DEVELOPMENT OF PRIVATE BANKING IN NIGERIA

BY

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DECLARATION

I hereby declare that this project is done by me and it is a record of my research work, needless to say all errors, omissions, and other deficiencies in this project are my sole responsibility.

All materials / articles used have been accordingly acknowledged as references.

HAUWA NURU

DEDICATION

This Project is dedicated to my Husband Adam Nuru and my Children, Mohammed and Abdulhakeem Nuru in appreciation for their love, understanding and support.

ACKNOWLEDGEMENT

My gratitude goes to Almighty God for making it possible for me to complete my course.

My special thanks and appreciation also goes to my dear husband Adam Nuru and my Children Muhammed & Abdulhakeem for their love, support and understanding throughout my course.

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My thanks also goes to all my lecturers who has directly or indirectly helped me in the completion of my MBA programme.

CERTIFICATION

This project thesis / decertification entitled "Development of Private Banking in Nigeria" by Hauwa Nuru meets the regulations governing the award of the degree of Master of Business Administration (MBA) of Ahmadu Bello University, Zaria, and is approved for its contribution to knowledge and literary presentation.

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ABSTRACT

Private Banking practice is a relatively new concept in Nigeria. The Nigerian bankers culture of hospitality (not necessarily service) towards affluent persons can be said to be the genesis of personalised banking service. From the establishment of Standard Bank (now First Bank) in 1894, bank managers and staffers have been known to extend special courtesies to their good customers, be they colonial masters, magistrates, headmasters or church ministers.

This project seek to examine the subject of Private Banking, its origin, evolution and practice both in its global context and Nigeria application, suggestions and recommendations with reasonable limits as to the viability of further improvement of Private Banking business in Nigeria.

HAUWA NURU

INTRODUCTION

1.1 PROBLEM ANALYSIS

Banking in Nigeria has over the years been on the increase and each bank strive to attract as much deposits as possible as the competition among banks are on the increase as such each bank tries to improve its services or better still introduce new products in order to attract more customers.

It is for this same reason of kin competition among banks that almost all the new generation banks are service oriented and they tend to invent or introduce a new product / service to their customers in order to differentiate them from the old generation banks who are now on the other hand regarded as slow in terms of services to their customers, also give preferential treatment to the customers who distinctive turnover with them and also extend this service to their close friends and relations.

The claim by some financial experts that Nigeria is an under-banked country, (that is the ratio of customers to bank branches is too high) is no longer so. In fact, banks now practically (directly or indirectly) beg for patronage. Even the old generation banks (such as FBN, UBA) are trying to improve on their services in order to keep their customers and attract new ones.

Private Banking is an extension of banking services in a personalized version and more banks are adopting it.

It can be said that Private Banking is a glamorous and sophisticated business which requires expertise, finesse, absolute discretion and confidence.

1.2 PURPOSE OF THE STUDY

Private Banking in Nigeria is relatively new but the numbers of bank practicing it is on the increase as each bank tend to distinguish itself from others in terms of its unique services.

Thus this project attempt to:

a) Appraise commercial banking and services rendered

b) Appraise the origin of private banking

c) Appraise the services rendered in private banking in Nigeria

d) Examine the growth of private banking in Nigeria

e) Identify problems (if any) that can inhibit effective private banking services in Nigeria

f) Suggestions and recommendation to improve the development of private banking in Nigeria.

1.3 METHODOLOGY

This research relies heavily on both primary and secondary data and apply a three way approach to data collections as follows:

a) Review of pertinent literature on:

   i) Private Banking

   ii) Commercial Banking

   iii) Private and Commercial banking services in Nigeria

b) A survey through questionnaire administered on banks and customers in some selected banks in Nigeria

c) Verbal interviews with some bank officials and bank customers.

The primary data is for obtaining relevant data from banks and bank customers; personal interviews were conducted and questionnaires were prepared and addressed to some banking institutions. The questionnaires were either filled immediately by the banks or collected at a later date.

Secondary data was mainly obtained from text books on banking, Journals, Newspapers as well as similar researches carried out.

1.4 STATEMENT OF HYPOTHESIS

The purpose of this research is to test the hypothesis that Private Banking has come of age in Nigeria and consequently more banks are adapting it.

1.5 SCOPE AND LIMITATIONS

This research project covers practice and evolution of Private Banking both in Nigeria application and its global context. This project is not meant to contain all information about Private Banking but I have as much as possible tried to pin-point the importance aspect of Private Banking in Nigeria.

The origin of Private Banking and history of wealth is also generally discussed and reasons why individuals assign the task of managing of their personal wealth to their bankers (Private Bankers) is highlighted.

In addition, I have to a large extent depend on information which I personally had been able to gather, coupled with what I have learnt in my years of working experience.

1.6 DEFINITION OF KEY TERMS

Definition of some operational terms used in this project are given below, this includes:

BANK - A bank is defined as an institution whose debts (bank deposits) are widely accepted in settlement of other peoples debts to each other.

PRIVATE BANKING: - Private Banking is the delivery of highly personalized or custom made services to an individual or entity of substantial means.

2.1 REVIEW OF LITERATURE

There is very little published work on private banking in Nigeria. However, studies have been carried out into different aspects of private banking practice n Nigeria, by individuals, organizations and so forth. This is reflected in the increasing number of banks in recent years in Nigeria that practice private banking.

As earlier stated, the focus of this project is on development of private banking in Nigeria, but the depth of relevant published materials makes it inevitable for the literature review to be based mainly on books and journals written about Private Banking.

IN TRODUCTION

Ol jective

Th: study will examine commercial banking and services rendered, and also examine the sut ject of Private Banking, its origin, evolution and practice both in its global context and Nig eria application. It will utilise information available to the author and make assumptions witl in reasonable limits as to the viability of operating a Private Banking business in Nigeria.

COMMERCIAL BANKING

A commercial bank can be defined as "a banking institution which accepts demand and time deposits from businesses, institutions and individuals and engages in both business and consumer lending." The development of commercial banking institutions has taken place under different banking systems in different countries, notably the branch banking system and the unit banking system as practiced in the United Kingdom and the United States of America respectively. The branch banking system is the most prevalent banking system practiced in most countries of the world including Nigeria.

In the branch banking system the typical commercial bank is a very large institution having a large number of branches scattered all over the country or at any rate over a large portion of it while in England and the bulk of the banking system is controlled by four banks vis the Midlands, the Lioyds, the Barclays and the National Westminster who have a network of over 10,000 branches spread all over the country. In Nigeria the "Big three" are the First Bank of Nigeria, the Union Bank of Nigeria and the United Bank of Nigeria. These banks control over 40% of commercial banking business in Nigeria.

Commercial banks in all countries offer essentially similar services, they only differ in the quality of services provided. This bank services though essentially similar, differ very slightly from bank to bank and from country to country. Notable among the various services provided by commercial banks are the following:-

ACCEPTING DEPOSITS

Deposits result from cash placed in banks by depositors, claims to money, like cheques placed in depositors' accounts and or bank loans and investments which increase debtors bank deposit balances. Most commercial banks accept either primary deposits and or derivative deposits. "Primary deposits results from cash and claims to money place in despoitors account, while derivative deposits result from bank loans and investment operations."2 Deposits are subject to payment on demand or after due notice. Commercial banks generally accept three types of deposits, these are:-

Current Account Deposits:- This is normally regarded as the normal banking account and it can be operated on a day-to-day basis. No interest is allowed on a current account deposit and the holder of such an account is carefully checked before he is issued with a cheque book. A prospective current account holder is required to provide two references who must themselves be of satisfactory status. Usually, the commercial bank deducts a commission from the account of the depositor. Commission on turnover (COT). A current account deposit is a demand deposit and the holder is allowed to withdraw money from his account, subject to the availability of sufficient credit to meet the sum to be withdrawn.

Savings Account Deposit:- This is also a demand deposit. It may be defined as "an account which is opened to earn interest."3 Interest paid on savings account deposit is determined by the bank's base rate. Between commercial banks in most countries, there are normally differences between interest rates offered. However such rates usually fluctuate. Savings account deposits are not usually operated with cheques. Thus no references are required to open savings account. It is normally required that depositor should give seven days notice of intention to withdraw money from his account, however this requirement is usually waved and the depositor can withdraw money from his account on demand.

Fixed Deposit Account:- Commercial banks offer fixed deposit services to their customers. This is also referred to as time deposits. A customer wishing to operate such an account has to approach bank officials for discussion and agreement. The account is accepted based on agreement between the customer and his bankers as regards amount to be deposited, rate of interests on the deposit, and length of time for which the deposit is to be kept. The commercial bank issues a deposit receipt for the fixed deposit account based on interest rate which will be at current rates. Interest is not paid until the agreed length of time for which deposit is to be kept expires. However interest rates and time period for the fixed deposit is usually renegotiable.

LENDING SERVICES

Commercial banks make three types of Advances. These include the following:-

Overdrafts:- This is a facility granted to a trusted customer through which the customer is allowed to withdraw a sum of money over and above the total amount of credit in his account. This is usually subject to a pre-arranged limit arrived at, by agreement between the customer and his bankers. The customer pays interest on the overdraft. Interest is calculated on a daily basis, thus the customer only pays for the amount he uses. Overdraft facility is only granted to a customer if the bank manager is satisfied that the customer is trustworthy and credit worthy. Overdraft is regarded as the cheapest form of borrowing and collateral security is not always required, the bank manager sometimes rely on the financial position of the company applying for overdraft or in the case of an individual, on his integrity. Only current account holders can apply for overdraft.

Loans:- The process involved in obtaining a loan from a commercial bank is generally more tedious and more expensive. The customer is required to fill forms, and meet with bank officials to discuss and agree on the amount of loan he desires, for how long he wants the loan, the interest he will be required to pay on such a loan and the collateral security he has to make available to cover the loan. The agreed amount is usually transferred from the loan account in the customers name, to his current account. The loan is reduced at intervals, often once a month by instalment from the current account of the customer. Thus a customer who has been granted a loan by a commercial bank has to maintain a credit balance in his current account always in order to be able to reduce his loan instalmentally from his current account. Commercial banks charge interest quarterly or half yearly on the amount of loan outstanding.

Personal Loan:- This can be said to be a cheaper form of hire purchase and the "interest on the loan is added to the principal and the total sum is repaid by regular monthly repayments over an agreed period usually six months to three years or in some cases longer."4 An applicant for a personal loan is usually required to fill a form giving details of his income and regular outcomings. This information has to be confirmed by the bank manager. It is important to note that personal loans are not restricted to existing customers alone, non customers can also approach the bank for a personal loan. However the bank manager may request for some references. The personal loan agreement does not give the bank any right over the object(s) purchased with the money lent. However it provides that if any instalment is not paid on time the whole debt will fall due for repayment immediately. Personal loans is British Banks are usually given from E50 to E1,000. All advances are subject to a plan of regular repayment and the customer has to adhere to the agreement, failing which he has to give a good explanation to the bank manager or else loose his credit worthiness.

Safe Custody:- Valuable articles such as jewelleries, documents etc. are kept in bank vaults or strongrooms by customers for safety. This is usually packed in locked boxes or sealed parceled and the banks issue customers with receipts, if so required. The articles are handed back on request to the customer or a properly appointed agent of the customer. The banker charges some amount for provision of safe custody for his customers' valuables.

Safe Deposit:- this facility is quite similar to the safe custody. In safe deposit, the customer is allocated a box in the strong room. He is taken to the strong room where he personally put his valuable articles in the box himself. He alone has the key to his book. Even though the bank keeps duplicate keys, these are not used except in the presence of the customer or by his expressed authority.

Executor and Trustee:- Commercial banks act as executors and trustees on behalf of their customers. "This consist of handling the estates of deceased persons, agreeing and paying the estate duty, and supervising and carrying through the administration of trusts and settlements for the benefit of the beneficiaries."5 The bank charges are acceptance fee on a percentage basis on the value of the estate, as ascertained for estate duty purposes, an annual fee of administration and a vacating fee on termination. Usually the bank acts alone or jointly with a named executor.

Investment Management: Commercial banks manage investment portfolios of their customers. When so required, they attend to registrations, right issues or bonus issues. They collect dividends and interest on behalf of the customer's account. They review the investment from time to time and make any sales or purchases as the situation rightly demands and they maintain a valuation of the portfolio. The action(s) of the bank regarding the portfolio is (are) either subject to the approval of the customer or in some cases left to the discretion of the bank. The bank charges an annual fee based on market value of the portfolio.

Mail and Cable Transfers:- "A customer wishing to make a payment to a person abroad may instruct his bankers to transmit a specified sum of money from his account to a foreign bank, who will notify the beneficiary who can then go in and get the sum authorised in the currency of the country."6

Normally this advance is sent by mail that in cases of urgency it could be sent by cable. The bank charges a commission for the service plus mail or cable cost in addition to the sum sent. The foreign bank is remunerated by a credit to the foreign account which it keeps with the head office of the customer's bank.

Travellers Cheques:- These are issued by commercial banks in certain currencies, to their customers wishing to travel abroad. In pounds sterling, they are found in demoninations of E2, E5, E10, E20 and E50. Travellers cheque take the form of drafts drawn of the head office of the issuing bank. The customer pays for them in full, plus the bank's commission he is issued with them.

Collection of Cheques:- This is generally regarded as one of the basic services provided by a commercial bank. Here the customer pays into his bank cheques received from people indebted t him. Payment is usually across the counter or by mail. The cheques are forwarded to the clearing house (where the cheques are drawn on other banks). The amount paid in by cheque is directly credited to the account of the customer even though he is not allowed to withdraw the amount unless and until the cheque has been cleared.

Standing Orders:- This involves authorisation by a customer to his bankers to make periodic payments from his account on his behalf as at when such payments fall due. This occurs usually when customers have to pay for mortgage installments, club subscriptions or monthly rate installments and so forth. It is the duty of the customer to ensure that on the due date there is enough money on his account to meet the transfer.

Bankers Draft:- This is very similar to a cheque but differs in one important respect. Whereas a cheque is drawn by a customer on his bankers, a bankers draft is drawn by a branch of a bank on its head office. It commands greater respectability as it is certain to be paid. The bank in providing this service debits the account of its customer by the value of the draft accordingly.

Credit Cards:- These are similar in appearance to cash cards and they contain similar details. The best known credit cards in the United Kingdom are Barclays cards, Access, Diners and

American express. This facility enables the holder to purchase goods or fuel, pay hotel bills and air fares and so forth, in most parts of the world the retailer send in his account (claims) to the card company which send monthly statements to each card holder.

Letters of Credit:- Commercial banks expedite international trade for instance when exporters are uncertain of an importer's capacity to pay and the importer is unwilling to pay his debts until the goods have been shipped. Thus the importer may request his bankers to issue a cash letter of credit to a third party, that is the exporter, authorising the letter to withdraw drafts on bank payable on demand. The exporter draws a draft on the bank, thus holding a guarantee of payment by a reputable financial institution. The exporter has the option of holding the draft until maturity or he can sell it at a discount to his bank. The importer finally pays his bank for the purchase, when he receives evidence indicating that the merchandise has been shipped and insured.

Negotiable Certificates of Deposit:- Most commercials banks issue (directly or indirectly) through their merchant banks or subsidiaries, negotiable certificates of deposits denominated in, for instance sterling and offering a higher rate of interest than that offered for normal deposits accounts. The stipulated minimum amount of deposit accepted in the U.K. is $100,000. Theses are bearer certificates and are usually negotiable. Dollar certificates of deposit usually issued by the international subscribers of most British banks are also available.

Finally it is important to note that while services provided by commercial banks all over the world are essentially similar the degree of government control over commercial banking activities differ from country to country. In Nigeria commercial banks operating today function according to certain rules and regulations framed by the central bank of Nigeria. Though up till

1952 there was no regulations of banks in Nigeria, the chaotic state in which commercial banks existed coupled with the banking boom and collapse of many banks in late 1940s and early 1950s felt there was a need for a code of banking conduct, a commission was thus set up to enquire into banking business in Nigeria and it made recommendations to the government on the extent as well as the form of control that was required in the country. The recommendations of the committee resulted in the enactment of the first banking legislation in 1952.

The 1952 banking ordinance defined banking business, stipulated the amount of paid-up capital required if a licence was to be granted by the financial secretary and the reserve funds which had to be maintained by commercial banks. Banks were also required to maintain a satisfactory level of liquidity and finally banks were subjected to periodic examination and supervision to ensure that they complied with the ordinance. Though the 1952 banking ordinance was a step forward in the quest of the country to develop a sound financial structure, it nevertheless had some defects in that: no provision was made for assisting banks in need; many banks had to keep cash idle in order to maintain the required level of liquidity, in the absence of suitable avenues for investing these funds; banks were able through some dishonest means to deceive bank examiners and; though these laws were capable of preventing the establishment of mushroom banks, they were incapable of preventing malpractice and abuses in banking.

Based on the inherent of the 1952 banking ordinance other banking legislation were thus enacted. These include the central bank of Nigeria ordinance of 1958 followed by several amendments from 1961 onwards and the 1969 banking Decree. While the 1950 Banking Ordinance which set up the central bank, determined its powers and responsibilities, it further made the conditions for setting up and operating banks more stringent. This ordinance was amended in 1961 and

also in 1962. In 1969 a decree repealing the earlier banking legislation was enacted. The objective was to strengthen the banking system and increase the power of the central bank over the economy. Most of the new provisions of the 1969 Banking decree were designed not only to improve the efficiency of the operations of commercial banking system, but also to promote a sound financial structure.

In conclusion, because of the role of commercial banks in the economy, they are subjected to more regulations than any other profit making organisation in Nigeria, as explained above many banking ordinances, Acts and decrees have been passed, since they first came into operation, these Acts are Decrees apart from affecting their operational efficiency also affects the asset and liabilities of commercial banks. From time to time the central bank also issue directives to commercial banks on a variety of issues these include location of branches, interest on deposits, and loans, sectoral credit allocations etc. commercial bank operations are therefore constrained in their operations.

Thus having enunciated some of the various services provided by commercial banks in Nigeria in other countries. It is necessary to have an idea of the view of bank customers, administrators, scholars and so forth, on the quality of commercial banking services in Nigeria. Good service is said to be the basis on which all commercial banks stay in business, the views of the aforementioned groups of people are important and have far reaching implications for any bank. The next section thus reflects such views.

Commercial Banking Services in Nigeria: The quality of commercial banking services in Nigeria is a controversial issue. Various views have been expressed on this subject in the news media, publications, public lecturers, seminars and so forth. Notable among the contributors

to the discussions on this topic are the following: M.A. Adeyemo who 7 feels that "some employees of commercial banks" lack simple courtesy, their human relations is absurd while many of them do not know more than recording debit and credit in ledgers." G.O. Nwanko 8 observes that "Bank offices are too few and far in relation to the population and size of the country and that there are frustrating delays in making enquiries before opening accounts, in other words bank services in Nigeria are not convenient cheap or easily accessible to the public." S.N. Ekpo 9 Managing Director of Chindex International Nigeria Ltd. feels that Nigeria has the worst banks in the world, according to him "in my bank the method of clearing cheques is so poor that you have to wait, your paper pass from one officer to another and if you want to cash a large amount of money, then you have to wait for the manager to countersign. By the time you have finally collected your money, if there is an armed robber around he would have spotted you". Mr. Ekpo suggests that every banking service should be computerised so that one does not have to wait very long in a bank. Mr. Ekpo further claims that a customer who happens to know either a counter clerk or any official of his bank may not wait for a long time as his "contact" will go personally to worry the officers who countersigns or approve the necessary papers. He went on further to say that those who are not familiar with any worker in the bank may have their cheques left in the in-coming trays for a long time without being touched, and some bank workers are good while many of them are hostile and discourteous. He alleged that this depends on your familiarity with them and most of them receive bribes (tips).

Mr. Albert Adun, Chairman of Emodun Industries Ltd. says services of banking institutions in Nigeria are the worst any where in the world, according to him opening a bank account could take one a whole day. He condemn the nonchalant attitude of bank officials, who he allege

sometimes go on shopping sprees during office hours. He believes most Nigerian Bank staff are irresponsible and they see themselves as special people giving special service not as public relations officers but as nurses, doctors or lawyers." He concludes that obtaining a loan in most Nigerian banks is the most difficult things as the conditions are set only to favour the rich who in any case are not interested in getting loans.

D.C.N. Nwachukwu observes that "the quality of banking services fall below customers' expectations, even though commercial banks have grown tremendously in size, assets, profits and economic influence, there is need to improve the areas that have come under severe criticisms."

G.C. Nwakwo feels that poor banking services is a distinct feature of commercial banking in Nigeria according to him, "one has only to visit a bank office in Nigeria to notice the long queues and the struggles of customers to get served. It could take as much as an hour or more to refer a cheque and in some cases, one appears to be left with the impression that the staff take pride in the long queues and the number of people seeking their custom. Mail transfers take as long as three to four weeks to reach their destination within the country and almost as long again before the beneficiary is finally paid in the case of cash payments."

The Daily Times Newspaper argues that "their is need to be circumspect about our style of banking, there should be more to it than a bank hall manned by stiff-necked officials who deal with customers on take it or leave it basis." They further assert that even though this manner of banking is grudgingly tolerated in the cities and urban areas where demand for banking service is very great, in the rural areas the banks should be conscious of their pioneer status and eschew all postures that may further weaken their still tenuous acceptance. According to the

Daily Times Newspapers the banks need no lesson how to win customers, the sellers on market situation notwithstanding, the bankers should let their smiles, honesty and all manner of civility flow from them to their customers to restore confidence and patronage.

Mr. P. Ogwuma of the United Bank for Africa argues that congestion in banking halls is largely due to the fact that Nigeria has a cash economy and almost all transactions have to be carried out in cash he further suggested the introduction of credit cards and under writing of issues of cheques, he blamed the society for the discourtesy of bank officials and feels this can only be effectively checked with the help of the society.

Mr. S.O. Asabia former Managing Director of First Bank of Nigeria, admits that long queues and congestion are prevalent in most banks and that bank customers are not happy about it, he however pleads that commercial banks operate under a lot of pressure. He further observed that banks are heavily regulated and have to operate with some caution.

According to Mr. G. Onosode a leading industrialist the Central Bank should impress on commercial banks the importance of courtesy to bank customers and regularly they should inspect bank premises, especially banking halls for suitability as far as the convenience of the client is concerned.

A.E.K. Imaga, feels that the distinctive competence of banking is commitment to quality services that the quality of services which banks provide to customers give the banks their public image. If banks provide poor quality services, customers suffer the affects in various ways. He believes the "glorified long delays which bank customers in Nigeria suffer for deposits and withdrawals of cash is caused by poor management by objectives. He wonders why bank tellers and interior support staff fail to recognise their customers as assets to their continuous employment and he

claims that most of the "smiles" and please can "help you" are completely out of place in Nigerian banking services. He accuses Bank managements staff (most of whom are foreign trained) of not practicing what they learnt abroad as the real banking services approach.

Anthony Ogundeyi 14 says "the large volume of customer complaints should be sufficient to dispel any complacency that may exist, perhaps not many banks staff realise that they derive their profits from their customers and that the banks total reason for existing as an organisation is to satisfy customers' demands. He continues that "even though certain individuals have put up good efforts, too many mistakes and quite frankly should not have been employed in the bank at all." Mr. Ogundeyi further believes that bank cashiers have the most contact with members of the public (customers) and thus should take pride in being polite, tactful, efficient, helpful and neatly dressed. He attributes he feels that in spite of the high calibre staff working in most of the commercial banks, the high enthusiasm and morale commercial banking services still remain poor even in banks that have introduced some degree of mechanisation. He went on to question the adequacy of the training given to bank staff, and attributes the inability of the commercial banks to keep pace with conditions in a dynamic economy to their belief in "traditionalism", and that this has killed initiatives in new areas where banks could have given leadership for the benefit of the whole economy.

Mr. Ugochukwu accuses commercial banks of conservatism and believes that this is largely responsible for the slow service at the counters. He concludes by saying that bank staff training programmes even though set up with the best of intentions merely seem to perpetuate a system that has become inadequate to the size and aspiration of the Nigerian economy and that banking in Nigeria has got to a stage where contrary to the generally in accepted belief that practice

makes perfect, practice here no longer makes perfect. The Nigerian Banking system needs a heavy dose or modern management methods and ideas to transform it to meet the requirements and aspirations of the people and economy of the country.

The various contributions reviewed above reflect the assessment of commercial banking services in Nigeria. Most of the contributors complain about queues, in commercial banks, lazy and discourteous staff, inefficient and or discriminatory services, and so forth. Most of these complaints are a pointer to the claims that commercial banking services in Nigeria fall short of customers' expectations. It should be noted that most of these complains about commercial banks in Nigeria do no longer exists as there is greater competition among banks for customer patronage. The subject of the next chapter is the evolution of private banking in Nigeria.

At this point it should be noted that all the services mentioned above are also part of services offered by private banking in Nigeria.

ORIGIN OF PRIVATE BANKING:

Before a meaningful appreciation of Private Banking is established, it is important to define the term "Private Banking". Private Banking in essence is the delivery of highly personalized or custom - made services to an individual or entity of substantial means. The term "highly personalized" obviously connotes that these services are of high quality standard which in itself suggests that the services are delivered in special impressive level of sophistry. The term "substantial means" obviously connotes well above average means (i.e. income), the term in itself becomes relative in its application because what banker "A" considers substantial typically may differ from what banker "B" considers substantial.

European bankers being more adept to nuances and subtleties have been able to measure substance without necessarily quantifying it. However, their American counterparts have sough a definition through an accounting formula; Assets - Liabilities = Networth (in the case of an individual in this context has to be high, thus emerged the acronym "High Networth Individual" (HNWI). Traditional European Private Bankers today, consider the term HNWI distasteful and still prefer to use terms not given to clear quantitative analysis.

A Private bank in its strictest term, is a Bank owned by few individuals who share unlimited liability. The owners actually lent their own money and stood to gain or loose from the exposure. It is unlikely that such a Bank exist today in Nigeria.

Private Banking is the provision of high quality specialized services to individuals of high financial maturity by well trained banking personnel delivered with utmost professionalism, confidentiality and efficiency.

Private Banking is perhaps the oldest form of banking. The earliest form of financial intermediation took place between the lender (banker) and the borrower (an individual as they were no corporate bodies then) with tangible assets as security.

Invariably he became a custodian of assets for individuals of substantial means typically the upper class, and royalty. It was only natural and prudent that the banker knew his clients well. He needed to know the client's distribution and value of assets, consumption patters, family history, right of succession (will), personality (likes and dislikes) etc in order to offer the best personal services whilst managing his exposure prudently.

This relationship formed the very essence of Private Banking practice. On the part of the client, it was necessary that there was an objective prudent person (a banker) who have advise on how best to maximise earnings on his assets and was prepared to extend credit (a loan) to finance his trade (usually land, livestock, horses etc).

The necessity was driven in part, by the fact that advise from family members could be subjective and selfish; and could be mismanaged with little or no recourse. Moreover, he stood to obtain credit from its banker. These was complimentary needs form the basis of the earliest form of Private Banking practice.

Through the evolution of wealth ownership from personal empire (squires, gentry and royalty) to present day corporate structures (entrepreneurs, partnerships and companies), Private Banking has flourishes. This is so, because of a simple logical deduction the individual is still central to the ownership of wealth, regardless of the structure of any wealth generating activity, the benefits accrued to individuals. It is true today as it was from the origin bonds, trusts, and other sophisticated ways.

As ever before these individuals required the services of a banker for as much the same reason as a Country Squire and even more. Today's international and local market is a mirage of complexities. Managing interest rates, securities and equity markets, commodity markets, and other investment activities has become the preserve of highly skilled and specialized managers. The individual has assigned this task of managing his personal wealth

to his banker (his Private Bankers) for a number of reasons. His reasoning is basically four dimensional and somewhat interwoven.

1. **RISK, REWARD AND RECOURSE:**

The individual prudently seeks maximum reward in exchange for minimum risk. He would like to invest his assets for 100% return to himself but he is averse to taking 100% loss if the transaction fails. So he opts to engage the services of a banker, who will share his risk by offering him, a reasonable reward and provide a recourse in the event if the transaction fails.

2. **SPECIALIZATION AND THE TIME UTILITY**

The individual seeks to preserve his wealth or create more. To achieve this objective he needs to concentrate most of his energy towards the enterprise which generates his wealth. Logically, he needs the services of a banker who can manage his personal wealth.

3. **NETWORKING AND MAXIMUM ADVANTAGE**

The individual seeking to spread his influence for socio - political motives, may choose to let a provincial but influential Private bank manage a substantial portfolio on his behalf, so he can use as leverage to meet the owners of the bank.

For example, a wealth Arab Sheik may build a substantial portfolio with a powerful American family bank like Mellon Bank of Chicago to gain access to the Mellon family and important shareholders and use it as a vehicle to access the american social, political and economic system.

4. **SUCCESS AND SOCIAL RECOGNITION**

Bankers have used parity pricing and other market positioning techniques to build their Private Banking service into a status symbol. Who your bankers are in certain international cycles makes a customer feel a sense of achievement and reward for his efforts by the quality of attention his Private Banker give him.

The individual typically goes through four phases of wealth:-

1. **ACQUISITION**

At this stage the individual is wholly concerned with building wealth. His character profile is very aggressive, highly risk tolerant and acquisitive. The individual is still young, very hard working and obsessed with acquiring wealth. His investment interest is skewed towards short term high return of investment.

2. **CONSOLIDATION**

At this stage, the individual has accumulated significant wealth and seek to spread his wealth in areas he considers strategic. His investment profile is still quite aggressive, medium risk tolerant and very acquisitive. The individual is approaching middle age, still hardworking and obsessed with acquiring investments with immediate and future prospects. His focus is skewed towards medium to long term, high return on investment activities such as venture capital, equities and properties.

3. **PRESERVATION**

At this stage, the individual has accumulated substantial wealth and seeks to safeguard/preserve his wealth for the next generation. His investment profile is not aggressive any more, and he is averse to risk. The individual is over middle age, semi-retired and very cautious. His objective is to have guaranteed income on his investments, thus he invests on fixed income products like time deposits, stocks, bonds etc.

4. **DISPOSITION**

The individual at this stage is longer concerned with creating wealth, he seeks to distribute wealth among relatives and associates. He is well over middle age, retired and very contented. He consults lawyers and bankers regarding his will and setting up trust funds and other fiduciary services. His only focus at this point is to establish appropriate right of succession vehicles.

As earlier suggested, there are no hard and fast rules in determining an individuals wealth cycle. In Nigeria for example, we have prominent business magnates, well over 60 years of age, whom are still actively amassing wealth and have not established a right of succession vehicle. The wealth cycle analysis, serves as a guide to the practicing Private Banker in establishing his clients growth circle. It therefore becomes his task, to gain the confidence of his client(s) and stir him in the right direction of growth.

GLOBAL PRIVATE BANKING

Private banking has truly come of age in the Western world. Over the years, a few cities have emerged as major centres of private banking. However, Zurich and Geneva still remain the world center for private banking activities, they are followed closely by London and in recent times New York. Other major cities include Paris, Monte Carlo, Hong Kong, Frankfurt, Lugano, Luxembourg, Lausanne and Jersey Islands.

Private Banking being a glamorous and sophisticated business, requires connoisseurship - expertise, finesse and ambience. It also requires absolute discretion and confidence. The Europeans have perfected these qualities to an art form, and as such have been in the forefront of Private Banking. The Swiss of course lead the pack, followed closely by the British. The Americans are somewhat lacking in these qualities, but they have used huge

capital, sheer market size (i.e. proportion of wealthy Americans) and electronic media to force their way into the market place. In the process they created their own brand of Private Banking which deviates from the traditional personal and private banking. Only a few US banks can claim to practice traditional private banking, they are the US Trust Co, Morgan Guaranty Trust and Brown Brothers.

Switzerland has remained attractive to wealthy individuals because of the Swiss long history of neutrality, precision and dedication to service. And also for another very important reason - the secrecy laws (non-disclosure edict) which protects an individual's financial records from the scrutiny of unauthorized parties which include governments and international organizations. In recent years, the secrecy laws have come under international scrutiny in the case of Fernando Marcos of the Philippines and "Baby Doc" Duvalier of Haiti. In both cases after much wrangling by the governments concerned, and pressure from the US, the Swiss were forced to divulge information. In a lot of ways it eroded the legendary secrecy of Swiss Banking tradition.

However, there have renewed discussions on the reasonability of the laws, especially on its moral or ethical implications. The US has been particularly critical because of the quest to stop money laundering activities emanating from drug trafficking. Usually enquiries on the financial affairs of individuals have been cases obviously ill - gotten wealth as is the case with most third - world dictators. In any event, the Swiss have created a mystic or an aura that is most alluring to wealthy individuals around the world, be they dictators or prominent tycoons.

The English on the other hand have built London into the biggest financial center of the world. Albeit an arguable claim today, London is still very central to global financial activities. London is also a major cultural centre, providing exclusive life styles (opera,

ballets, gourmet cuisine etc) to the very rich. The British Banker is arguable at par with his Swiss counterpart, in terms of expertise. In any case, wealthy individuals have enjoyed centuries of private banking services from British establishment.

Other major Private Banking centers have flourished due to a number of attractive offerings. Paris for example, is resistible due to its position as the center for high fashion and extravagant life style. The french tendency rewards the bizarre and "experience" remains alluring to the rich. Other major centers offer ambience (i.e hotel resorts, etc), exotic hospitality, political neutrality and tax-free havens. Monaco, Hong Kong, Luxembourg, Jersey Island, and many more, fall in this category.

At this point, let us examine the types of Private Banks operating today. They fall into three broad categories:

1. **BOUTIQUE BANKS**

   These are traditional Private Bankers. They are typically family - controlled or owner - manager banks, with a long heritage dating back several centuries. Some are still one branch bank while some just have several branches (less 10) in strategic centers around the world. They are very conservative in approach and are averse to risk prone or speculative investments.

   Their philosophy is to ensure a reasonable return on investment to both their clients and share-holders. They also pay their staff quite well and pride themselves on retaining loyal staff. Their position clearly indicates their focus on servicing established wealth - more specifically old wealth. Their products therefore are skewed towards wealth preservation and disposition. They are very low-keyed, and they rarely advertise. They rely on word-of-mouth, referrals and generation of generation

business. Relationships typically start with a deposit of 2MM US Dollar, their clientele typically consist of royalty, old wealth families, eminent personalities and accomplished tycoons. Most boutique banks are headquartered in Europe typically Switzerland. Good examples are Pictet & Cie, Lombard, Oldier & Cie, C. Hoare & Co and Rothschilds.

2. **INVESTMENT BANKS**

These are specialized securities banks that typically started as boutique banks. Over the years, they have grown to become diverse managers of institutional and private portfolios. They combine the rare art of traditional.

Private Banking with present day corporate finance. Product offering include trusts, mutual funds, Private Banking, equities and swaps. About 30% - 50% of Assets Under Management (AUM), are derived from wealthy individuals, in some cases even more. The focus, is on capital appreciation, preservation and lending. The Private Banking sector is either positioned distinctly as a separate unit of its own or part of the overall profile of the Bank.

Relationship will start with upwards 500,000 US Dollar lending the pack, in this category are the three big Banks, Union Bank of Switzerland (UBS), Credit Swiss (CS) and Swiss Banking Corporation (SBC). Other strong players include Bank Julius Baer, Bank J. Vontobel, Trade Development Bank (TDB, Republic Bank of New York, Morgan Guarantee Saftra Republic Holdings and Benca Dela Svizerra Italiana.

3. **MONEY CENTER BANK**

These are mass market money center banks whom have created separate Private Banking Groups or bought controlling shares in a boutique or small investment bank. They combine the strength of their global reach, asset base and diverse products to

provide wealthy individuals unappareled options. Some of these banks have offices in over 100 countries and are in a unique position to spread a client's portfolio in different markets. All banks (Boutiques, Merchants Banks etc) in some form use their services either as clearing banks or access to global markets.

Given the disparity between Retail and Private Banking clientele, they cater also to a new sizeable clientele - the personal banking sector. This comprises of upper middle class individuals, typically professionals, doctors, lawyers, bankers etc. They offer everything, from savings accounts to art advisory services. Relationships could start with as low as 100 US Dollars if they know the client is worth up to 1 million Dollars in net liquid asset. The players are Citibank, Chemical, American Express, Paribas, Chase Manhattan and the big UK clearing houses - NatWest, Lloyds, Midlands and Barclays.

Citibank runs its aggressive Private Banking Group (PBG) out of Zurich with over 30 centers worldwide. NatWest acquired Coutts & Co., an exclusive boutique founded in 1692, and cater only to upmarket and private clientele, back in 1920.

It is obvious therefore that all these forms of Private Banking have been in operations for centuries. Competition for market share remains keen if not fierce. Global geopolitics continue to affect the flow of capital and political neutrality and tax incentives continue to influence the individual's allocation of assets. In recent times, wealthy Arabs fearful of US - Arab relations have invested mainly in England. However, the British obvious complicity with the U.S, has exacerbated capital flight to safer havens, usually Switzerland - because of her legendary history of political neutrality. These fears are real, in the 80's and 90's US and British Governments froze the assets of governments and wealthy citizens they were at war with. This was

the case in Falklands crisis, the Iran crisis, and of most recently the Gulf war. It is also important to note that wealthy individuals typically maintain more than one Private Banking relationship.

International Private Bankers forecast that the private Banking will continue to flourish in the 90's. Their logic is informed by the fact that in times of economic boom, wealthy individuals aggressively pursue capital growth and investments, conversely they cautiously gravitate to wealth preservation during economic recession. In either case, they need the services of a Private Bank.

NIGERIAN PRIVATE BANKING

Private Banking practice is quite immature and somewhat new in Nigeria.

Private Banking in its strict global context s new to the Nigerian banking industry. The Nigerian bankers culture of hospitality (not necessarily service) towards affluent persons can be said to be the genesis of personal service. From the establishment of Standard Bank (now First Bank) in 1894, bank managers and staffers have been known to extend special courtesies to their good customers, be they colonial masters, magistrate, headmasters etc. Through the 40's and 50's, a few wealthy Nigerians like Chief Ojukwu (first recognised millionaire) emerged. The branch manager had a special way of handling his valuable clients which is still practiced today. He usually knew such clients by name, knew their business or profession, family and relatives. Upon arrival at the branch, they were promptly ushered to his office, offered tea and biscuits and had bank officials serve them from his office.

They discussed social events, politics and economic issues - interest rates, mortgage loans, company shares etc. Often, they exchange social invitations outside the office environment. This sort of relationship is more of personal than private banking, as the later involves an orchestrated program to manage the clients financial portfolio.

Personal banking services therefore characterized the industry's practice up till the late 80's. Private Banking in its true global context emerged in Nigeria in the late eighties. In 1988, Private Banking emerged in Nigeria International Bank (NIB), who assigned an officer to market and manage individuals with a high networth value. Citibank created its PBG in 1985 after several years of success at managing individual portfolios in Latin America and the U.S. by 1987, pre-tax profits had reached 100 million US Dollars and by 1988, the PBG accounted for a significant portion of total group's revenue. The focus over the preceding years championed by its chairman, John S. Reed, had moved towards the customer markets.

Wealthy individuals are a key element of this segments. NIB's senior management's decision to seek private banking opportunities in Nigeria, were informed by Citibank's global success. The bank was already positioned as an up market retail operator, it was not difficult therefore to separate wealthy individuals from its retail market. These HNWIs were managed under one officer until late 1990 when an autonomous unit - the Private Bank was created. Meanwhile, a few other banks had followed suit notably IBTC, Allstates and Chartered Bank. Thus began the practices of private banking in Nigeria.

The focus of the early practitioners was and largely remains, investment management. The approach was totally deposit driven. At IBTC a deposit of ₦50,000 automatically made the client a HNWI. Chartered Bank and Allstates operated pretty much in the same fashion. By contrast, NIB was more concerned with the prospective client's integrity and financial maturity. NIB's interest in immediate investments just like any of the other banks, it focussed on cultivating individuals with a net liquid assets of over ₦1 million. The difference therefore was on the approach - on one hand tactical (expedient) and on the other strategic (long term).

From 1991 to date, a bunch of new players have entered the private banking market. Each one espousing mastery in the fine art of PB services. Very few can be taken seriously, the rest are amateurs who see private banking as a fad. For all, it is a good "trick" for pulling in deposits and a good way of advertising.

When the full players fully understand the Nigerian market, a definite trend or direction will emerge. So far, the market trend is towards liability management ie, obtaining investments, deposits and so on. Private Bankers see the wealthy as cash cows and their style is to milk one cow and move on to the next one. This strategy may have worked during and before the last political era.

The 90's are certainly more complex, and wealthy individuals now have little lazy capital available today, most if not all money today is smart. The odds are that increased activities will be seen on the asset side. Private Bankers will need to finance and restructure assets of their clients to maintain the accounts or to get more assets from them.

Private bankers just like their corporate banking colleagues will need to know their clients better, prepare financial on them and make loan judgement. Unless the third republic ushers in unbridled corruption and squandermania (which seems unlikely) the Private Banking sector is set to practice real banking - the art of balancing risk with reward.

NIGERIAN BUSINESS ENVIRONMENT

The focus here is on how the business environment affects the practice of Private Banking. Nigeria in a lot of ways defies rational economic analysis. It is a market where increased production of an item lead to price increase instead of decrease sale of luxurious goods multiple during recession.

Whilst manufacturers are complaining of depressed markets and the average worker cannot eat three square meals per day, we see more fancy cars, gift shops, newspaper advertisement and luxury services flourishing.

The last few years witnessed an explosion in the number of financial establishments, Banks, Savings and Loans, Mortgage Banks, Bureau de Change all paying astronomical salaries and benefits. A few economic trends can be deduced from the present situation.

1. Wealth is still unevenly distributed.
2. High government spending, rising Consumer Price Index (CPI), high inflation, devaluation, all indicators of a recessed economy.

3. Acquisition of privilege (status) is still paramount to the wealthy.

4. Large pockets of liquidity are in the hands of a few individuals be they military men, bankers,oil men or drug barons.

The foregoing still abides by the universal principle - the individuals still remains central to ownership of wealth. It is therefore the task of the private bankers to articulate his target market, understand their socio-economic needs and proceed to meet them. Before assuming this task, it is important to know the history of wealth in Nigeria and how government policy creates wealth.

HISTORY OF WEALTH

Besides a few individuals like Chief Ojukwu, wealth accumulation started in the late 50's. Pre-independence and 1st Republic politicians were the wealth class to emerge in Nigeria. These politicians and their families were the first elite of the Nigerian society. These include the Azikwe's, Awolowo's, Akintola's to mention just a few. The military intervention in 1966 ushered in the first set of military class.

A lot of civilians benefited from this era, especially from the indigenisation exercise of the early 70's. Indigenisation enabled a few individuals particularly Southerners loyal to the North to buy substantial shares in blue chip companies that continue to dominate the economic sector till today. These individuals also bought sizeable property and land in strategic places like Lagos. As reconstruction and development began in earnest, the entrepreneurs emerged.

This was also the era of the Super Permsecs. Government awarded numerous contracts, commissioned many projects and acquired uncountable assets during the 70's. Many eminent businessmen and brokers benefitted from these activities. Meanwhile, many young graduates

who began their careers in the late sixties and early 70's had moved up the corporate ladder and quite a few were occupying strategic positions of power and wealth by then of the 70's. The second military class retired to their farms and overseas villas.

The second republic was the biggest jamboree of wealth distribution. It was a free for all. More millionaires were created in four years than ever before in Nigerian history. Lots of women benefitted from this era. Then came the brief period of austerity - the Buhari/Idiagbon government. Even though it was a period of contraction, it should be noted that it opened up the entrance of drug money, and the first signs of naira devaluation. Then came the Babangida years - the era of business and opportunities par excellence.

The Babangida administration created an interesting dimension to the method of wealth accumulation. Before then, almost all wealth emanated from government, today the private sector is just as key to wealth acquisition as the public sector. This era consolidated the "nouvea riches" - more retired generals and senior officers, more retired ministers and government officials, corporate gurus, oil brokers, new breed bankers, traders, drug barons, con men and Yuppies.

For purposes of classification, Nigerian wealth can be divided into two classes:-

OLD WEALTH: Wealth accumulated from 1950 to 1975. These include first republic politicians, military class of Gowon era, super permsecs, VC's & professors and prominent business men. The age range is about 60 years and above and the benefactors of the first republic politicians.

NEW WEALTH (Nouvea riches): Wealth accumulated from 1976 to date. These include all wealth created by success administrations.

Age range from 25 years to 60 years.

A few point are worthy of note.

1. As much as age is a factor, the real distinguishing factor is when and how the individual accumulated the wealth.
2. Government creates wealth. Economic and political machinations at Dodan Barracks (now Abuja) make or break individuals. It is important to know who a policy benefits.
3. Private institutions now create substantial wealth. Understanding the dynamics of every key institution is very critical, because the key players and protege become apparent.
4. It is important to plug in at the individual's wealth cycle at the right time - during accumulation and consolidation, because the individual typically remain loyal to institutions who were critical to his success.

At this junction, we can take an educated guess at the market size of wealth individuals. The absence of reliable demographic information and tax evasion make it a very difficult task. First of all, let us established a criteria for who constitutes a wealthy individual ie, who is a prospective private banking client?

A wealthy individual in this regard is:

1. Any individual who has up to ₦1M in investible funds (ie net liquid assets) or can maintain an average balance of ₦500,000.00 in a current account at all times.
2. Any individual possessing title to assets worth several millions of naira. The asset(s) must be convertible to cash within one year or acceptable to a bank as security.
3. Any individual solely controlling the shares of an enterprise that generates profits of several millions of naira annually or any individual owing substantial interest (25%+) in an enterprise that generates profits of several millions of naira annually.

4. A heir apparent to an estimate or member to a family controlling vast amounts of wealth. Care must be taken to verify that the individual definitely has the right of succession.

The focus is on immediate and near future potential of the individual. Near future is restricted to one year forecast or less.

MARKET SIZE

1. **OLD GENERATION:**

(i)	First Republic Politicians & Survivors	-	1400	-	2000
(ii)	Senior Bureaucrats of the 60's	-	600	-	1000
(iii)	Military class of the 60's	-	300	-	500
(iv)	Benefactors of indigenisation	-	3500	-	5000
(v)	Super Permsec class	-	1000	-	2000
(vi)	First order Entrepreneurs	-	600	-	1000
(vii)	Military class of the early 70's	-	1200	-	2000
	TOTAL RANGE		**8600**		**13500**

NEW GENERATION:

i.	2nd order Entrepreneurs (late 70's)	-	2,000	-	4,000
ii.	Military class of '76-80	-	2,000	-	3,000
iii.	2nd Republic politicians	-	6,000	-	10,000
iv.	3rd order Entrepreneurs (80's - 85)	-	8,500	-	15,000
v.	Industry Gurus (76-85)	-	2,000	-	3,000
vi.	Military class (85-94)	-	20,000	-	30,000
vii.	New breed entrepreneurs (85-94)	-	13,000	-	20,000
viii.	Industry gurus (86-94)	-	3,500	-	5,000
ix.	New breed executives (86-94)	-	16,000	-	20,000
x.	Yuppies	-	8,000	-	10,000
Total Range			81,000	-	121,000

For purposes of analysis, we could use a round figure of 100,000 as the market size figure. 100,000 is less than a tenth of 1% of the total population of Nigeria. This figure is conservative and does not recognise illegal wealth (underground money). It also excludes Lebanese, Indians and other naturalized foreigners who control significant wealth in Nigeria.

SURVEY OF SOME BANKS IN NIGERIA ON PRIVATE BANKING:

1.	CMB	-	NO PBG
2.	Oceanic	-	-do-
3.	Group Merchant	-	-do-
4.	Credit Lyonnais	-	-do-
5.	Liberty	-	Private Banking Services

6.	Royal Merchant Bank		NO PBG
7.	FCMB	-	-do-
8.	FBMB	-	-do-
9.	Crystal	-	None yet
10.	Mutual Trust	-	Personal banking services
11.	Industrial Bank	-	No PBG
12.	MBC	-	-do-
13.	FUMB	-	No PBG: Deposit driven advertisements.
14.	NIB	-	Private Banking Services
15.	Chartered Bank	-	-do-
16.	GTB	-	-do-
17.	All State	-	-do-
18.	FSB	-	-do-
19.	Eco Bank	-	-do-
20.	Citizens	-	-do-
21.	Diamond	-	-do-

COMMENTS

Serious players in the market are the last eight banks. Each bank will be analyzed briefly.

NIB: Still remains the premiere bank for private banking service. Products/services: Separate banking facilities, foreign currency insurance, special cheque books, gold card, portfolio management, offshore referrals, correspondence folder.

Management: 4 staff team. 1-Manager (part-time), 1-AM, 1 officer and 1 Ops Officer. Plus Ops support Clients managed individually by the 3 marketing staff.

Target Market: Cream of the crop and strong HNWI's - Preservators/Depositors.

Marketing strategy: Focussed. Based on identified recognisable names. Direct solicitation, referrals, cross-institutional selling and word of mouth. Introduction letter, face to face call, follow up call(s) and conversion.

Market positioning: Very low key, snobbish and very classic. 2 tier structure -PBG & personal banking. Private banking packaged under the name "Manilla Gold Account".

Competitive edge: Strong management, citibank reach, commitment and strategic focus.

Cost structure: Reasonable and well managed.

Dept and commitment: Top Management priority. consistent training - offshore/local. Long term view. Very committed.

Infrastructure: 3 room setting, reception, cash point & meeting room. support technology programs. Very tasteful furnishing. Up front cost 1 million naira (1990 value).

CHARTERED BANK:

Product/services: Home delivery Separate banking facilities. Regular bank products, no real extras.

Management: 2 staff plus Ops support.

Infrastructure: 2 room setting. No extras.

Target market: Any person with up to =N=50m for Account opening and =N=500m for investment.

Market strategy: No clear focus

Market Positioning: No clear focus

Competitive edge: MD has considerable clout.

No. of clients: Not available.

Future plans: To increase market share.

Revenues: Not available

Cost structure: Low due to skeletal operation.

ALL-STATES

Product/Services: Regular banking products, personal attention, portfolio management.

Management: 2 staff plus Ops support.

Infrastructure: 1 room set up.

Target market: =N=50m for current account. =N=500m for investment.

Marketing Strategy: Not clearly defined and implemented.

Market positioning: Fairly low key.

No. of clients: Not available.

Future plans: Not available.

Revenues: N/A.

Cost structure: Relatively low.

ECO BANK:

Provides personal banking services to some special clients with huge investment and high turnover. The bank is well positioned and growing fast, its market share would increase substantially in the near future.

DIAMOND BANK:

Product/services: All regular banking product, personal attention, portfolio management etc.

Infrastructure: Separate facilities from regular banking customers.

Target Market: Wealth accumulators and consolidators.

No. of Clients: Not available

Cost Structure: Reasonable and well managed

Commitment: Strange management and understanding of the market.

Market strategy: Referrals, cross-selling, direct solicition and word of mouth.

Revenue: Not available.

GUARANTY TRUST

Product/Services: Regular banking product, personal attention, portfolio management, home delivery services including weekends.

Management: 4-5 officers: 1 Deputy Manager 2/3 officers + Ops support. Full & part time basis.

Infrastructure: Separate facilities - Semi private reception area.

Target Market: Accumulator/Consolidator; Personal banking client, from =N=500m investment.

Marketing strategy: Focussed solicitation, Referrals and cross-selling.

Marketing positioning: Low key but aggressive. Up scale operation of personal banking services.

Competitive edge: Attractive office building & high profile management staff. Strong service focus.

No. of clients: Not available.

Future plans: To build a strong PB operation, move to bigger premise -Increase services on offer.

Revenue: Not available: Indication of substantial earnings.

Cost structure: Well managed and balanced.

Depth and commitment: Strong management focus and understanding of the market. Quite impressive.

CITIZENS:

Provides highly personal banking services to established new breed corporate executives and entrepreneurs. The bank is well positioned for PB services because of the market reach of the 5 principals of the bank. They know their clients quite well and thereby extend credit facilities to them. This old-boy network approach has paid off very well in their case. They are not focussing on PB products per se.

IBTC

Products/Services: Investments banking products, relationship management, separate PB offices.

Management: 2 staff operation-mainly marketing staff.

Infrastructure: 1/2 room set up - reasonably furnished.

Market strategy: Deposit driven. Media advertising.

Market positioning: Upscale HNWI banking services. Attractive packaging.

Competitive edge: None really. Perhaps name recognition as early practitioner of PB.

No of clients: N/A

Future plans: To keep strong deposit and investment base.

Revenue: N/A

Cost structure: Low to moderate.

Depth & commitment: No strategic focus per se. commitment is doubtful.

FSB INTERNATIONAL BANK:

Offers traditional personal banking services to preferred clientele. No focus on private banking per se. Two well furnished rooms are available for receiving and transacting. The overall bank premises is impressive and would attract potential PB clients. PBG is about to take off, there is already staffers in place for this purpose.

The keen competitors are therefore NIB, Diamond Bank and Guaranty Trust Bank, because of their senior management's commitment to PB services. NIB's market share could increase substantially if they are prepared to accommodate wealth accumulators and consolidators (i.e extending credit facilities). Their focus is more skewed towards preservations and dispositors. Nonetheless they remain the "creme de la creme" of PB Operators. GTB on the other hand is set to grow vert fast because of its scope. Their facilities can accommodate all individuals at various wealth cycle. The service focus is very strong and the bank itself has built the critical mass required to drive growth. Likewise Diamond Bank is growing fast in its Private Banking Sector.

Citizen's would certainly emerge as a strong competitor if they decide to focus on PB services as a business segment. They have already built a viable, profitable franchise catering mainly to consolidators. It would not be difficult for them to extend their services to other wealthy individuals.

Large pockets of funds are still controlled by the big commercial banks. The principal banks are FBN, UBN, UBA and Afribank. Regional banks also control substantial funds. Their clients (of PB profile) have stayed with them for many reasons ranging from mortgage facilities to socio-political ties. These banks practice traditional personal banking. They are either not interested in private banking or not aware of it.

PRIVATE BANKING POSITIONING:

Keeping in mind that Private Banking Operation is like selling snob value therefore it is important to make the intangible seem tangible in the perception of the prospective client. Any operator should position itself as an upscale operator of PB services. Clients should be made to feel that what is offered is PB per excellent. Style should be middle key. Furnishing should be stylish but not ostentatious. Stationary and service tools should be unique but not over done.

The PB should be offered as a brand name (for example - The Golden Club) and several packages or tiers should be offered for different categories of wealth and needs. Even though the approach is high profile, the prospective client must feel the immediate or practical need for the services. One must constantly bear in mind that greed is an important aspect of human nature as such, service should be positioned to tempt greed.

High impact advertisement strategically timed and managed should be constantly done to create awareness and thereby arouse interest. The institutional advert should be run for a period of 6 to 12 months. Mass approach should be discouraged, the objective should be to reach Target Market only.

MARKETING:

A variety of marketing strategies can be used to reach the TM. Reaching the TM successfully is one task, converting (winning over) the TM is another task. The approach should therefore be integrated - from identification of the TM - to the first contact - to subsequent follow-up calls - conversation. The overall idea is to leverage off the strength of the bank.

The following strategies are recommended:

1. Advertising: High impact advertisement to reach the TM. The objective is to create awareness and arouse interest. The advertisements (ads) must be broad enough to appeal to the different generations within the TM. The ads should appear in about 4 - 6 selected print media, (on TV or Radio) strategically positioned, and should run for a period of 3 -6 months. Another good technique is to sponsor an activity that will bring the Bank in close proximity with the TM. For example, a charity ball, a musical show or an exclusive sport like golf, polo or tennis. Advertising is only a preamble, it is unlikely to generate conversions. It will be useful to the extent that the probability of the TM's awareness of Bank's PB services is significantly increased.

2. **DIRECT MAILING/TELEPHONE SALES:** From the target market (TM) data base, names will be selected periodically (twice monthly) on a random basis. Each selection should not be more than 50 per marketing staff. A well drafted introductory letter along with the product package should be mailed to these perspective clients. The packages must be couriered by Bank despatch system or courier operator. A few days (2/3 days) after evidence of receipt has been confirmed, marketing officer should place a call and try to arrange a face to face meeting with the prospective client. This would be the first of the meeting(s) that will lead to a conversion.

3. **PERSONAL SELLING:** Senior Bank staff, shareholders, directors, friends of the Bank, well connected staff members will be encouraged and motivated to convert their TM contacts. A variety of incentives can be used. For non Bank staff a discreet brokerage fee can be paid. For Bank staff, a challenge can be created - contest with prizes, weekend for 2, trip to Abuja, London etc.

4. **CROSS INSTITUTIONAL SELLING:** Often times any banks TM is already doing business with the Bank on the institutional side. The PB marketing officers should work closely with the Corporate Bank, Treasury department, in identifying the TM, getting introduced and converting the TM.

5. **REFERRAL NETWORK:** Your best sale person is a satisfied client. The relationship manager will work quickly to please new converts and convince them to bring in their friends and associates.

Referral network is easily the best way of growing the client base. One client can bring in up to 3-5 other clients. Banks may consider some sort of "thank you gesture" that may not have much monetary value.

6. **SOCIAL NETWORKING:** Marketing officers should make it a point to duty to socialise. Membership of certain clubs such as Ikoyi Club, Polo Club, and Metropolitan Club is essential.

Banks should strive to obtain invitees for their PB staff for high profile social gatherings. It is important that the client perceive the PB staff as fairly upscale executives. A combination of these strategies will ensure that a significant proportion of the TM is penetrated. More than one is usually employed before conversion is finally made. However, a percentile distribution per communication channel is projected here based on experience.

1.	Advertising	= 2%
2.	Direct Marketing	= 35%
3.	Personal selling	= 20%
4.	Cross Institutional	= 10%
5.	Referral network	= 25%
6.	Social networking	= 8%
		100%

The easiest strategies are personal selling and referral. Banks must strive to get senior persons and shareholders seriously involved in building the client base. The initial client base will set the foundation of an active referral network. Both activities will then be reinforced with the activities of the marketing offices. Applying this approach will expedite the building of the critical mass of clientele, which will set the stage for fast growth.

C. RELATIONSHIP MANAGEMENT.

A client relationship must be managed. Once a prospect becomes a client, he must have an Account Officer who oversees his relationship with the Bank. The advantages and disadvantages are obvious - what is important is to stress a few attributes of the Relationship Manager (RM).

- The RM should be very professional, quite personable, mature and energetic. He must have very high personal integrity and must demonstrate a high level of discipline.
- The RM is expected to play GOD and SERVANT at the same time. His client expects him to have considerable power, and at the same time, expects him to defer to him. The RM must be able to walk this thin line.
- No divulging of client information by the RM.
- The RM must be cultured both in appearance and person. Personal grooming and fine dressing is a prerequisite. Good manners is also important. He must be able to function at the same mental level of his clientele. Some International travel experience, knowledge of a foreign language are also advantageous.

In one word, the private Banker is a person of character and immense possibilities.

MARKET INTELLIGENT.

A market intelligence system is necessary to keep in close contact with the market. It is very important to know what the competitor is doing, what new products are in the market, how you are perceived in the market so on.

Banks should set up a monitoring unit 2-4 persons including a PB staff to periodically feel the pulse of the market.

The unit will design questionnaires, set schedules, carry out surveys, and report findings to management. A fair and honest assessment of the market is required to ensure that the Bank is constantly competitive.

EXPENDITURE

Unlike many bank products, expenditure associated with PB services are front - end expenses. In order to be operational, more than 80% of the cost has to be incurred upfront. The differential cost will then be incurred as the need arises. The obvious disadvantage is the loss of income and time value of money. The advantage is that the bank's cost become up relatively fixed or predictable over a period of time (12 - 24 months).

From this point of view, management can budget more effectively.

HNWI	-	High net worth individuals
RM	-	Relationship Manager
TM	-	Target Market
PB	-	Private Bank
ADS	-	Advertisement.

SUGGESTION AND RECOMMENDATION:

1. Senior Management Involvement is very important. Senior Management should be involved in the marketing program especially at the initial stage. At least three key officers should be involved. The odds are that they know a good number of the prospect clients personally. A target of at least 3 face to face marketing calls and 5 telephone calls a week should be set. This advantage should open doors and close for the marketing officers.

2. The critical mass of clientele converted in a particular year, should be given exceptional pampering. They would market the PB for the Bank unconsciously. Each client is worth at least 5 other clients.

3. Lease finance transactions should be seen as an attractive financing vehicle because of capital allowance benefits to the Bank.

4. Banks practicing private banking should constantly be on the alert for mega transactions at the individual level. One mega transaction can generate up to 50% of the projected annual revenue. It could be sale of land, property, forex or acquisition of an asset. Close contact with clients and "financial gossip" often reveal such information.

5. Often times less than 10% of the client base account for over 70% of the deposit base. Banks should constantly try to "fish out" the mega transactors. Often times they are very simple unassuming traders. A good place to look is amongst ECOWAS TRADER.

6. Often times many businessmen do not separate their person from their enterprise. Banks should classify such clients in the PB unit. PB unit should manage businesses structured in that fashion.

7. The marketing officer and relationship manager should not be one and same person. Because the marketing officer cannot manage relationship if he's out all day marketing clients.

8. PB staff should be very mindful of how much time is spent on a client's affairs. Excellent service must be rendered at all times but time spent should be effectively coasted and utilized. a service cost/man hour allocation exercise should be carried out to determine the value.

9. After 2/3 fact to face calls on a client, marketing staff should follow-up on the telephone thereafter.

10. When a client puts marketing officer on a "come tomorrow, come next week" trip, officer should reverse the position by letting the client get in touch and move to the next prospect.

11. Always seize the opportunity to do a prospective client a token favour - he just may be testing you.

12. Be prepared to take a loss on a client or just break even on a deal. It will endear the client and he will come back again at which time you make up for lost revenue. That's the Japanese strategy - it works.

13. Try not to dribble a client. Know your parameters and explain nicely - They appreciate forthrightness and you build trust.

14. Also try to find out from your client what other Banks are doing for him. It is very valuable information.

15. A good screening of Relationship Manager's should be conducted prior to appointment. PB staff in general should plan to have at least a 2 years stay in the unit, because clients generally do not like to deal with new faces.

16. It is prudent to have the major tribes represented in the Private Banking sector, in order to ensure that language and cultural barriers are avoided between the Target Market and the Bank.

17. The dailies are good source of monitoring individuals at play. A private Banker with a keen eye can deduce "the flow of funds" from such general information.

18. The private Banker must try to remember names of spouses and children of their clients. The client data should contain complete information of each client - birthdays, anniversary etc. Cards and gifts should be sent on those occasion.

19. The private banker should never give expert advise if he or she is not sure, he or she should call a staff from the relevant department to give expert opinion.

20. Always massage the ego of your client. Pay compliments, introduce him to very senior management - let him feel that he has arrive.

CONCLUSION

From all indications, we can see that private Banking has become a global phenomenon. In 1991, South East Asia was Citibank's fastest growing PBG. As the world becomes more interactive individuals continue to create and safeguard wealth for themselves and future generations. Private banking will continue to flourish for the same reasons that it has done so for the past several centuries.

Nigeria private banking market still remains virtually untapped. Over 80% of the market size is available for sharing. More banks are in the position to build an attractive range of product and services. Based on the following market opportunities.

1. **FEW STRONG COMPETITORS:** As analysed. Only NIB, GTB, Chartered Bank, Diamond Bank and Citizens are keen competitors. The market is wide enough to accommodate all serious players.
2. **INNOVATION:** New operators can improve on present market offering and gain competitive advantage.
3. **ETHNIC FACTOR:** The ethnic factor is an important element, though it need not to be so pronounced. Different ethnic groups control substantial funds available to PB operators. New operators can draw on ethic sentiments.
4. **POLITICAL FACTOR:** The bank can leverage off the political clout of its shareholders and directors to attract clientele.
5. **TIMING:** The timing is right. As revenue potential diminish in other bank products, due to competition and other factors, Bankers aggressive search for new avenue of generating revenues. PB services is a likely area - more banks will start PB services in '95/97 than ever before.

The political and business environment has created many wealthy individuals over a period of thirty-five year. And the system is set to create even more wealthy individuals and very few banks are offering specialized services to these individuals. Most of these Banks have put their own needs before the clients. Besides the market offers more than enough for the serious player.

A handful of Nigerian Banks has the tools to build a successful franchise in private banking services with the right ownership structure, management, infrastructure and know-how.

APPENDIX 1

QUESTIONNAIRE SCHEDULE FOR CUSTOMERS OF COMMERCIAL BANKS

A) **PERSONAL DATA**

i) How many banks do you deal with?

a) one (b) two (c) three

d) more than three

ii) Names of the bank(s)

1) ----------

2) ----------

3) ----------

iii) Which of the following types of accounts do you operate?

a) Savings (b) Current (c) Fixed

iv) How often do you operate your account(s) in a month

a) Once (b) Twice (c) Thrice

d) more than thrice

KASHIM IBRAHIM LIBRARY
RECEIVED
18
ZARIA NIGERIA
Ahmadu Bello University
467618

v) Which bank services do you patronize?

a) Foreign exchange and or remittance

b) Overdraft, loan etc.

c) Miscellaneous

vi) Which of the following is your source of income?

a) Salary or Wages

b) Rent

c) Dividends and or interest

d) Others

vii) What is the level of your annual income?

a) less than N20,000

b) between N20,000 and N40,000

c) between N40,000 and N80,000

d) between N100,000 and N200,000

e) over N200,000

(B) **RELATIONSHIP WITH BANK OFFICIALS:**

1) Which of the following bank officials is accessible to you?

a)	Branch Manager	(b)	Assistant Branch Manager
c)	Branch Accountant	(d)	Supervisor(s)
e)	Tellers/Cashier	(f)	Any other

(C) **BANK SERVICES:**

i) How long does it normally take you to carry out the following transactions?

	Less than 10 Minutes	10-30 Minutes	30-60 Minutes	Over 1hr.
1) Depositing Cash				
2) Cashing Cheques				
3) Withdrawing Cash				
4) Obtaining Travellers Cheques				
5) Bank Draft				

ii) How long does it normally take you to do the following?

	1 day	2-4 days	5-7 days	Over One Week
a) Mail Transfer				
b) Clearing a Cheque				

iii) What do you think is the cause of delay (if any)

a) Insufficient staff

b) Laxity on the part of bank staff

c) Wrong procedure and or inadequate machines or lack of up to date technology

d) Any other

iv) How efficient is your bank? Has your cheque ever been erroneously returned unpaid; your account debited or credited instead of being credited or debited; your standing order not effected; your bank draft wrongly written etc. Based on the answers to the question above how do you rate your bank?

a) Very efficient

b) Inefficient

c) Efficient

d) Very inefficient

v) If your answer to question (iv) above is (d) or (b) what do you think is the cause of this inefficiency (if any)?

a) Poorly trained staff

b) Carelessness

c) Inadequate records and machinery

d) Nonchalant attitude

e) Any other

D) **CUSTOMER SATISFACTION**:

(i) To what extent are you satisfied with the services of your bank?

a) Very satisfied (b) Satisfied

c) Dissatisfied (d) Very Dissatisfied

E) **RECEPTION AT THE BANK**:i)How do you assess the condition of your banking Hall

a) Inadequate (b) Fair

c) Good (d) Excellent

ii) How do you assess the reception by bank officials whenever you visit your bank to carry out a transaction?

a) Very rude (b) Inefficient

c) Courteous (d) Any other

iii) If you regard the banking facilities as inadequate and you feel bank officials are usually discourteous, what do you think is responsible for this?

a) Inadequate training of staff

b) Poor supervision

c) Poor facilities

d) Any other

iv) Have you ever left your bank without transacting any business?

a) Never

b) Often

c) Always

(1) Name of Bank

(2) Do you have a private Banking Sector

(a) Yes (b) No

If your answer to 2 above is yes please answer the following questions

(3) Do you have a separate area for private banking?

(a) yes (b) No

(4) Can you described the kind of set-up (i.e furniture infrastructure equipment etc) in your PB area?

(5) How many staffers manage the PB area and what are their destination

(6) What is your target Market as regards to Private Banking clients

(7) Approximately what is the setting up cost of your PB area.

(8) How many PB clients do you have now?

(9) What is your revenue from PB yearly (a) between 1 - 10mm

(b) between 10-20mm (c) between 20mm-40mm (d) between 40mm-50 (e) 50mm above.

(10) What is the future plan of your bank as regard Private Banking

(11) What special services/product do your bank offer it's private banking clients.

(12) How would you rate the performance of your bank as regard private banking

(a) Poor 35% below (b) Fair 40% (c) Average 50% (d) Good 60% (e) Excellent 70 & above

FOOTNOTES

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