The fifth noble profession

By Christopher Peary
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Jay Hughes, author of “Family Wealth, Keeping it in the Family” and “The Cycle of the Gift,” often speaks of the four noble professions: law, medicine, high academia and clergy. Jay is an emeritus member of the Ascent Advisory Board, and at our last meeting, he posed a thought-provoking question: “Is banking the fifth noble profession?” The question got us thinking, and we concluded that, while banking is currently seen as a commodity, it doesn’t have to be. Banking could and should be considered the “fifth noble profession.”

The current state of banking for families and family offices

Today more than ever, banking for families with significant wealth is an overwhelming experience. Families often have dozens of LLCs, partnerships, corporations, trusts, foundations and individuals with multiple accounts and multiple signers. Wires, capital calls, purchases, bill payments, deposits, cash management, numerous family office professionals and family members are involved: It’s enough to make even the most routine transactions complicated.

Despite the increasingly complex needs of families with significant wealth, why are so many families continuously focused on mundane issues like interest rate yields and free checking? It’s because banking has become a commodity, and wealthy families expect their bankers to be responsive and accurate—and that’s about it. In banking, where most families (or family offices) communicate with their bankers daily, there’s an opportunity for so much more.

Issues with a tactical approach

Many families are frustrated with their banking relationship or simply don’t think about it much at all. Family members just expect their family office to take care of all banking issues without any mistakes or breakdowns.

Families and family office professionals we work with often don’t realize that many banking issues can be traced back to a tactical approach to banking.
What do we mean by a tactical approach? A tactical approach is one where the banker is merely an order-taker following directions: make this wire, set up this account, close this account, etc.

Often it isn’t the tactical solutions themselves that are flawed. It’s just that the banker and the family never stopped to consider what the tactical solutions were meant to accomplish. To have a truly effective banking relationship it’s important to take a step back and see the bigger picture. Strategically, what is the family looking to accomplish with its banking? What are the family’s goals, missions and plans for the wealth? Understanding these issues allows the family and its bank to choose the tactical solutions that align with the family’s vision.

A perfect example is a banking RFP (request for proposal). In our experience, nearly all of the banking RFP questions address only tactical issues. Typical questions include:

- Describe the types of accounts you offer and any restrictions on those accounts.
- What is your overdraft policy and the fees associated with it?
- What are your wire transfer fees?

What is most surprising about banking RFPs is that there are many questions that go unasked, such as:

- How does your firm strategically advise on efficient account structure?
- What standard security measures do you recommend?
- How experienced are the professionals executing the transactions?

Families and family offices become so fixated on the tactical details that they fail to address the development of a sound banking strategy. Banking is often an afterthought even though it’s the one aspect of wealth management that affects the family every single day. Why should families care? Because it costs them a significant amount of time and money. A tactical approach to banking creates breakdowns in: (1) efficiency, (2) security and (3) client experience.

**Inefficiency**

One example is the Johnson family. Their perceptions are similar to the vast majority of families with significant wealth. The Johnson family had been with the same bank for nearly a decade. Their experience with their current institution was unremarkable and, unless they had an urgent need or a mistake was made, they rarely thought about their bankers at all. Over the years, they opened dozens of accounts. Each account served a specific need, and the signers were generally the family office professionals with one or two family members. They purchased a new rental property and opened an account; a grandchild was born, and they opened an account; they needed to fund investment contributions, and they opened an account.
What once started out as a simple and organized banking relationship became cluttered and ad hoc as the years passed. As the family office professionals turned over, signers on the accounts were rarely replaced, and accounts that once served a purpose would lie dormant and forgotten. In the most extreme cases, accounts were uncovered that had signers who had retired or left the family office. It even reached a point where simply finding accounts, looking up balances and moving money had become a clunky and painful process. This inefficiency continued for months until the frustration level finally reached a point where the Johnsons decided to find a new bank using an RFP process. The Johnsons were extremely selective in the firms they chose to participate in the RFP. They believed the RFP process was thorough yet straightforward and had high expectations for the professionals they would select.

Three reputable and impressive firms made it to the final selection stage. The Johnsons’s criteria to make their final selection were fairly simple. First, the firm needed to charge the lowest rate on its loans (the Johnsons had a number of credit lines they used to fund family operations). Second, the firm needed to charge the lowest fees on its accounts (with their high volume of accounts and transactions, even a small difference in fees could save the family a great deal of money.) Finally, the bank had to be a stable financial institution.

The Johnsons selected the bank based purely on the responses to the tactical RFP questions. The family office was proud to report to the family that the bank would be saving them tens of thousands of dollars a year in fees and interest expense. One of the tie-breakers in selecting the new firm was their online banking platform: it received high ratings, and they were sure it would remove all the pain and frustration of their previous experience. Each of the bank accounts had been set up just as before, and all of the accounts were loaded onto the new online banking platform. The family had everything in one place for the first time, and things worked beautifully...for awhile.

The Johnson family made the jump to a highly reputable firm with great technology and completely retooled their banking relationship while saving money at the same time. On the surface this sounds like a success story, but as time passed, things began to change. Once again, new accounts needed to be opened, signers became obsolete and some new accounts were added to the online system while others fell through the cracks. The firm that was initially so eager and available when the family first came aboard had moved on to other things. The bank began to experience employee turnover and now seemed slow to react—and even annoyed—by some of the family’s requests. By the end of the relationship, the family was actually paying more than it had at its previous institution simply because of poor planning during the setup phase and changes that took place along the way. After the effort and time associated with switching institutions, the Johnsons found themselves right back where they started.

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Fraud

Very few issues make a client take notice like fraud. Families can be frustrated, annoyed and completely fed up with their bankers, but a monetary loss is tangible, and it’s felt in an entirely different way. Families with significant resources will always be targets for financial fraud; however, banks have a number of resources that families can take advantage of to ensure they are as protected as possible.

Proper checks and balances and communication between family office professionals and bankers are critical. We know of a family that needed to purchase a piece of equipment for a new restaurant they were opening. It was a dream of theirs to open a restaurant, and they’d finally broken ground. The piece of equipment they needed cost $150,000, and the seller was in Beijing. The family office received an invoice for the full amount, which was expected to be paid up front. After debating for a few days, the family voiced their concerns about sending $150,000 to a foreign country prior to receiving their equipment.

One option would be to structure a commercial letter of credit for which the bank guarantees payment to the seller upon inspection of the finished equipment by a third party. Commercial letters of credit are common among business banking transactions, but they are also available to families when purchasing expensive goods from overseas vendors where there may be some risk of fulfillment. Without an experienced strategic banker to raise this issue, a junior family office professional went ahead with the instructions and sent the wire to pay the invoice. Without proper checks and balances by a senior family office professional and/or the help of an experienced strategic-thinking banker, the payment was wired to Beijing. After a prolonged back and forth with the vendor to return the funds, communication ceased. The equipment was never received, the funds were never returned, and the family’s dream project was delayed for months.

Clients often inquire about the strength of a bank, the protection of their private information, even things like FDIC insurance, but families rarely consider what safeguards are in place for normal day-to-day processes.
consultative side of lending and borrowing. Very few lending transactions for families of significant wealth are simple. Even a simple stock-secured loan can be complex.

Consider a family that had a large stock position in a company that had recently gone public. Not yet ready to sell the shares, but wanting to pull some equity out to make an all-cash offer on a beach home they’d had their eye on for years, the client approached a handful of banks about a line of credit secured by the stock. Three banks arose as serious contenders for the transaction. The client chose to go with the bank that offered the lowest rate. In this case, the lowest rate was a difference of 10 basis points or 1/10th of 1 percent.

A couple of weeks into the deal, a number of obstacles emerged. Although the stock came out of its lock-up period after the initial public offering (IPO), the client’s shares were still restricted by Securities and Exchange Commission (SEC) Rule 144 based on the way the client had obtained them. After a few months of back and forth between the bank and the client, the bank finally decided to walk away from the deal. The client was left without the line of credit they sought, the ability to bid on the home they coveted and months of time wasted. The bank with the lowest price, so eager to win the business, hadn’t stopped to consider the nuances of the transaction and ultimately failed when the client needed them most.

**Strategic banking**

At their core, bankers are capital advisors. They advise families on how to use leverage, how much liquidity is appropriate, how to structure accounts, move funds, protect their assets and protect their privacy. Bankers are also facilitators. Families have projects, investment deadlines and dreams. The banker’s job is to perform as an advisor and facilitator to help the family complete its projects, meet their deadlines and realize their dreams.

Imagine a banking relationship that is efficient, secure and produces a tremendous client experience. A bank’s reputation, stability, technology, fees, rates and products are extremely important, but understanding a family’s goals, operations, legal structures and how family members communicate with one another is what truly ensures an efficient and secure banking structure.

Working with a bank that merely executes on orders and charges the lowest fees did not help any of the families mentioned above. If they had worked with a strategically thinking banker, how might their experience have been different?

A strategic banker would learn about each of the family members and seek answers to questions such as:

- What role does each family member play?
- How do the family members interact with the family office?
Imagine a banking relationship where every account is organized, audited for accuracy and available on one convenient online banking platform.

- What are the family’s projects, investments, passions and philanthropic endeavors?
- What is the best way to structure accounts and reporting to ensure security and efficiency?
- Are multiple accounts for each entity necessary?
- What checks and balances should be put in place to protect the family?

Once bankers have an understanding of all of the strategic aspects of a family’s banking needs, they can implement tactical solutions that can provide the results that the family wants.

Imagine a banking relationship where every account is organized, audited for accuracy and available on one convenient online banking platform. The banking platform provides treasury and cash-management capabilities where family office professionals can send wires and pay bills. The client has the ability to create different levels of delegated authority to view or initiate transactions. Each account has checks and balances in place to ensure security, and all transactions are verified prior to their approval. Experienced strategic bankers provide advice on an ideal account structure, privacy, security and efficiency.

Picture investment consulting that’s integrated with cash management and reporting that’s consistent and consolidated for both banking and investment accounts, even if assets are held at different financial institutions. Imagine banking and other financial professionals using this information to educate junior family members about investing, saving, debt and financial responsibility. The banker and family continuously review the banking relationship and look for ways to improve upon it. Investments and estate plans are reviewed frequently.

Why would banking be different?

In the absence of a strategically thinking banker, the seamless banking structure described above simply can’t exist. Asking your banker to think strategically simply isn’t enough: it takes unique conditions for a strategic banking approach to thrive.

1) The strategic banker must have sufficient experience, including the ability to handle day-to-day transactions. (If the banker does not have the experience, they will become an order taker.)

2) The strategic banker must have a limited number of clients to allow for the time to be strategic. (A banker handling 200 relationships and 2,000 accounts does not have the time to be strategic.)

3) The strategic banker must be part of a larger team of professionals in other disciplines to allow for true integration.
It often feels easier to do nothing rather than to evaluate your current bank and explore what other offerings exist. Even the thought of switching banks can be daunting, but the cost of sticking with the status quo is inefficiency, lack of security and a less-than-ideal client experience. Even a few basic questions during the interview process can quickly identify whether a bank takes a proactive strategic approach or whether the bank is simply reactive from a tactical perspective. When strategically focused questions are put alongside the more traditional tactical questions that are typically asked, the difference in insight gained is glaring.

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<tr>
<th>Strategic question</th>
<th>Tactical question</th>
<th>Insight</th>
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<td><strong>Efficiency</strong></td>
<td>What products and services do you offer?</td>
<td>The strategic questions offer insight into a firm’s approach to structuring a banking relationship in a way that will ultimately achieve the results a family needs for their specific situation. Meanwhile, the tactical questions do nothing more than provide a laundry list of options, costs of the options and a handful of resumes.</td>
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<td>What is your technological offering?</td>
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<td>What is the cost associated with these resources?</td>
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<td>What are the credentials and backgrounds of your banking staff?</td>
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<td>How do you advise on a family’s banking to determine what banking structure, products and services are the best fit for them?</td>
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<td>What are the characteristics of your banking team that promote consistent efficiency for day-to-day operations?</td>
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<td>Describe your process for performing strategic banking reviews of the entire banking relationship to eliminate inefficiencies and redundancies. How often are these strategic reviews completed?</td>
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<td>Describe what banking advice you offer and how often it is given. Is it given proactively or only when requested?</td>
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<td><strong>Security</strong></td>
<td>What is your privacy policy?</td>
<td>The strategic questions offer a look into a firm’s stance on security and gives some idea of how much of an emphasis they place on a family’s banking security. The tactical questions, on the other hand, uncover only the most basic levels of security a financial institution can offer.</td>
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<td>Will you sign a Non-disclosure Agreement?</td>
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<td>How secure is your website?</td>
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<td>What security issues has your bank experienced recently?</td>
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<td>What steps do you take to understand what risks a particular family may be exposed to, and how would you look to minimize those risks?</td>
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<td>How familiar are you with family office banking operations, and can you advise on what are best banking practices to protect privacy and prevent fraud for a family office?</td>
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<td>What are some potential security risks in the banking industry that our family may not be aware of? How do you advise on protecting against these risks?</td>
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Strategically, what is the family looking to accomplish with its banking? What are the family’s goals, missions and plans for the wealth?
Families of significant wealth rightfully expect their attorneys, investment professionals and CPAs to be among the best, the brightest and the most effective. It’s time they expect the same from their banker.

| Client Experience | How would your firm define client experience? What about your team’s structure fosters the best possible client experience for my particular family’s situation? Why? What do you integrate your banking services with investments, reporting, and family education? How do you ensure that your professionals have the time to devote to a great client experience? What is an example of an obstacle that your firm ran into with a family and what steps were taken to overcome that obstacle and maintain an excellent client experience? | What are your closest locations to me? Do you have a 24-hour customer service number? How many accounts and clients do your banking professionals handle? Who is my point person for the following issues: money management, credit, etc? | The strategic questions get to the crux of the firm’s deliverables around client experience; it also forces the firm to describe how they would tailor client experience to each individual family they work with. Again, the tactical questions answer only basic banking questions without providing much insight into the firm’s true ability to deliver. |

**The fifth noble profession**

Families of significant wealth rightfully expect their attorneys, investment professionals and CPAs to be among the best, the brightest and the most effective. It’s time they expect the same from their banker. While investment professionals have poured time, energy and resources into refining their client-delivery platform, and tax and estate planners have grown increasingly sophisticated over the last decade, banking has lagged the industry in evolution and innovation and is understandably seen as a commodity. The only way banking can be seen in a different light is for families to see that a new way is possible; one where bankers are always looking out for families, and where family offices are open to accepting strategic advice and don’t feel threatened by bankers who can add value and insight. Banks also must change: they need to devote more resources (i.e., experienced bankers) to handle fewer relationships and accounts.

To answer the question posed by Jay Hughes at the beginning of this paper on whether banking should be considered the “fifth noble profession,” we emphatically say yes! But for that to happen, bankers must not only have the time, experience and resources to be strategic, families must also see banking as a noble profession and demand the efficiency, security and client experience they deserve.
About the author

Christopher Peary is a managing director of private banking for Ascent Private Capital Management in Denver, Colorado. Chris helps clients identify banking solutions for both immediate and longer-term issues. He has a bachelor’s degree in business finance from the University of Colorado and a master’s degree in finance from the University of Colorado at Denver.

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