

By Thomas Schellen

TALKING ABOUT WEALTH



The rich get richer

Wealth is a contentious issue when seen through the lens of social improvement. Viewed from the position of social equality, it is a recipe for dissatisfaction and, sometimes, disaster. How does a private banker reconcile obligations to clients with social responsibility and ambitions for national improvement? EXECUTIVE sat down with Jean Riachi, chairman of FFA Private Bank, to discuss.

E *Statistics on the latest developments in global wealth in 2016 suggest that the number of high-net-worth individuals (HNWIs) and families is increasing again worldwide and that, for the wealthy, the pain of the recession and post-recession years has passed. How do you see the global wealth management landscape from the Lebanese vantage point?*

I agree that the rich are getting richer. This is an effect of globalization but also of something else that has been happening since the early 1990s, which is the increasing concentration of wealth. Numbers are large and growing, for the rich as well as for the middle class. In Asia for example, business people and entrepreneurs are making large fortunes in countries where the middle class is growing. This is because successful entrepreneurs are finding bigger markets for their products.

E *How is it in Lebanon? How much private wealth and concentration of wealth are we talking about in this country?*

I don't know if there are real statistics and I have always wondered how many people you would have in Lebanon whom you would call high-net-worth, high-net-worth being above \$1 million in liquid assets, or ultra-high-net-worth individuals (UHNWIs), meaning liquid assets above \$30 million. We [at FFA Private Bank] have 2,000 clients and I am sure we don't have everybody in Lebanon [who is a HNWI or UHNWI]. Almost 95 percent of our clients are HNWIs, and a good chunk are UHNWIs. So I would say, yes, there is wealth in the Lebanese community, and we are talking traditional wealth, not even new wealth or suspect wealth.

E *So the rich in this country are getting richer, as you alluded to before?*

I'm not sure that the rich are getting richer in Lebanon. I was talking about other areas. Lebanon, unfortunately, has been in so many economic and political crises. Also, you have people who made a lot of money in Africa or in [other] Arab countries, but situations [there] have worsened. So you have many Lebanese people who are very wealthy, but [also] have financial troubles of some sort because their businesses are [based] in oil-rich countries, and those countries are suffering.

E *Since the concentration of wealth accelerated globally in the 1990s, and with the recession in the 2000s, some*

theories of trickle-down wealth have lost credence. From a wealth manager's perspective, are stories of wealth and getting rich today still encouraging people to believe they can get rich too, or are they getting more fed up with the inequality between the top and the rest of society?

If we look at what happened recently in the world, with the election of Trump and with Brexit, I think these were signs of some kind of revolt against these inequalities. Although this looks like a paradox in the case of Brexit, which will impoverish Britain, and with Trump being a billionaire — [ordinary] people grab what [opportunities] they can to express their views. There certainly is some kind of frustration in the middle class against inequality. Such behavior, [not accepting unequal treatment] is even observed in experiments with monkeys. So imagine [how it is] with people. Even though I believe that the middle class is benefiting from the growth that has been occurring almost everywhere in the world, it's clear that the concentration of wealth creates frustration, and we saw that people were ready to sabotage [their own economic standing in protest]. So, yes, inequality is an issue.

E *How does this make your life as wealth manager more difficult?*

You know, one has to separate things. We're dedicated to a certain target [group] of clients. We have a niche, which is serving corporate entrepreneurs for finance and investment banking, and serving high-net-worth individuals and institutions on wealth management issues. We believe our clients are very good people; some of them are very successful entrepreneurs and have businesses where hundreds of families are living off the job opportunities they are giving them. I'm very comfortable with this, and I think [this also applies to] our contribution to society as FFA. We have 120 families living a good standard of life [because their breadwinners work here]. I have people who started working here as trainees in order to pay for their own university tuition. Today, they still work here and have children for whom we are paying university tuition. So, we're contributing to the social welfare of the country. I don't believe this story of the divorce of the elites. Yes, we have good people and bad people, but you have rich people who are doing a lot for their community, and rich people who are very egoistic and don't deserve [to be rich]. But you know, we are not here to judge. If there is a God, he is gonna do it.

E *It seems that as a responsible business leader, you have to not only take economic issues into consideration, but*

also human behavior, such as the importance of equality.

I agree. In my family, they accuse me of being a leftist, but I am not actually. What I mean is that you have good people and bad people among the rich and the poor, and that's it. Everyone in his place has to contribute to the welfare of others.

E *You say that FFA has 120 employees today. How many did you have 20 years ago?*

We were four.

E *One of the repercussions of the recession years after 2008 was that clients asked for lower fees and took their wealth managers to task for not achieving expected high returns. Some clients even turned away, it seems, to manage their own stock portfolios and so forth. How is the situation today? Are people trusting their wealth managers?*

I think that integrity, professionalism, and transparency are the key issues here. We at FFA are not geniuses, but we have good people. They have good education, they are intelligent people — in our recruitment process we have tests because we believe that IQ is important — and more importantly, we value the integrity and moral values of the people we have on staff.

Very often people felt that they were ripped off, not that somebody had stolen money from their account, but that they were mis-sold on some assets because it was in the best interests of the wealth manager or the bank, not in the best interest of the client. They also saw that some of the fees were hidden, not disclosed enough, etc. Of course we have regulations — and in Lebanon, with the Capital Markets Authority and the central bank [Banque du Liban] being active, we have much higher regula-

■ “It's clear that the concentration of wealth creates frustration”

tions [than many other jurisdictions] in terms of disclosure and separating by category of clients — but you still have a moral obligation. We want to treat our clients

fairly and professionally, and give them what we believe is best for them. Very often we are wrong, but at least clients know that we have acted in good faith. They are likely satisfied, because we very rarely lose clients and we still acquire new ones, meaning word of mouth is doing very well for us.

E *But can't investors manage their own assets, just as well as those using the services of a wealth manager? Isn't all the information available practically for free if one only looks?*

How can you do it yourself? You need somebody

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to screen the markets for you and identify the right investment opportunities, to follow up on your investments, to execute your transactions — and make sure that every transaction is executed properly — and to safeguard your assets. This is our role, and we need to be paid for that. We are quite flexible but not very flexible on our fees, because people have to understand that we have to pay for our expenses. We're transparent, and actually, we like our clients to be informed because it makes the conversation better and easier. The more that our clients are aware, well informed, and sophisticated, the better it is for us. We're here to advise them. We want to have conversations and are happy when they challenge our ideas because when we reach a conclusion and decide to invest somewhere, or do something together, it's a joint decision, and this is very different.

E *Do you need malpractice insurance as a wealth manager?*

There is [such insurance], but we try to avoid malpractice. This is why for us HR recruitment is very important. If there is malpractice, it's not going to be me personally [who is liable for it] — it is going to be someone in the team who might have misled [a client] or where misconduct might come about. It's therefore very important to have people who have integrity, and this is where we put a lot of emphasis.

E *We all remember stories of banks like Barings who were ruined by their traders. Do such stories make you worried at night?*

[Being] ruined by traders [does not worry me] because of regulations, and because we're very conservative. There's nothing that we could do on our own account that could ruin us. But I'm worried about [the possibility] that a broker or private banker would mistreat a client, and that we would therefore have to pay for this [person's] errors. It's very important for us that this never happens. And do you know how many lawsuits we have had in 20 years? Five, maximum. This is famous as the industry where you have the most lawsuits on earth. And how many lawsuits did we lose? None. I tell you why.

E *Because of the state of the Lebanese juridical system?*

Not at all. The only reason was that when we have made a mistake, we don't even wait for the client to sue us, we tell them, 'it's our fault' or that it's a shared responsibility, and we'll find a way to [rectify the situation]. However, sometimes there are people who undertake a lawsuit as a business deci-

sion [to get extra money]; in such a case, we don't care and pursue the matter to the end. But when we make mistakes, we are ready to pay for them. That's why we want to minimize mistakes, and very often mistakes originate with people who do not follow rules or regulations, do not follow the procedures, or sometimes from people who do not have the moral fiber. However, I can tell you that today all our people are very professional and very educated. And let me tell you that we not only choose our employees, we also choose our clients. We do screenings of our clients for anti-money laundering and combating terrorism finance etc., but we also look at their background because we don't want bad people [to be our clients]. Sometimes we were wrong, and we [ended up] firing clients.

E *We also are trying to gauge the development potential of Beirut as a wealth management hub for the Middle East. As far as I understand, there is no central directive or regulator for wealth managers in the region such as the MIFID directive in the EU or the SEC in the US. Does Beirut stand a chance in serving as a wealth management hub for this region?*

The KSA is different [from Lebanon in wealth management] because the KSA has a domestic market. A domestic market means domestic secu-

rities, bonds etc., which create a lot of activity. This is what we don't have in Lebanon. We are striving to have it, [but] it's very difficult. By today, we should've had a dynamic stock exchange, but we haven't [achieved this].

We have an investment banking arm [at FFA], and we're getting lots of mandates, but we have to refuse mandates of companies that have reached a certain point where they have family issues and need to do something about them. We're at a stage in Lebanon where we need an active local market. This is an effort that must be carried out by the authorities. One of the sectors that we believe could be a trigger is infrastructure. This is why we're putting large efforts into the infrastructure sector.

E *In your view, does the newly adopted PPP law play a role in this context?*

The PPP law was adopted, and it is a very beauti-

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Wealth Management

ful law. We have ideas about how the infrastructure in Lebanon has to be financed. We have been lobbying hard for things to happen, and we even managed to get an amendment into this PPP law that allows the use of the securitization law, (Law 705). What we are seeing, [however] is that a small group of people will monopolize and control these infrastructure projects, which will prevent the public offerings that we would like to do. This isn't very encouraging. These are very lucrative projects; there is a lot of money to be made for investors, for lenders, for mezzanine [debt] holders, for equity holders.

E *But if the infrastructure projects are controlled by a small group, doesn't that mean that the competitiveness of the biddings would be limited?*

Let's forget about the bidding, [and instead, look at the benefits of the projects]. We already know what is in the market, and there will be very good margins. We see a future in wind and solar, electricity production from fossil fuels, and with FSU (floating storage unit) — those boats that convert liquefied gas etc. These projects are useful for the country and they can bring in FDI. We have a problem in this country, and this problem is the balance of payment. We can solve this fast by getting inflows of investment, and this is not hot money. This is long-term money and will be invested where it's needed, meaning it will create jobs. Also, there will be economies for the economy, meaning there will be less imports of oil and more gas, so that the [energy] bill will be lower, and there will be renewable energy; you'll improve efficiency and lower the budget deficit. As you know, the state is paying the difference [between power generation cost and] the electricity tariffs. Also, we have to solve our traffic congestion issue, so we have to do toll roads. All the money [for these investments] can be private. It mustn't be political money because the politicians do not actually invest. They just share the profits, and get the money from loans, and so on. This is not what they want. We're really lobbying to, at least, let the public have a share of these projects. There are foreign investors, funds, and institutional investors, who are telling us, 'bring us the [opportunities for] investments; we have money to deploy in Lebanon on infrastructure.' Of course there are high returns, at the expense of the state, but this money comes from abroad, and we won't have small groups benefit from it. We want foreign investment and equal opportunity for the public, where everybody can be [involved], and this can start the stock exchange, we can issue notes, bonds, whatever.

E *Will that be of equal benefit to the wealth management clients in Lebanon?*

Of course. Our clients will bring back money from their foreign investments and invest it [here, in Lebanon]. We're doing some studies for some of the projects, and you can do sub-loans, mezzanine — of course the seniority will go to bank lenders — and then, you have the equity investors. You can have 12 to 15 percent return on those [investments and therefore] people will bring their money back to Lebanon. This is very important. Why would the central bank subsidize everything? No, let's bring the money, and if there are subsidies, let the subsidies benefit investors, not sponsors.

■ “We have a problem in this country, and this problem is the balance of payment. We can solve this very fast by getting inflows of investment”

This is a strong message I'm giving because I'm in touch with reality now. This is the first time that we have told people that we have money, and nobody wants our money.

Let's be positive. We have a huge opportunity, and a lot of good people in Lebanon. We're talking to people to make them understand that this infrastructure investment is for the good of the country and that the opportunity of infrastructure investment will bring private money from Lebanese expatriates, from Lebanese residents who have money outside of Lebanon, from foreign funds, and from supra-national [institutions]. We talked to them all, and they like our schemes. They say, 'yes, go and bring the projects.' This is an immediate opportunity for the country, it's money flowing in, it's job creation. We need to do it.

E *Are there barriers from HIFPA, international politics, or fears about security that still have to be overcome?*

Yes of course, but this is why you have high returns. Today, for example, renewable energy in other countries will have a purchase price between three and five cents. It's going to be much higher in Lebanon, but this is fine because it's still much better than what we're doing now, and if you don't have these profit margins, you don't get the investments. So the state, meaning the Lebanese people, are going to sacrifice by remunerating [investors] for these projects — let it benefit the country, and let it benefit the public. It's a very important issue. ■