

HOW TO BUY A BANK

A reflection on the acquisition of Bergos Bank (Schweiz) AG and a nuanced consideration of why a group of entrepreneurs would be inclined to own a Swiss Private Bank.

BY DR. PETER RASKIN, CEO AND PARTNER OF BERGOS AG



WHY BERGOS

To understand the uniqueness of Bergos, you first need to take a look at the development of banks over the last ten years. Although the principle of «big is beautiful» applied for a long time in the world of finance, a lot has changed in the last decade. Major banks developed, claiming to be

«As an entrepreneur, I'm very keen to work with clear, efficient structures. In my view, Bergos AG, as a private bank, offers really superb conditions for this.»

DR. ANDREAS JACOBS
ENTREPRENEUR AND PARTNER OF BERGOS AG

universal banks that could apparently serve every customer on several continents through countless subsidiaries and branches and offer all conceivable services from a single source. With the goal of optimal performance, various new products were crafted and packaged in a wide variety of shapes. The banks thereby became increasingly interlocked, in hindsight maybe unconsciously, until almost no one knew anymore which concrete risks they had in their portfolio, who owed what to whom, or where and how the securities were recoverable. The priority was that short-term returns added up for the banks, and therefore also bankers' bonuses. The collapse of Lehman Brothers first brought to light the sickness of this system and the contagion risks that could no longer be prevented. The system imploded and in a matter of seconds, values in the amount of billions were destroyed.

“Big” was all of a sudden no longer “beautiful”, but synonymous with the greatest danger. In September 2008, the only hope was »too big to fail«. Across the world, major banks had to be saved, governments intervened, and a banking crisis very rapidly became a national crisis that developed into a European crisis. A decade later, no one can yet really say whether the danger has been averted and what the role of large and universal banks will look like in the future. I dare say I doubt whether we have learnt from the mistakes. Because some of the products demonized at the time are again, albeit slowly, catching on. In the wake of the flagrant danger, and supposedly to protect clients, we have experienced a regulatory frenzy in recent years, which has in the meantime, in contrived forms, lost sight of consumer protection as its actual goal. De facto, clients are now protected against themselves, whether they like it or not. One of the reasons for this is that banks are required to provide

«Over my long career, I have always strived – and continue to strive – to ensure service and support for our clients, including families, companies and foundations, over several generations. This is and remains our objective at Bergos.»

CLAUS G. BUDELMANN

FOUNDER OF BERENBERG SCHWEIZ AG · PARTNER OF BERGOS AG

documents and information that seem to neither make sense for clients nor protect them. Some banks are eager to pass on all the risks resulting from the new rules to clients. Other banks completely cease advising their clients.

As is generally known, excessive regulation and the associated enormous costs have caused margin erosion at banks. The latter tried to compensate for this lost revenue through drastic cost-saving on human resources, outsourcing, streamlining services, selling proprietary products and concocting new fees. Scaling, standardization and price rises were the result. The banks also recognized that they could serve their clients by interlinking business areas and cross selling at the various corners. The result was a consolidation wave between banks, at the end of which today only major banks of a universal character and very large private banks remain.

My question is now where this scenario leaves clients. Is a bank's focus really on their clients' interests when it is all about offering them services only from their own company? Are clients not in much greater danger if all private assets are managed at the same bank, where, alongside their own ventures, they also take out loans? Can clients really trust that they will be spared in times of crisis? Is it still serious, if, in addition, high-earning business leaders also receive special conditions from the bank where their company is a major client? There is a high risk in the above-mentioned situations of triggering conflicts of interest that should be avoided at all costs with serious client support.

Clients have the most diverse needs when it comes to the preservation, protection and management of their assets. These generally stem from their personal circumstances, their respective family situation, their profession, their entrepreneurship, their hobbies and interests. Can a bank really meet these needs if it offers standardized products and services, replaces personal contact with call centers and artificial intelligence, and in fact creates more conflicts of interest rather than trying to reduce them to a minimum?

This summarizes the thoughts and questions that were vigorously debated with the new owners of Bergos AG during the year 2018. For the new shareholders and the management, this was a process to clarify what an independent bank can and should do today. It involved more than just a business model, but sustainable ethics. A large proportion of the new partners of Bergos AG are successful, sustainable family businesses that have existed for several generations.

Not only from their own generation, but generally based on their experience, the new owners know the needs of wealthy clients. They understand the challenges and the worries, thanks to their many years of work which they can draw on to provide various solutions. Alongside these new partners, Bergos AG has a management team which is now just as involved in the company. We have gained experience over decades as client advisers and bank managers. We, too, know our clients' needs and concerns from our successful work to date, and we ourselves have successfully implemented solutions. At the same time, we know how to sensibly implement the growing regulatory requirements and how to ensure that the client relationship benefits as a result.

From experience, the new owners and management of Bergos AG know the challenging issues related to supporting family businesses, their family members and other key clients. We see the need for holistic advice for the most complex family assets and are clearly committed to Switzerland as a business location. In a world of global universal banks, we see a great opportunity for an experienced, excellent Swiss private bank that is close to its clients.



«I'm involved in many companies, and it is important that the corporate culture and conversations are strong. I've always really liked the atmosphere at our Bank in Switzerland. The management is very honest, unassuming and cheerful.»

MICHAEL PIEPER
ENTREPRENEUR AND PARTNER OF BERGOS AG

For the new partners, there were and are a number of fundamental assumptions that are key to successful private banking with our clients:

- The client requires comprehensive advice on all issues that could affect their assets. This covers not only investment, but also issues concerning succession planning and protecting their assets for future generations. It involves questions concerning the entrepreneurial activities of many clients, as well as legal and tax issues, and much more. The advisory topics that must be considered are manifold and can sometimes have stronger consequences for the assets than questions regarding the investment.
- A bank therefore looks at the client's complete environment, especially their families, and the specific circumstances of their lives. If possible, the next generation should, step by step and following a concrete strategy, be involved and introduced to the assets and the associated responsibilities.
- Our Bank strives to keep potential conflicts of interest to a minimum. No risks for ourselves or our clients' assets should arise from our business model. We want to concentrate on our fundamental business model and not try to offer our clients all kinds of services ourselves.
- Our Bank can nonetheless offer excellent investment solutions. Alongside the known liquid asset classes, we advise on emotional asset classes (art) and illiquid ones such as real estate and private equity. Wealthy entrepreneurs have the need for M&A and other corporate finance services, which we also offer through our network. As an entrepreneurially minded Swiss private bank, we offer access to particular investment solutions that are often only known in limited circles.
- Following an open architecture approach, we relay all necessary services and products to our clients, guided by the principle »best in class«. It is therefore important for us to organize this architecture well. This does not mean that we can do everything ourselves. To reduce conflicts of interest and for the benefit of our clients, certain services should be available via selected third parties.

«We took decisions to participate in Bergos AG very early and with great conviction, as we had already known all the active players, including the former administrative boards, for a long time. It is rare to be able to work with others with such trust, and this particularly motivated us.»

ADRIAN AND ANDREAS KELLER
ENTREPRENEURS AND PARTNERS OF BERGOS AG

- We want our clients to be able to obtain information via all modern communications channels and retrieve it whenever and wherever they want.
- Our employees have a special role to play. They must be able to immerse themselves in the client's world, to recognize problems early on, to address them and, if required, to find a solution together with other advisers. They must also be able to communicate with clients at eye level. Our clients have a right to honest advice based on deep conviction. For this, our client advisers must be excellently trained and internationally experienced. Their attitude is open-minded and entrepreneurial. They must have their own set of values and the ability to empathize and treat our clients as people rather than commodities.
- For clients with a strong base in Switzerland, advisers must also be appropriately trained and experienced. They need the same foresight as our clients, for example when they send their children abroad at an early age for their education.

- Switzerland is possibly the best place for our individual, client-oriented form of private banking. Only Switzerland offers the necessary framework conditions such as security, neutrality, internationality and cosmopolitanism.

The fundamental assumptions outlined here are no longer practiced either by large banks or by larger private banks. Nor can they be found within subsidiaries of foreign businesses or banks owned by investment companies. A solid understanding of banking that has been wisely handed down hardly exists anymore. However, there is still great need for a deeper, genuine client orientation. In 2018, we - as the new shareholders and management now participating in the company - agreed unanimously on the importance of creating such a bank. As partners, we knew Bergos AG, previously Berenberg Bank (Schweiz) AG, to a great extent for many decades.

We are dedicating ourselves to the task of further developing our new and at the same time old Swiss private bank and positioning it in Switzerland to the benefit of our clients. The long-term secured cooperation with Joh. Berenberg Gossler & Co. KG, founded in 1590 and the second-oldest bank in the world,

is a good basis that enables us to continue to offer our clients the usual services. Bergos stands for Berenberg and Gossler, and thus for all activities that the brothers Hans and Paul Berenberg in 1590 and Johann Hinrich Gossler, who joined in 1769, have decisively shaped. We identify with many generations of enlightened, free-thinking, locally and internationally committed bankers of integrity. With bankers who love culture, who are socially committed and who have laid the foundation for true private banking; above all by trying to put the well-being of their clients first.

«For my brother Andreas von Specht, my children and myself the values of Bergos AG and the client-oriented, but also modern private banking correspond to the spirit of our great-uncle Heinrich Freiherr von Berenberg-Gossler. He joined Hamburg-based Bank Berenberg in 1935, managed it until 1979 and had a strong influence on us as a family.»

SYLVIE MUTSCHLER – VON SPECHT
ENTREPRENEUR AND PARTNER OF BERGOS AG



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