

REASONS TO THINK SMALL

As long as rich people want small banks that can offer a personalised service, institutions like Hoare & Co will thrive. CEO Alexander Hoare (right) talks to *The Banker*



“I call it the paradox of capitalism. It churns out at one end vastly rich people and at the other end vast organisations. The rich people don’t want anything to do with these organisations,” says Alexander Hoare, chief executive of UK bank Hoare & Co.

That is an exaggeration. The wealthy are more than willing to bank with behemoths like Swiss bank UBS, the world’s biggest private bank, which manages about \$2120bn in assets worldwide. But they also bank with Hoare, as shown by its 55% rise in pre-tax profit to £14.9m in the financial year ending March 2006.

On the demand side, the past years of benevolent growth in the world economy have led to a surge in the number of wealthy people looking for private banking services. Global wealth reached \$88,300bn in assets under management, while the number of millionaire households, measured in US dollars, reached 7.2 million, according to the Boston Consulting Group’s (BCG) 2006 *Global Wealth Report*.

Some of that newer wealth is banking with Hoare, which has only two branches, one in Fleet Street on the outskirts of the City of London, and the other in London’s Knightsbridge, which is handy for foreign clients shopping at upmarket store Harvey Nichols, and is also a prime location for the bank’s private equity and hedge fund clients, who have offices there.

The personal touch

Hoare & Co, with a £1.3bn balance sheet, prides itself on offering a truly personalised service. Mr Hoare, interviewed in the country house-style drawing room of the bank’s mansion on Fleet Street, gives as an example a client’s daughter who was ill and stranded at Geneva airport on Christmas Eve. The bank raised her Visa credit card limit immediately so that she could buy a plane ticket to fly home. Until 20 years ago, a partner from the bank slept on the premises to deal with any client requests; mobile phones now fill that role.

The bank has doubled its balance sheet and profits over the past five years, and plans to do the same over the next five, but with the same number of customers (about 10,000) and the same number of staff. The strategy will work, says Mr Hoare,

because the clients are getting richer and the bank is getting a larger share of their wallets. Two thirds of the bank’s revenues currently come from the net interest margin and one third from fees and charges; the longer-term aim is to balance them.

“My job is to keep this bank small,” says Mr Hoare, the 11th generation of the Hoare family to run the bank. “I like saying that to Americans,” he adds with a grin, referring to US ambition and drive.

What is also surprising about the bank is that if the seven family partners who own 100% of it do not like a prospective client, they will turn them down. “If a rich person turns up and we think he looks like trouble, the answer is no. If an academic, not very rich, turns up and we like him, he joins the bank,” says Mr Hoare.

“In a way it is counter-intuitive,” says Luqman Arnold, former chief executive of UBS. “But delivering the absolute antithesis of the strategy of the big banks is a winning strategy for them.”

Wealthy are discerning

The wealthy, according to the BCG report, tend to distribute their assets between many banks. And one of the reasons a bank like Hoare can win some of that business is that the big private banks often do not deliver what they promise. Relationship managers are that only in name; they change quickly and are in essence salespeople, intent on selling the investment bank products to their private bank clients, according to some wealthy individuals, who asked to remain anonymous. One mentioned receiving e-mails about a product that was neither right for him nor believable in its promised returns without his taking on a huge amount of risk.

Mr Hoare points out that the much-vaunted economies of scale of the large banks, which are becoming ever larger, may be clear but what is “harder to measure are the diseconomies of scale: branches not hearing the message, disaffected staff, strategic gyrations with different CEOs every three years and budget battles”.

As *The Banker* arrived for the interview, the doorman in a business suit who stands outside the bank and brings the visitors in said: “Mr Alex is on the way out.” At Hoare & Co, unlike other banks, that is not a phrase that can be misinterpreted. **TE**