly but it is a lot regulated and safer in the current scenario. Compliance with AML, Know Your Customer(KYC), due diligence and sanction requirements continue to be the focal point before and during the client onboarding process in the Private Banks. These Private banking sectors must ensure that they are strictly following the regulatory framework set up and have additional regulations to follow if they have across the border operations (PWC, 2016). According to the new due diligence framework, all customers are subjected to the due diligence, and there is no minimum transactions or threshold which will expose them to due diligence. Every customer must undergo the process to be a part of the private bank and avail its services. Enhanced due diligence will be carried out when the client in question is not physically present for the identification process, and if they have any business transaction with any politically exposed person(PeP), or have any banking relationship with non-European Economic Areas (PWC, 2016). Know Your Client basically means, understanding why the client is opening their account, what would be the anticipated account activity, source of wealth, estimated net worth, the client’s business and their business structure. In UK, usually the source of wealth is inherited and hence the check was lenient, but the regulations are now thick and must be checked thoroughly for every client enrolling. It is usually necessary for the relationship manager to meet the client before the opening of the account. According to the Guidance, the relationship manager must go to the client’s house or business space and meet them to get a better idea about their business and their source of wealth. In most of the cases meeting the client is a necessity and hence total digitalization of banks is not possible. Most of the institutions have their own idea of how to analyse the risk level of their client. Generally they follow this framework with a little variations – clients who have engaged in tax ‘aggressive’ schemes, have banking relations with countries that are in the bank’s ‘hot list’, involved in manufacture or sale of armaments, engaged in manufacture or in business
involving toxic substances, which have significant environmental or human risk, have very less information about the client, have been involved in suspicious activities, or if the relationship manager or account officer thinks that the accounts needs to have transaction monitoring (FCA, 2017). Ongoing due diligence is also required as it not just a onetime process. Their nature and way of spending, the frequency of transactions must be noted to ensure curbing of any unusual activities. Politically exposed persons (PEPs) are subjected to enhanced due diligence and are considered as high risk clients. The directive requires the private banks to have appropriate risk analysing procedures to correctly categorize the client as PEP, approval from senior management has to approved before establishing and relationship with PEP, take enhanced steps to establish the source of wealth and checking the credibility of it, and maintain ongoing monitoring of the business relationship (FCA, 2017). The below illustration (Cognizant, 2013) shows the whole client onboarding process.

The above-mentioned process does provide high security and low risks to the private banks and to the clients, but it also comes with additional costs of maintenance. European Banking regulations has increased the costs incurred by the private banks and the cost of customer management by 20% to 30% (Cognizant, 2016). Under Retail Distribution Review (RDR)
UK wealth managers are prohibited from taking bribes or commissions from their clients and are supposed to disclose the whole costs of operations upfront to the clients. A lot of clients are turning to the services provided by online institutes which provide the same services for a much cheaper cost. MiFID II clearly states that the managers should be completely transparent to the clients about all the costs and charges hidden in the services provided to clients, which is quite challenging. MiFID II is expected to cost the banking sector billions of euros to set up the transaction monitoring, telephone recording, maintaining IT infrastructures to store all the transaction history. The commencement of the MiFID II regulation is also set to decrease the profit of private banking annually by 20-25% according to McKinsey Report (Cognizant, 2016). Private Banks in Europe as it is, now need to manage 30% more assets than before the Crisis to get the same benefit of the profit. The introduction of MiFID II will further reduce the profit margins to a great extent (Flood, 2016). The below chart (EFMA, 2015), by the European Financial Management Association show the forecast of the fees of private banking over the next five years. From what we can see, it is clear that most of the cost to bear increases rather than decreasing.

<table>
<thead>
<tr>
<th>Expected pricing usage in the next 5 years</th>
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<td>Increase</td>
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<td>-------------------------------------------</td>
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<tr>
<td>Advisory fees (e.g., per hour spent, per structure designed)</td>
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<tr>
<td>All in one model (one fee combining all of the above)</td>
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<tr>
<td>Performance fees (e.g., on annual portfolio performance)</td>
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<tr>
<td>Management fees (e.g., on assets under discretionary mandate)</td>
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<tr>
<td>Custody fees (e.g., on assets held in custody)</td>
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<tr>
<td>Transaction fees (e.g., by order executed)</td>
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2.4.4. Digitalization

Digitalization is causing a revolution in the banking industry. Retail banking is mostly carried out by internet banking and is almost digitalised, as one does not find the necessity to go to the bank to do every transaction. But the same level of digitalization when it comes to private banking and wealth management seems a little impossible as the whole bond is built on trust since it is a large amount of money. The processes such as client onboarding and KYC are crucial part of risk management, and if wrong the decisions are made during the process, it can lead to high risks for the bank. Technology can help immensely in these areas to mitigate the risks. Yet only 30% of the banks are digitized. Digital Technologies are slowly proving more efficient for Private banking and starting to question the traditional method of banking. Private banking is mostly focused on cost optimization and increasing profits that it often neglects the innovation and technology incorporation part, which is why digitalization won’t be such a fast wind as it would be with other areas of banking (EY, 2015). It is a hard shift for the managers to not have complete control over the assets and to just advice and guide. But if they don’t adjust to the changing digital times, they will have to give in to the competition and lose out on opportunities in the future. Some banks like Citi have accepted digitalization and done huge amounts of research and innovation in the field and changed the landscape of private banking through digital solutions (Bender, 2014). Although complete digitalisation may seem impossible and not safe, considering the malfunction of technology either due to its own functioning or the introduction of malware. The most recent example is Ransomware Attack, which attacked and locked a lot of major IT servers. If the transactions server were to be attacked, that would be leaking of private client data and breach of the Data Protection Act. The WannaCry or WannaCrypt Ransomware attack carried out in 2nd week of May 2017, attacked over 20,000 servers in over 150 countries, impacting UK Hospitals, German Railways, etc. (Caplen, 2017). Considering all these risks, it is always safe to have physical copies and some involvement of human labour too, to protect the interest of the HNWI and UHNWI.
Brexit is another factor to consider about the Private Banking changes currently, as the UK banks will be considered as foreign banks by the EU henceforth. The Article 50 has been triggered and private banks are speculating the changes that might come forth. While some think that this is a good thing of the UK, most of them believe otherwise. Julie Patterson, lead of asset management global Brexit at KPMG, says that the wealth managers have to start accepting that the news is not going to good for them (Attracta Mooney, 2017). The deputy chief executive of the Wealth Management Association, also shares his view that UK is going to pay a huge price with respect to private banking for Brexit.UK directly employs over 27,000 people in the private banking and the wealth management sector, and considering the huge numbers and the predictions by the professionals, it seems like that there are going to changes of huge magnitudes (Societe Generale, 2016).

2.5 Literature Conclusion

The Banking industry has been around since the early ages and has evolved and adapted to its environment with the evolution of mankind. Private Banking has perfectly showcased the theory of survival of the fittest. When the market was weak or vulnerable, it took maximum advantage of it and when the market is rigid as of now, it is playing safe adapting to every changing rule. The private banking sector before the crisis sure was a easy and unregulated sector, where the relationship managers enjoyed huge bonuses, base salaries, and the commissions and bribes from the clients. But the honeymoon period for the private banks was soon over with the exposure of money laundering and tax havens, and the complete fall of the financial market. Although it is argued that the financial crisis did more good to the private banking sector than it did harm, it won’t be wrong to state that the costs have gone up
and the profits have been compromised for the same. But the new regulations bought in by the regulators are sure a blessing for the HNWI and UHNWI, as they have complete transparency and know exactly what is going on, and can make informed decisions. Informed decisions, with all the data needed prevents another Financial crisis of the same kind, and measures are taken to fill in the loopholes which caused the previous financial crisis. No two crisis are the same, and hence one can never be fully prepared for a crisis, we can only safe guard what is going on. With the revolution of the digitalization, it is going to be even easier for the private banks to control the costs and to increase the efficiency, and the client will have the ease of access. But considering the most recent WannaCry or WannaCrypt Ransomware attack, it is quite evident that digital technologies cannot be used as the only means of banking and recording transactions. Hence, there must a perfect blend of digital technologies and the human touch too to maintain the perfect balance and optimum functioning. The private banking has completely changed with respect to the corporate governance as mentioned in the above sections, and coping with the regulations imposed. Some banks state that they are making more profits now after the crisis, while some state that they are making lot lesser profits.

The carefree nature of banks and the risk taking has reduced since the crisis with a lot of regulations and constraints. The processes are proving expensive and the rules stringent for the Private Banks to keep up with. Since the crisis was solely based on the banks behaviour, strict actions were taken to avoid it from happening again. Most of the regulations seems like grey areas to common people, but the banks are forced to follow them. More regulations are introduced or existing ones are changed to fit the ever-changing world of the financial markets.
3. Methodology

The word research is often used loosely, when there is no particular purpose of collecting the information, when the data is just being represented, without interpreting them, and no relevance to daily life (Walliman, 2011). A research can be defined as a systematic way of finding out things with a clear purpose, where the data is collected and interpreted systematically, thus increasing knowledge (Saunders, et al., 2012, p. 5). This process of collecting, interpreting and formulating the data needs a certain methodology. This is termed as research methodology.

Primary Research-

Primary research is mainly intended to be performed via interviews for this research. A research Interview is a productive conversation between two or more people, where the interviewer builds a healthy rapport with the interviewee by asking unambiguous and concise questions which will aid in their primary research data collection (Saunders, et al., 2012). Semi structured interview methods is used in these interviews, with a set of key questions and themes, but the questions may vary from interview to interview (Saunders, et al., 2012) depending on the speciality area of the interviewee. This structure of interview is used as it helps in analysis of the data by matching the variables(inputs on a subject from different interviewee’s on a topic) and arriving at a conclusion, as that is what the research demands. The interviews will be conducted in quiet places such as offices, to keep it professional and also to have a clear conversation and the recordings clear, without the disturbances of the outside noises. The length of the interview would vary from 25 mins – 1hour or more, depending on the availability of the person. Lenghty interviews is tricky as the professionals often do not have a lot of time to spare and hence it is best to cover all the questions soon.
Interviews with the professionals in private banking and wealth management sectors, telephonic interviews and face to face interviews. The interviewees come from different financial institutions with diversity in size, objectives and strategies of the institutions they work in.

Interviews – Interviews are usually a part of the qualitative research method, which involves seeing and understanding the complexities of the world from the interviewee’s/subject’s point of view (Svend Brinkmann, 2015, p. 3). It is a research which is open to discussion and is explained and described rather than calculated. Interviews come in different forms, and each produce different results -journalistic interviews are used to record a set of important events, therapeutic interviews help to improve a person’s life and share experiences, research interviews help to produce and share knowledge (Svend Brinkmann, 2015, p. 4). Research interview method is adopted in this dissertation, as the objective of the dissertation is to focus on the changes in the Private Banking sector after the Financial Crisis and this can be achieved by discussing the same with professionals in the field, and sharing the knowledge related to it. As a semi-structured interview, the discussion is based on the views of the interviewee, an attempt to understand the world as the interviewee perceives (Svend Brinkmann, 2015, p. 31). This kind of interview lies between an everyday conversation and a closed questionnaire, and is guided by the responses of the interviewee, aiming to achieve the objective of the research through conversations involving descriptions and explanations.

**Secondary Research**- Secondary data is the data collected during research, which is previously collected by other researchers for some other purpose. Collection of such data is termed as secondary research (Saunders, et al., 2012, p. 304). Once obtained these data can be interpreted in the ways which will support the research in question. With the Internet evolution, it has become increasingly easy to access the secondary data. Secondary research has a few points which must be considered. Firstly, the researcher must identity the data
sources which address the research problem. Secondly, it is important to retrieve the relevant information from the secondary data source, and thirdly, it must be evaluated as to how well the data is in relevance to the current research question (Joop J Hox, 2005). The advantage of this data collection method is that, the data collection time is relatively fast, and the cost is low (Johnston, 2014). Journals, internet, books, articles, reports will help in secondary research. Raw and compiled data is used in the secondary data collection process, which is open for interpretation and analysis. Exclusive research, up to date with the relevant topic are included.

3.1 Methodology Introduction

This chapter details out the methodologies used for the research, why they have been picked and how they will be implemented. The Research Philosophies, approaches and the research design together is represented by Saunders in a research onion (Mark Saunders, 2012, p. 160), which is divided into distinct layers. The different layers are philosophies, approaches, strategies, choices, time horizons, and techniques and procedures. Each one of these layers and the method adopted in this research are explained below. They are thought through and implementable processes. The time horizon chosen is cross-sectional as the research is carried out in a short period.
3.2 Research Design

Research Design is the detailed plan of how the research question will be answered and how each element to achieve that is addressed. This includes, how the data will be collected, analysed and interpreted, the constraints that might have to be faced, the ethical issues that needs to be considered, the time the research would take etc. This is a complex process and is illustrated as a research onion with various layers by Mark Saunders, Philip Lewis and Adrian Thornhill in their book Research Methods for Business Students (Mark Saunders, 2012) as seen above.

3.2.1 Research Philosophy

At every stage of research, we make assumptions to reach the next stage of research. The nature of assumptions about the data collected shape the result of the research result (Crotty, 1998). Research philosophy is involves the nature and development of the knowledge. There are different kinds of research philosophies such as – Positivism, Realism, Interpretivism and Pragmatism.

Pragmatism says that each concept is only relevant in a particular situation or to answer a particular question. It recognises that there are different ways of interpreting a view and there maybe multiple realities to a situation. Positivism is a research methodology which arrives at
conclusion through scientific methods, and believes there is on result to the reality. Realism is a methodology which says that what we sense is the reality and the objects we perceive exist independent of the human mind.

The research philosophy used for this research is Interpretivism. Interpretivism states that it is necessary for researcher to understand differences between humans in the role of social actors (Saunders, et al., 2012). This method is adopted as the social world of business is too complex to adhere to and analysed by laws and theories. Hence the positivism theory does not work with this research. Using Interpretivism, the different variables are studied and analysed in the light of the real world rather than theories and law. Theories and laws don’t really apply to the financial world as it is mostly guided by the human nature, as seen extensively in the past. Hence a human understanding of the issue is required for the research and for this reason, Interpretivism is selected for the research. Understanding why the incidents occurred, why the Financial Crisis occurred, how the banks played the role in it, all these require detailed understanding of the incidents and the processes that were involved. Hence, the result for this research objective can only be achieved by Interpretivism.

3.2.2 Research Approach
Every research has a theory on which it is based. The theory determines the design of the research and how we arrive at our research findings. There are two approaches that be adopted to do so – inductive and deductive. Deductive reasoning is when a set of ideas or statements are given and the conclusion is logically derived from the set, if all the statements in it are true. This method implies that if the statements/conditions are true, the conclusion must be true too (Mark Saunders, 2012, pp. 143-144). Hence it is pre-set and little room for discussions. The theory here is either falsification or verification, there is no in-between. This is mostly helpful in quantitative research. Inductive Approach, in contrast to Deductive approach, would mean understanding the situation resulting in the statement or condition, which would then formulate into a theory. Here, the data is collected first, and then the theory is formulated, based on the data (Mark Saunders, 2012, p. 146).
Inductive approach is used in this research to understand what is going on in Private Banking to better understand the nature of the problem. Analysis of a group of data would give rise to other data which is why the approach is inductive in nature. This is essential in understanding the financial markets which cannot be achieved by deductive approach because a rigid methodology which does not let any alternative explanations surface can’t be applied in this research. This approach begins with observations, and interpretation and theories are formulated at the end of the research. This helps in better understanding of the banking scenario in the field and hence the interpreted data is the result of a combination of all the observations, as during the interviews, different views with varied and diverse explanations are considered and every view is taken into consideration while formulating the results.

3.2.3 Research Strategy
A research strategy is a general way the research will be conducted (Alan Bryman, 2011, p. 26). The research strategy can be Qualitative, Quantitative or Mixed method. Quantitative research usually involves data collection technique, such as surveys, questionnaires and the data analysis includes graphs, statistics etc. Quantitative is mostly numeric in nature. It is generally associated with positivism, generally using predetermined and high-structured data collection methods. It is mostly uses deductive approach where the data is used to test a theory and often associated with survey research strategies.

Qualitative Research Design is associated with interpretive philosophy, as the researched is expected to arrive at an explanation from the phenomenon being studied. This research involves in depth studying and understanding. This design usually uses inductive approach, though there are exceptions to this case. The data collection in this process is not rigid and fixed, and can alter or emerge during the research process. The data collection process not only depends on collecting information, but also on building a rapport and trust with the interviewee so there is a smooth flow in the interview. Multiple methods Research Design is used when the more than one approach is used in the interview- deductive and inductive
approaches maybe combined. The data collection can be a mix of qualitative and quantitative and hence the data analysis will require a combination of the methods used for these (Mark Saunders, 2012, p. 164).

Qualitative research strategy is adapted in the research as understanding qualitative data will help in meaningful interpretation of the data collected through interviews. Since primary research is through interviews and research philosophy is interpretivism, the best fit for the combination is qualitative strategy (Saunders, et al., 2012). Social Constructionism means that the meanings are dependent on human interpretation of data and can be interpreted in more than one way. Since the data is dependent on the perspective of people, this data is more complicated than quantitative data. Quantitative strategy is not used in this research as the data is collected and represented by words and not numbers or surveys. Hence Quantitative strategy would be a wrong choice. Understanding the risks faced by the banks can be achieved by interacting with the professionals dealing with it on a very day basis. Talking to the professionals in the field will help in understanding various risks and their opinions on how to mitigate the risks

### 3.2.4 Sampling - Selecting Respondents

The sampling method selected for the research is non-probability sampling. According to Saunders, for a semi-structure/in-depth interviews, the minimum sample size is 4-25 (Saunders, et al., 2012). For this research, 4-6 samples would be considered, all working in the private banking field, or related to the field. This would give a fair amount of data, as all the interviewees are diversified, with different years of experience, and worked vastly in the field of interest. Probability sampling is not considered as this is in depth and semi structured interviews which probability sampling cannot accommodate. Probability sampling would work well with surveys, where there are many samples. There are different kinds of sampling methods used in qualitative research such as – purposive sampling, quota sampling and snowball sampling. Purposive sampling is one of the
commonly used strategies, where the participants are pre-determined based on the criteria relevant to the research question. The size of the sample is often decided by the theoretical saturation, that is when the new data collected no longer adds value to the data collected. Quota sampling has pre-determined sample number, decided based on few criteria such as age, occupation, gender etc. The difference between quota sampling and purposive is that the size of the sample is decided in quota sampling. Snowball sampling is when a researcher is put in touch with other interviewees through referrals from his previous interviewee. This is often used to get in touch with or gain access to the people who would not generally be accessible to the public or would not be willing to discuss the issues with the public (Natasha Mack, 2005). The sampling used here is snowball sampling. The private bankers are hard to gain access to and would not spend time on interviews. Hence it is important to have referrals to gain access to them. The other two methods cannot be used as the samples are not easy to gain access to.

3.3 Data Collection Instruments

Data is collected through one on one, face to face interviews with experts from the field of and related to Private Banking for the research. This method is selected as it gives extensive and in depth details about the topic, which is needed and necessary for the analysis of data. Group interviews were not chosen as individual’s voice is weakened and strong opinion from each individual will be missing. To carefully evaluate the results, strong opinions are necessary and not dependant opinions. Access to these professionals is a challenge as they would have NDA’s with the banks and offices they are working with and providing complete details which would make the research easy would not be possible. Hence a bird’s eye view of sensitive topics can be observed. Interviews are best analysed when recorded on a recording device, but not all individuals would be on board with the idea of being recorded. Hence consent from the interviewees is required before recording them else it would be an ethical breach. If an interviewee is not pleased to be recorded, short hand notes will be taken in that case, which would later be elaborated and put on paper. Though most of the interviews would be conducted on Skype calls or telephonic interviews, and recording is the best option, as the opinions voiced by the interviewee is best preserved and easily accessible anytime, unaltered. The telephonic interviews eliminate the issues of distance and reduces the costs.
3.4 Data Analysis Procedures

Theming and Unitising is used as the data analysis procedures in this research. The step by step method adapted for unitizing and theming are:

1. Read the first unit of data
2. Read the second unit
3. Repeat till all units have been assigned to categories
4. Develop category titles or descriptive sentences or both that distinguish each category from the others
5. Start over

This helps the interviews to be sorted and match all the views belonging to one category together to get the result and conclusion of the research (Saunders, et al., 2012).

The above method can be used in conjunction with anyone of the 3 other means of data analysis procedures for optimum results: Focusing on meaning, focusing on language, general analysis. The best method for this research is focusing on meaning. Focusing on meaning is further divided into – Meaning coding, meaning condensation and meaning interpretation. Coding involves breaking down the data into small bits and computer codes are used to record and combine the data as necessary. Condensation is compressing the data available in a condensed, that is formulating the data collected into shorter formulations. The best method for the current research is meaning interpretation. In this method, the meaning of the data collected is interpreted, critically analysed and often leads to data expansion due to the detailed analysis (Svend Brinkmann, 2015, pp. 220-235). An ethical issue concerned with this method is that, the interpretation to a single statement can be done in various ways,
depending on the researcher. Hence a fair and accurate interpretation of the interviewee’s statements are mandatory and must not misinterpret the data in anyway.

3.5 Research Ethics

Ethical issues are common when the private lives or sensitive information is involved. Given the topic of this research is changes in the Private Banking sector, the title itself says private. Hence the ethical considerations are important when conducting the research. The ethical issues can be divided into 7 stages through the research (Svend Brinkmann, 2015, p. 85):

1. Thematising – The questions in the interviews must be formed just so that the information derived from them proves beneficial to the current situation in the issue being addressed. The purpose of the interview should revolve just around the information of relevance without involving any unnecessary information which may breach or prove unhelpful for the research.

2. Designing - The interviewee must be explained and informed about the exact purpose and objective of the research. There must be no personal questions and a consent form informing the whole purpose of the interview must be sent to the interviewee before the commencement of the interview.

3. Interview Situation – The personal choices of the interviewee must be considered and they have the right to stop the interviewer at any time during the interview and refuse to answer anything if they feel that it violates the code, personal or irrelevant.

4. Transcription – The statements made by the interviewee must be honoured and protected and cannot be misrepresented or twisted in any situation.
5. Analysis, Verification and Reporting – The interviews can be analysed in detail, but they can be interpreted in various ways, and hence the consent of the interviewee and verification by them before publishing your interpretation is necessary. The confidentiality must be maintained and hence consent is required while publishing private interviews in public platforms (Svend Brinkmann, 2015, pp. 85-86).

The individuals partaking in the interview must be notified about the interview before the commencement of the interview, which is called informed consent. Informed consent can be done in two ways which is written consent and oral consent. Oral consent is verbally explaining the process and the information needed and the participant verbally consents for the interview. There is no physical evidence where the participant signs. This method is usually used when the research has minimal risk. Written consent, is where the terms and all the conditions are put down on paper and the participant physically signs the paper. This is used for high confidentiality and high risk research. The method used in this research is written consent as the participants are private bankers and the information is highly confidential and sensitive (Natasha Mack, 2005, p. 11).

Contacting the Private Bankers without knowing them would not land any interviews as they are quite inaccessible. Hence in this research, I’m using existing contacts to gain access and through the existing contacts gaining access to new contacts. Before the interview, a clear purpose and a letter from college stating the reason for the interview and the agenda of the interview is given to each of the interviewees. Sensitivity and confidentiality is maintained throughout and if they wish to remain anonymous, their identity will not be mentioned. A consent form will be given to the interviewees before the interviews stating their consent for the interviews.

3.6 Limitations of Methodology

1. The research can be conducted from the banks perspective only, as it is difficult to get in touch with HNWI and UHNWI. Even if they are available it’s very unlikely that
they would want to discuss their financial status. Hence, we can answer the research question from the perspective of a banker, but not from the view of a client.

2. The banks are highly confidential and hence would not give out much information about the technologies used and the process operations. This explains why there is limited research in the field. There is a huge competition in the field of digitalizing the banks, and numerous companies are assisting the banks with it. But understanding the details of digitalization is not something which will be openly discussed fearing cases of imitation.

3. The primary data will be dependent on 4-6 individuals and their perspectives and hence maybe varied. Thus, the conclusion arrived at may not be unanimously accepted.

The confidentiality can be overcome to an extent by following strict ethics and if the interviewee feels comfortable and thinks they can trust the interviewer, they would give some information, if it is ethically binding. The trust and rapport must be built with the interviewee during the interview to get maximum results from the interview.

The primary data collected can be analysed extensively and in depth interviews can be carried out by asking interviewees about the other prevailing views so that other sides of the topic and perspectives can be covered too. Hence, this would give an overview of all the sides of the issue and would not be one sided.

4. Research Findings

The principal outcome of the research is called research findings. The research is carried out by semi-structured and in-depth interviews, as discussed above. There were 4 interviews
conducted with private bankers and investment bankers, who were kind enough to spare some time from their busy schedule and accommodate me. When the interviewee does not state the bank names, I have respected their privacy and let it be anonymous. The first interview was with Casimir Veisblat, a financial consultant, who has worked with the investment banking and private banking in several banks for several years now. The second interview was with Karthik Prasad, who has worked with the investment banking and private banking for over 10 years now. The 3rd interview was with Kaushik Gandhi, who has had over 20 years of experience in the investment and private banking field. The last interview was with Krishna Prasad, who has worked with Private and Investment banking from over 10 years. All the participants in the interview have worked for the above-mentioned years in the European banking industry and thus provided valuable insights to the research.

For the ease of understanding lets call the participants Participant1 (P1), Participant2 (P2), Participant3 (P3), Participant4 (P4). The semi structured interview questions are mentioned below with their views on the subject. The answers of the all these interview questions together answer the research question – How Did the European Private Banking change after the Financial Crisis of 2008 with respect to Corporate Governance and Regulations?

Interview Questions:

1. Please describe Private banking in a nutshell.

P1 explained this as “a very personalised banking service for high revenue earners”. It is a very demanding banking service, which can go in two ways, where the private banking provides the individuals with the services and it also involves the wealth management side which takes care of the assets and for investment planning. All the other participants also had similar responses to this question where they described it as a personalised service for high net worth individuals.
P2 explained private banking as a tax haven for HNWI, and was also used for evading tax in different ways. During the financial crisis, regulatory realised the ways private banking was being misused and introduced regulations to get the money laundering and off shore tax havens in control.

2. How was Private Banking with respect to regulations and governance before the Financial Crisis?

P1 states that the regulations and the governance were less important for the banks as the private banks were small entities with close relationship to their clients and a more geographical approach, which had clients in their locality, and focussed more on providing services to the clients rather than the regulations. With the crisis, there were a lot of mergers and acquisitions, and with the big institutions that came into place, came the regulatory approach. Tax efficiency is a service offered by private banks, and it is not illegal. Money laundering was an issue before the crisis generally in the banking, as there was no regulation in the banks. Though the money laundering was not at a higher rate in private banking as compared to the other banking sectors.

P2 explained private banking as a tax haven for HNWI, and was also used for evading tax in different ways. During the financial crisis, regulatory realised the ways private banking was being misused and introduced regulations to get the money laundering and off shore tax havens in control. The private bankers did not have a particular onboarding processes for the private banking clients, and the geography would not really matter. There would not be any checks performed as long as they know that the client has huge sums of money to keep in their banks.

P3 stated that private banks were enjoying good profits during that time. The private banks had limited processes and would manage the clients in a cost-effective way. There was limited transparency and no clarity to the clients.
P4 stated that there were no regulations, large number of tax havens and tax arbitrage. Due to the absence of regulations, private banking had dodgy clients who were using private banking services for tax evasions and other services.

It can be seen here that 75% of the participants have an opinion that private banking was used as a vehicle for tax evasions and money laundering, while the other 25% says that money laundering and tax evasions did happen but it was a general banking occurrence rather than just in private banking.

3. How did the Financial Crisis affect the private banking sector?

P1 states there are two ways the effects of the crisis – 1. The financial crisis was in favour of the private banking sector, as there are a lot of high earners in the world, and hence the private banking sector has been doing well, and the banks have continued to grow. 2. Due to the mergers and acquisitions there have been a lot of players. All the major financial institutes have started growing in the private banking sector, giving rise to expansion of the private banking sector.

P2 stated that the geographical risks were given importance, PEP(Politically Exposed Person) checks, Domicile risk became mandatory. Domicile risk means if a US national was opening an account in EU, then the bank had to ensure it also complied by the FATCA regulations. Local agencies were hired to perform the checks mandated, as there were so many checks to be performed. The crisis was not fore seen, and the period before the crisis was easy money and great amounts of liquidity and money movement in the market. The taxpayers were not happy that the banks were bailed out with their money. Under the pressure, they had to bring in regulations to ensure that it doesn’t happen again.
Since then there has been a lot of digitalization, reporting increased, and a lot of processes were put in place.

P4 states that the regulations bought in after the financial crisis put a stop to laundering and structural landscape of the bank changed and the bank and client relationship changed. Market environment and the operational models and industry dynamics has changed. The HNWI has increased in Asia and decreased in Europe. The Private banks and their rules and regulations have become more transparent. But all these are part of the economic cycle, which is followed by regulation and deregulation. For example, Trump wants to deregulate the private banks, so there is more money for business.

The responses complement each other and each response narrates one side of the story. It is just a nice narration of the whole financial crisis and its effects on the private banking sector.

4. Clients lost a lot of money during the Financial Crisis. Did this make them lose confidence in the private banks?

P1 stated that the people who suffered from the crisis were the low earners rather than the rich people as they were selling their houses lesser than what they owed the banks. Hence the clients of the private banking sector did not lose much as they left the money in the banks waiting for the storm to pass.

P2 stated that the immediate impact was that the client lost the confidence in the banks, but now with more regulations and more controlled way of working of banks, they have regained it. They also provide a lot of safe ways to invest money which attracts the clients.
P4 states that banks did lose clients who had money in smaller private banks. But time heals everything, as now the amount of money deposited in the private banks are even more than in 2007. These are economic cycles which are inevitable. P3 also shares the same opinion.

P1 differs in their view that private banking clients did not lose any money during the crisis, whereas the other 3 participants agree that the clients lost money but the situation of private banking is far better now than how it was before.

5. What is your take on the regulations imposed on the private banks aftermath of the crisis? Do you think we need more deregulation or regulation?

P1 states that the regulations were put into place to protect the client, and hence it is a good thing. But the costs it entails to implement the regulations, will be charged to the clients and hence the services will be more expensive to avail. From a bank perspective, it postpones some areas of growth as the projects must be scrutinized to check that it is in accordance with the compliance. Hence it means a lot of investment, which stops the investments in other areas of innovation and growth.

P2 says that the regulations have been good influence on the private banks. Lloyds repaid the whole money which government had paid to bail it out with during the crisis, which shows that they have been profitable. The regulations have been helping banks to be profitable and it has been helping them generate revenues which makes it possible for them to repay the government, which will indirectly help us as common people as the government would reduce the taxes in return maybe. A lot of clean money is being circulated in the private banking sector because of the regulations which is a good thing.
P3 states that MiFID II protects the investors and is all good, but it all comes with a cost. It would give the protection levels according to the client category, protecting the client interest. And the trade prices are exact. These are good things, they come with a cost but it gets the banks in the better place. Private banks must be ring fenced from the investment and corporate side. The UK private banks are told they must ring fence their banks in the next 1 year from investment banks so as to protect their investors.

P4 states that whether regulation or deregulation is needed for private banks is not clear, the optimum spot in the banking is not yet found. We are still in the process of trial and error, and regulation and deregulation is a cycle. When the markets are at an all-time high we should think about how to bounce back during a financial crisis and hence being prepared for any financial crisis.

All the participants agree that the current regulations are needed for harmonious running of the financial markets. P4 however has a bit to add to it stating that the economic cycle consists of regulation and deregulation and we follow a trial and error method and we are nowhere near perfection, which seems legit.

6. Does the high amount of processes and the cost it entails effect the clients from availing the private banking services? Does the cost affect the banks?

P1 stated that the high amount of processes and the time and the money it takes to get a client onboarding, does not really stop the clients from availing the services. The banks which will re-invent themselves around the regulations and innovates around it will grow and the rest will perish.

P2 states that it’s not an issue, and is in fact more profitable. Banks must invest in technology else they will die soon, instead investing is better. It is an overhead in short term but will act...
as a benefit in long term as they will be carry out a lot of processes more efficiently. Lloyds paying back £20million is huge, and they have only been able to do it as they have invested it in the right places.

P3 states that clients have it good as they get good comfort to know that their investment is in good hands. The clients are benefiting from the process. When P3 was working with Credit Suisse, reporting had to be done daily. But at the end of the day you have a true picture of the exact cash available, and hence will the banks will have exact idea of how much they have and can ring fence the money so they don’t spend the money, and will be in control. The processes though cost money provide good results. Profits are being impacted, due to regulatory demands.

P4 states that costs are increased but they are providing the services and most of it has gone online so they are saving costs in some way. Cater Allen is a private bank in UK with no physical presence at all.

Again all the participants agree that the costs and the processes doesn’t affect the bank or the clients and they are a necessity as they actually reduce the costs in other sides of the functioning.

7. There has been a lot of talks about digitalizing the process of private banking, although majority of them follow traditional banking methods. What is your take on digitalization and when do you reckon the banks will be completely digitalized?

P1 states that we will be digitalized in the next few years, and the banks that don’t will not survive the market. The additional challenge for the private banking sector is to ensure the confidentiality and security of the data.
P2 states that the digital revolution has become a blessing to the banking industry, with immediate transfers and easier and ease of access. It people close their transactions so they have their transaction history clear. If the technology never existed then all the regulations like FATCA would be manual which would be very gruesome and time consuming, which would take over few weeks. Private banking is now using so many digitalized tools like Charles River, Avaloq, and other products in the market which help with a lot of processes.

Although complete digitalisation is specific and not generic, depends on various factors. Some banks in private banking have been operating from centuries and transporting everything into a digitalized storage is not possible, hence they must see how much of it can be digitalized. There are a few banks in UK which don’t have single branch, they are starting fresh and hence have no package which they must carry, they can easily blend with the current technology. But it will be digitalized in the next 5-6 years. There are some regulatory which discourages digitalization, where human presence is actually needed. Hence complete digitalization is not possible.

P3 on the contrary states that everything is online, private bankers conversations are recorded, the deals are executed immediately, and hence it is all online already. But most of the banks are already online and digitalized.

P4 states that it is not possible to digitalize 100%, but 70-80% can be in the next 5-6 years. There needs a human touch for some processes.

Except for P3, all the other participants think that the banks will need another 5-8 years to digitalise to a large extent. P3 says that it is already digitalised, and as it depends from bank to bank, we can conclude that some banks are more digitalised than the others.
8. According to you, are there any elephants in the room currently that needs to be addressed in Private Banking? Would you reckon any changes in this sector?
P1 states that the cloud services is going to take over the working of banks in the future, and the regulatory has to ensure that this goes smoothly and the client data is properly protected. The banks have to ensure that the KYC process is continued even after the client is onboarded and the KYC is updated throughout.
P2 says that private banking is no longer private anymore, anyone can go open a private bank account now. It is not a privilege anymore and is accessible to common man. There is a private bank called Coutts, which was only exclusive to the Royal family few years back. Now it is accessible to everyone. They have become wealth management companies now. Need to get back the essence of private banking.
P3 says that a lot of banks have private banking and investment banking like Barclays, and the private banking clients also access the wealth management automatically. The clients should have a choice which they want to pick. Brexit will change the private banks in UK as the trade between UK banks and European banks will change.
P4 states that the tax haven are still operating in a different way, even with the regulations there is a lot of ambiguity in that area. It needs more transparency to ensure tax compliance. Documented law must be followed, but what is not documented is being be interpreted in different ways.

9. Was the Financial Crisis a boon or a bane to the Private banking sector?
P1 states that the financial crisis is a boon to the industry as it bought a lot of private banks together and increased the profits.
P2 states that the financial crisis regulated the banks in an excellent way and letting the private banking do what they are supposed to do.
P3 states that the financial crisis is in good for the private banking industry as the clients have complete transparency. Some banks are recently exposed that they are fixing pricings, without keeping the investors interests in mind. They have been fined for that and regulations will control them. Hence regulations introduced are keeping the financial industries in control.

P4 says that, as a banker the regulations after financial crisis have the banks better prepared for the next crisis with the capital allocation. This is a never ending economic cycle, and to illustrate it the perfect example is - Obama introduces so many regulations whereas the trump administration is deregulating

4.1. Findings And Recommendations

The findings from the interviews of the 4 private and investment bankers can be summed up to answer the research question: How Did the European Private Banking change after the Financial Crisis of 2008 with respect to Corporate Governance and Regulations?

The whole landscape of the private banking has changed since the financial crisis. The free and unregulated functioning of the private banks were often misused for money laundering or illegal tax evasion techniques. The private banking firms were small and operating more locally, and the relationship managers had a very close relationship with the client. With the fall of the financial markets, the private banks started mergers and acquisitions and grew out stronger from the crisis. The major changes have been in the regulations and the corporate governance of the private banking. A lot of processes are introduced and followed strictly like Know your Customer(KYC), due diligence, domicile risks checks, politically exposed person (PEPs) checks, etc. which gives increased transparency but also comes with costs. These costs seem huge for the banks to bear, but according to the interviews, it seemed that these costs were worth bearing for the better efficiency of the private banks. Regulations are keeping a strong check and control on the private banks which is a good thing as the bankers
will not take any risks. Digitalization according to one candidate was done in the bank they worked in, and it depends from bank to bank. All the responses said that the private banks would be digitalised to a maximum extent in the next 5-8 years, which shows that we are nearly there. Although it is found out that 100% digitalization of banks is not possible as private banking needs human touch to it. Although complete digitalization is not recommendable considering the latest WannaCry/WannaCrypt Ransomware attack which attacks the servers and risks losing and exposing the data. Lastly, all the responses were unified in agreeing that the financial crisis did more good to the private banking than harm. This is in terms of the banks side as well as the client’s side. But it was also gathered that the regulation and deregulation is the way of the economic cycle and now a decade of regulation is almost coming to an end and the deregulation is bound to start. Brexit will certainly change the UK and EU Banking and Private banking once again, and the whole landscape will remodel again.

The main recommendations that can be gathered from the research is:

1. The private banking will be moving to cloud technology, so we have to make necessary arrangements for it.

2. There is a lot of ambiguity related to the tax havens which has to be cleared out.

3. The essence of private banking has to be brought back.

5. Reflections

In Hindi there is a saying “Gurubhyo Namah”, which means that the one who teaches you an guides you is the God in front of your eyes. I owe everything I have learnt in my MBA to all the lecturers who have guided me and helped me. In 1st semester finding a topic for the research proposal seemed like a herculean task. But as we were told, it all fell into place. I
was always interested in Finance, and wanted to do my MBA in Finance, but unfortunately it was not available in the batch I was joining. There was my first lesson learnt, never leave things till the last minute, as we will miss out on the opportunities. So, when I was told we could pick any topic for our dissertation, I knew I wanted to do it in Finance. Picking the topic was not easy, as banking is not a new concept, finance is not a new concept. Hence zeroing in on a topic took time. I would write down all the topics I had in mind and start evaluating the practicality of it. With some guidance from PJ Paul I picked out a topic, and with approval from Enda Murphy I went ahead with the topic. There was little change to the topic as suggested by Enda Murphy and I was sure about my topic and happy about it. The reasons for this was several, because I knew I wanted to work in that field and the internship I was doing was in that field. With the approval I started the dissertation. The most challenging factor I found in this whole research process was that the participants of the interview were busy and had tight schedules. With a lot of difficulty, I could interview 4 investment and private bankers. I realised there that I should have tried earlier and harder then, probably I could have more time in hand to carry on the research. The research has prepared us in a very practical way, and helped us know how to take a practical approach to life and its obstacles. It has taught me a great deal about time management, determination, confidence, and the ability of decision making. When I joined DBS for MBA, I was expecting a degree, but DBS has completely changed me as a person and turned me into a self-thinking, and confident personality. Right from the first, it has taught me the importance of punctuality and the importance of time. This MBA has given me an opportunity to not just get a post-graduate degree but to also become a better person. It has improved my communication and presentation skills. The multi-cultural environment has broadened my mind and given me an opportunity to learn. Above all this has increased my research skills to a great extent, the skill of getting into depth in some subject, I learnt from this MBA.
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Appendices

Proposed interview questions – the interview conducted will be semi-structured, hence only the important questions are noted.

- How was Private Banking before the Crisis?
- How did the Financial Crisis affect the Private Banking sector?
- What were the measures taken to recoup with the crisis?
- What are the changes in Private Banking after the Financial Crisis?
- What changes are needed in this sector for future enhancement?
- Do the institutions need more regulating in the current situation or deregulating?