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Towards a Framework for Private Banking Services: Evidence from Chinese Bankers

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ABSTRACT

In the banking research literature, the nature and operations of commercial banks and investment banks are well covered. The understanding of private banks (i.e., banks that serve private clients rather than privately held banks) is limited. This is partly due to the “private” or secretive nature of private banks and their customers. To gain an initial understanding of the nature of private banking, this paper tracks the history of the private banking business from when it was first established in Europe. Private banks began serving traditional clients with endowment income from prior generations (hence, the concept of “old-money”) expanding to serve first generation rich in the form of entrepreneurs of the “new economy” and from Asia (known as “new-money.”) Based on prior literature on private banking clients’ behavioral characteristics, as well as research and documented practices from the industry, this paper develops a framework to obtain behavioral characteristic data on private banking clients from bankers serving such high net worth (HNW) clients. The unique data set yields useful insights into the behavioral preferences of private banking clients and allows the examination of whether the four categories of clients identified in documented practices: the *Endowed*, the *Entertainers*, the *Executives* and the *Entrepreneurs*, do indeed display the behavior characteristics observed in prior literature. Results comparing behavioral preferences indicate a general agreement to observations from prior literature. Furthermore, a regression model that measures relationships between private client types and their behavioral characteristics yielded significant results. As such, this paper not only provides as a practical framework of client classification for banks to effectively serve private banking clients, but also a theoretical model for future research studies.

Key Words: Private Banking, Theory of Banking. JEL: G21, G29