

“Reliability and Bank Secrecy—Not One And The Same”

In Moscow, one can rarely find a Head of a foreign bank who has twenty years of work experience in international law firms and at the same time is well versed in the intricacies of doing business in Russia. Consequently, our acquaintance with the head of the representative office of the Swiss Cramer bank Arie Zorin in February quickly turned into a conversation about topics such as bank secrecy, reliability of Swiss banks and the European compliance system. The discussion continued into the pandemic, the sharp fall of the interest rates on deposits in Russia, and the growing concern of the many well-to-do Russians for the safety of their savings. Is there such a thing as investment safety today? Are there any guarantees for investment preservation? These were the themes of the interview with Arie Zorin — banker and former member of the Parisian Bar Association.

—Before heading the representative office of the Swiss Cramer Bank in Russia, you've worked at international law firms in France for ten years. What did you specialize in as a lawyer and how does this experience help you in today's work?

—In fact, I have been an attorney for over 20 years. I began my career in 1995, in Paris at the Gide Layrette Nouel, where for three years I have dealt with mergers and acquisitions. Then in Ashurst, also in Paris, I became an expert in LBO and MBO. There, American and British investment funds dominated the scene — in those projects, we drafted complex contracts, negotiating with a large number of parties. In Herbert Smith, a few years later, in addition to these areas, I was also involved in stock transactions. In 2005, I founded Zorinlaw International private practice in Paris providing legal support for investments from Russia and the CIS to Europe and vice versa, and for financing and asset management. I was an attorney for

natural persons from Russia and other former Soviet Union countries, dealing with tax structuring, and closely interacting with private banking.

Based on this experience, and after a large number of transactions in Europe, America, Russia and the CIS, I have a deep understanding of many business areas, such as the service industry, manufacturing, banking, distribution, etc.

—How did you get into the banking sector in Switzerland — the nation of bankers?

—As part of my private practice, I have worked with Swiss, Luxembourg and Monaco banks. I socialized and worked a lot with bankers. In 2017, a friend of mine, a former Head of Private Banking Practice of Société General in Russia and the CIS, who's team in the early 2000s managed \$10 billion, decided to become a shareholder of the Cramer Bank and invited me to lead the Russian sector. He understood that entering the Russian market in the midst of sanctions required a deep understanding of not only the mentality and language, but also the financial and legal aspects of business in Russia.

—Your bank's rep office in Russia was opened at the height of sanctions. We have heard about Western banks' suspicion towards Russian customers, to the point of denying them service. Are Cramer's compliance managers more lenient to Russians?

—There are two strategies — be a follower or a leader, often swimming against the tide. We were able to implement the latter thanks to our people, who, having extensive experience with Russia and the CIS, understand the Russian market, as well as the boutique-esque nature of our bank. My legal experience allows me to communicate with compliance managers contrary

to the way it is done in large European banks, where compliance is always right, its decisions can hardly be disputed, and the reasons for the refusal are not given. It is important to understand that the compliance department in the bank is an advisory body. There are committees within each bank that can challenge compliance decisions. This happens quite rarely, but it does.

The documentation prepared for the compliance department should be like a legal memorandum containing answers to all important questions and providing analysis of negative publications in the public domain, etc. The secret to success is a thorough verification process prior to submitting documents to compliance. This allows us to open accounts quickly. Keep in mind that those who pass through the compliance procedure problem-free, are not usually vocal about it.

—There is a well-known Russian saying «As safe, as in a Swiss bank.» However, lately we often hear that banking secrecy, as an institution is dead. What ensures the reliability of Swiss banks today?

—Banking secrecy as concealment of information from tax and law enforcement agencies has ceased to exist nearly worldwide. However, it has been preserved in commercial and civil relations. In the modern world, reliability and banking secrecy are two different concepts. Reliability today lies in the fact that your assets are located in a country where everything is legal and where they are protected from illegal activities. Switzerland has one of the most stable economies in the world. If we are talking about the banking system, none of Swiss banks have gone bankrupt for over 100 years, and this is a key indicator of reliability. The Swiss financial regulatory body, in my opinion, is the strictest regulatory authority of all. It obliges all banks, even the smallest, to have two auditors who control both internal and external operations: thereby they demonstrate to both potential and current investors the transparency and legality of all transfers. Security levels in a small and a large Swiss bank are approximately the same. Even if a bank's licence is terminated, the regulator strictly observes that all client assets are transferred to another bank, so the clients don't feel any change except for their personal banker. In case when banks hold financial instruments (stocks, bonds, ETFs, structured products), the latter is not shown on the bank's balance sheet, which dissociates them from the bank's own risk. Moreover, small family owned banks usually do not issue loans, with the exception of those guaranteed by the client portfolio. This, too, strengthens the bank's balance sheet.

I would say that reliability is a combination of several factors: the maturity of the banking system, stringency of the regulator as well as the human



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element — professionalism, sterling reputation, ethics and the customer service that exceeds expectations.

—What investment instruments does your bank work with?

—Like any other good bank, we work with all available instruments. However, it is preferable for customers of a boutique bank to benefit from ETF (Exchange Traded Fund) based investment discretionary management. The latter are investment funds that offer access to diversified markets. ETF shares trade in continuous markets on global stock exchanges. It means that they have continuous pricing and liquidity during the trading day. Since the first US ETF launch in 1993, these funds have become favored by a wide range of investors. ETF funds total assets were estimated \$5 trillion in 2018; they are expected to reach \$12 trillion in 2023, according to BlackRock. Apart from transparency and liquidity, they offer a rich diversity of investment exposures at low cost.

—How do you ensure investment security?

—Investment security has a dual approach. One method is diversification carried out within the ETF, as part of discretionary management. Another is based on client's expectations, his/her perception and risk appetite. The banker here is not only expected to be an excellent financier, but also has to show professionalism and competence in business, economics and psychology as well. Hence, it is the client, not the financial instruments, that must get the focus of our attention!

—Could you share more detail of how you guarantee recovery of investment while working with instruments with different risk degree?

—In Switzerland the state guarantee on deposits covers up to 100 thousand francs. It does not apply to so-called fiduciary deposits. As for investments in bonds, stocks and other financial instruments, they are not on the balance sheet of the bank, and hence, outside the scope of such guarantees. In other words, guarantees are just a myth. The asset size of our customers is \$1 million or more, \$5–15 million on average, sometimes they are much higher.

The banker's job, as I see it, is not to provide guarantees, but to build the client's awareness of how their assets are managed. When compiling a client's portfolio, the client should be made aware of all the risks to the minutest detail backed by analytics and ratings data from numerous sources. In order to give them a full picture, compiling a diversified portfolio based on the retrospective dynamics of various financial instruments is of utmost importance. We tend to provide the client with the analytical data collected over decades, including background data that occurred during various crises.

—Do you insure financial risks?

—There is no insurance. However, the opportunity of hedging risks does exist. I am now talking about diversification of risks — it, too, implies certain costs. Therefore, there is always a risk, which may be high or low, but there is no such thing as zero risk.

—Under the existing circumstances, what are the results of this approach?

—We are in the middle of perhaps the most severe financial crisis in history. As of April 30, 2020, the indicators in Cramer's dollar fixed income portfolio are 4.4 % higher than that of the average comparable portfolios (these statistics are taken from www.performance-watcher.ch, which provides analytical data for more than 13 thousand investment portfolios in Switzerland).

—In which jurisdictions does your company work and who are your principal partners?

—We work in Switzerland, booking is done in Geneva only, where our head office is located. There are also branches in Zurich and Lugano. The bank's representative office in Moscow is working in the direction of strengthening and maintaining the bank's reputation, and it is also engaged in market research. All consulting and account management services are handled by the Swiss offices only.

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Our priority markets are Switzerland, Italy, the United Kingdom and Russia. We also work with clients from many countries of the former Soviet Union and several other jurisdictions popular with Russians, i. e. Cyprus, Hong Kong, Monaco, Liechtenstein, United Arab Emirates, Israel and some others.

We have established efficient cooperation with law firms and tax consultants in Moscow and in many Russian regions. Lawyers, law firms, family offices and clients contact us directly. However, we often refer the clients to consultants, since we do not provide advice for legal and tax issues.

—The success of Swiss banks is related to their reputation. What, in your opinion, is of the paramount importance whilst creating reputation for lawyers and bankers?

—It takes years to build a reputation and seconds to destroy it. Each client should be given maximum attention and serviced by the most competent professionals. The only reliable and effective way to build a reputation is through the client. Hence, client is king.