

Saimaa University of Applied Sciences
Lappeenranta
Masters of Business Administration
International Business

Jari Kumpulainen

**Private banking service for foreign citizens and
foreigners in Finland; opportunities, risks and
instructions for handling the customer
relationship**

Thesis 2014

Abstract

Jari Kumpulainen

Private banking service for foreign citizens and foreigners in Finland;
opportunities, risks and instructions for handling the customer relationship, 48
pages

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Master of Business Administration

International business

Instructors: Senior Lecturer Kirsi Viskari, Saimaa University of Applied Sciences

The purpose of this study was to examine what kind of potential foreign citizens and foreigners in general are for private banking service and how possible customer relationships should be managed. The study was commissioned by a bank operating in South Karelia region, which is developing guidelines and instructions for customer relationship management for private banking service for foreigners. The objective for this study was also to consider suggestions from risk management point of view as risk management is a vital part of banking operations.

The information for this study was gathered from literature, studies, regulations, newspapers and the Internet. Information is gathered from domestic and international studies made in recent years to acquire the most accurate and up to date information regarding the topic.

The results of the study show that there is significant potential in foreign citizens and in foreigners in general for private banking service. As the location of the bank is close to the border there are opportunities for using this potential to advantage when banking services are offered by the regulations. Results also show that services and quality of the service need to be improved in order to provide high quality service for potential customers. Also the promotion of the bank, service and products need to be improved as there are no English language brochures in the company. Results of this study can be applied when writing and developing the service for foreigners and when developing instructions for customer relationship management. Further study is required to clarify legal issues of customer relationship management across the border.

Keywords: customer relationship management, private banking, risk management

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Introduction

The amount of foreign citizens who live permanently in Lappeenranta and in South Karelia region is increasing every year. The reason why foreigners move to this area is because of the business possibilities which come because of the close location next to the Russian border. As the amount of tourists and other travelers is increasing yearly in this area, it brings opportunities for foreigners to do business with them and creates the possibility to do business also with companies across the border. Also, Lappeenranta University of Technology lures foreigners into Lappeenranta to study and may provide the chance to have a job in the university as a researcher. When foreign citizens come to live in South Karelia in increasing numbers, these new citizens may need private banking services when they move here or when their assets have increased later on in their lives.

Risk management is very important part of daily business in banks. The Financial Supervisory Authority supervises banks so that contracts and business issues are done by the rules, and the banks obey the regulations which come from the European Union. As there are requirements for citizens, for domestic and foreign until they can have a customer relationship with a bank, it is important for banks to follow these regulations as disregarding regulations can cause the bank to receive a warning or a fine from the Financial Supervisory Authority. It may also lead to other serious consequences.

The objective of this thesis is to analyze what is the potential in foreign citizens and in foreigners for private banking service, what is the growth potentiality in the future, what needs to be considered when acquiring a business relationship with a foreign citizen, what are the regulations from the Financial Supervisory Authority for entering in a customer relationship, how employees could be instructed for customer relationship management, and what kind of terms can be included in the contract if customer permanently departure from Finland.

The bank which realizes that foreign citizens and other foreigners have the potential for needing private banking services will have an edge on competing for foreign customers against other banks. As it is possible that foreign citizens do

not have the skill of speaking Finnish it is also important to consider how these customers can be served.

With a practice based research, the aim is to consider instructions and recommendations for a bank to handle foreign citizens when providing private banking services. The instructions and recommendations are considered in the theoretical framework which will help the company to provide full instructions for employees and can include terms for the contract which are legal.

Empirical data for the research is gathered from the regulations and instructions of the Finnish Financial Supervisory Authority and Federation of Finnish Financial Services. Empirical data is gathered from public lists from income receivers and from statistics about the wealthiest Russians in 2013.

1 Private banking in Finland

Private banking is defined by the Financial Supervisory Authority as service where customers' investments are managed through a contract between a customer and the service provider so that the authority to make decisions is given for the service provider partially or completely. A license to act as a service provider is needed for the company. Private banking services are offered by banks and investment banks and companies who manage funds if they have received the license. Also the foreign companies who are outside ETA area can offer private banking services for their customers in Finland if they have a branch in Finland or if they have reported for the Financial Supervisory Authority that they are going to offer private banking services in Finland. The customer needs to understand the risks which are included to the private banking service and to its contract. Therefore it is important for customer to understand what is included in the contract, clarify the investment strategy, the investment products which are used within the contract, and duties and responsibilities of each party. The service provider will charge a fee for using the service. Fee can depend on the net value of investments, profit, amount of trades or a combination of these three. Fee can be fixed but it also can be alternated. (Financial Supervisory Authority 2013a.)

When private banking service is acquired, it is done through a documented contract between the service provider and the customer. The contract needs to be clear and detailed. Clear and detailed contract helps the customer to follow fulfillment of the contract. In possible disagreements, arguments are solved based on the contract and it is compared to the service itself to see has the service provider acted as written in the contract or has it acted against the contract, and is the service provider required to offer compensation because of possible investment losses. The contract is good to go through carefully with the service provider, and any unclear terms are important to clarify before signing the contract. It is recommended that contract is read through with extra care when the customer is a foreigner. The contract should include terms about what funds are included in the contract, what is the investment strategy, how it is fulfilled, what are the limitations in the investment strategy, how the funds and investments included in the contract are preserved, what are the fundamentals in which the

profit calculation is based, how the fees are calculated, how the customer is informed about the progress of investments and actions which are done with investments, how the customer should present his or her notifications regarding actions of service provider, how terms of the contract can be changed and how or when the contract with two parties can be ended. (Financial Supervisory Authority 2013a.)

Private banking has evolved from the need for the service as assets of the citizens have increased in the last 30 years. For example, Nordea introduced its private banking service for customers in 1987. (Nordea 2013a.) From this point forward other banks who operate in Finland started to provide private banking services to their customers in order to maintain customer satisfaction and also to compete against other banks operating in Finland and abroad. The biggest banks who operate in Finland providing Private banking services for customers are OP-Pohjola with a market share of 35.8 %, Nordea with a market share of 30.1 % and Danske Bank with a market share of 12.1 %. (Federation of Finnish Financial Services 2013a.)

Private banking services in Finland developed from a simple consultative investment management to a variety of different types of investment management in different investment markets rather than focusing just on domestic equity markets and company's own investment funds. Nowadays the customer can invest in different types of investment products, and it is also possible to create an investment product for an individual customer if the amount of invested money is large enough.

Often private banking service is introduced to a potential customer in a meeting where the service and what the service includes is talked through with the customer. Often when asked if a customer has heard or knows anything about private banking service, the answer is no or the customer has heard very little about it. Often the first thing which customers have heard about private banking service is that in order to receive the service, the customer needs to pay some kind of a fee. As the conversation proceeds and the current life situation and plans as well as the future plans are talked through, the usual questions asked from the customer is that has the customer any plans for using assets that the customer

has received or saved throughout life, what kind of profit the customer would like to receive for assets, is the customer satisfied with current profit, and how actively the customer makes decisions regarding the assets? Depending on the answers, the private banking service is introduced more accurately for the customer. Through the presentation the customer will get more detailed information about the service and the customer also has the chance to ask questions regarding the service and the benefits within the service.

Often customers want to receive a profit which at least matches to the current inflation level. The latest inflation level in Finland was measured in August 2013. The level of inflation in August 2013 is 1.60 % (Statistics Finland 2013a). In current interest situation where the interests of savings accounts and in other accounts are low compared to the current inflation level, the customer is often ready to try receive better profits through investments. If customer does not know much about investments or asset management and wants to handle asset management as good as possible, that is where the private banking service comes into the picture, and this has increased the need of private banking service within the customers of the bank.

1.1 Definition of private banking

Private banking is a service which is personalized and offered for the bank's high net worth individuals where financial and banking services are offered to them. These high net worth individuals have gathered much more wealth than the average person and therefore they may have the need to access a larger variety of traditional and alternative investments. Private banking service provides the most appropriate options for such individuals. (Investopedia 2014.)

The level of assets needed for private banking service varies depending on who provides the service. For example, the minimum level of assets to acquire a private banking service from Nordea is 250 000 euros (Nordea 2013b).

In private banking service, there are various types of services provided for the customer. In private banking, the assets and the customer relationship are reviewed as a whole. The basis of private banking service is to provide all possible assistance that financial wellbeing requires. Private banking goes under

the surface to see the big picture including assets and other property, future plans and the life situation of the customer. Private banking service provides the tools and expertise to help reach the goals in the future and to increase the value of current assets.

A person who acquires Private banking service will have a personal investment manager who is responsible for customer relationship management and for investment management. The investment manager is the basic foundation of the private banking service. Investment manager is the contact to the bank for a customer in private banking. Every issue can be placed forward through investment manager so that negotiations are ready to go forward or so that papers are waiting for signature when customer is invited to the bank. Biggest benefit for acquiring private banking service is that handling banking issues is made much easier through the service. Also customer will have the opportunity to receive detailed investment advice and analyses through private banking as investment management and following the markets are the main objectives for investment manager. (Osuuspankki 2013a.)

In order to receive private banking service, the customer pays a yearly fee for the service. Depending on the service provider the fee may fully or partially include payments regarding expenses of investment management. Also as the private banking service is provided through a completely separate division in a bank, it is also business for the bank. The divisions' only job is to concentrate on handling the customer relationship and managing the assets and investments of the customer. Other services included towards regular banking issues are also easily handled through the private banking service.

Depending on the service provider the yearly fee may be a profit linked or a fixed percentile fee. Each fee is individual and is negotiated with the customer before signing the private banking service contract. Also, depending on the type of service, the private banking service fee may include taxes. Under current law the discretionary portfolio management is under taxation starting from May 1st 2013 (KPMG 2013).

The main service, investment management, can be done using equities, funds, bonds, ETF's and certificates, investment bonds, unit-linked insurance and

alternative investments as well as private placements. Customers can leave assets to be managed fully through a discretionary portfolio management service, or if customer wishes to have an active role in trading and decision making, then the investment manager works as a consultant for the customer. (Nordea 2013c.)

At least once a year the investment manager and customer will go thoroughly through banking issues in a meeting. In this meeting, main issues are to keep banking issues and services up to date and clarify what are the future plans or happenings in customers' life, and how these future issues can be faced most effectively so that taxation, banking issues, legal issues and life situation are settled the best possible way for the customer. Other meetings such as market situation review and future outlook discussions are arranged as many times as customer wishes to talk about them. These meetings can go through arranged meetings or through telephone conversations throughout the year.

1.1.1 Discretionary portfolio management

As many customers of a private bank have stated, private banking suits them as they wish to spend time for more important things in life than managing investments, and also when the customer does not have any knowhow for managing investments. In private banking service is the possibility to authorize the service to do decision making for the customer. With discretionary portfolio management, customer can take the market view of the private banking portfolio management team to advantage, and at the same time customer will have the investment expertise of private banking service fully to use. In discretionary portfolio management, investments can be handled through an equity, fixed income or mutual funds portfolio. Even though the bank handles the investments for the customer, the investment manager will be actively in touch with the customer. In meetings and other conversations the customer will receive a detailed review about the markets and also the insight of what is happening in the markets now and what factors will affect the markets in the near future. This way the customer can keep track of the markets and the news if interested and will also understand how market events and global news will affect the investments.

In equity portfolio, investments are done only through direct equity investments. Equity portfolio types vary depending on the service provider. Most favored equity portfolio types are domestic equity portfolio, Scandinavian equity portfolio and European equity portfolio.

In fixed income product portfolio, the investments are done through corporate bonds, government bonds and also structured private placement investments. With these investment types the customer will receive fixed yearly income for investments. For example, Finnair released a corporate bond where it applied 150 million euros loan from investors with five year loan and against loan the company will pay interest of 5 percent per annum for the investment (Finnair 2013). With these types of investments, customers can loan assets for companies to invest and receive better profits for investments than can be received through savings accounts or in time deposit accounts. The biggest risk which the investor carries in corporate or government bond investments is the risk that company or government cannot pay the loan back to investors. (Financial Supervisory Authority 2013b.)

In mutual fund portfolio, the assets are invested to the markets through several mutual funds. With mutual fund portfolio the customer and investment manager will decide the best allocation between equity funds and bond funds for the customer. This is done through investor profile which is made by the regulation of Financial Supervisory Authority. Through this profile the investment manager recommends how investments should be allocated. Allocation is set so that investments do not hold too much risk for the customer and so that volatility is not too big for the customer's peace of mind. In return, the customer will have either small or big volatility and it will have an effect on what the profit outlook for investments is. If customer decides to allocate investments differently than is recommended by the investment manager, it is possible. In this case, the decision which is different from the recommendation is written to the investment plan which is one part of the investor profile. Allocation is handled through asset allocation. Assets are divided between equity investments and bond investments. The more equity investments are placed into the asset allocation the bigger the volatility and risk in the investments. Once the limit for asset allocation is set, the discretionary portfolio management can differ from the allocation within certain

limits. These limits are announced in a contract which each customer of private banking service signs. Investment managers cannot break this rule as it is the most important issue in discretionary portfolio management.

1.1.2 Consultative investment advice

In consultative investment management service, the investment manager works as a consultant for the customer. Investment manager's job is to discuss about market situation with the customer and discuss about different investment alternatives which will suit the particular situations. Propositions can be a variety of different investments including equities, funds, bonds or some other investment products. Propositions are tailored for individual customers because some investment products include more risks than others. Therefore every investment idea cannot suit everyone.

The customer makes the final decision about where to invest and if to invest at all. Investment manager follows the markets and is actively in contact with the customer. Through private banking service the customer can receive a detailed analysis about individual companies from domestic and from some foreign markets. As investment manager works as a consultant, the activity of the customer is in key role for active and proper asset management.

As in discretionary portfolio management, also in consultative investment management the investment manager goes through the market situation, outlook for the markets, current investments and how the outlook will affect the current investments with the customer in several meetings and telephone conversations in a year. Customer can make investments through investment manager or depending on the service provider, customer can acquire personal broker service through which customer can give investment orders regarding the investments.

2 Customer relationship management and new technologies

Businesses in the banking sector have been traditionally employed through transaction marketing, but over the last twenty years businesses in all sectors have moved towards relationships, networks and interactions. No more are the two parties seen as a buyer and seller, but as two sides who are making business

in a strong and long relationship with each other. One comparison between traditional business-making style and making business through relationships, networks and interactions is that in traditional way of thinking and making business, the customer has a generic need for which the seller has a generic offer. In modern way of identifying business possibility, the buyer has a need for solving a particular problem and the seller has the unique offer for that particular problem. Also in traditional way of doing business the product or service are standardized, but in modern way of doing business each product or service is customized for that particular issue. One example of modern way of doing business is having organized customer relationship management inside the seller company. Widely accepted definition is that customer relationship management is a competent strategy and a process of acquiring, retaining and partnering with selective customer to create superior value for the company and for the customer. (Lindgreen & Antioco 2005.)

Through competent customer relationship management, a bank can achieve stable growth and higher profitability by focusing on individual clients and seeing clients as individuals, not just clients as a group. Moving from mass oriented vision, minimizing costs and maximizing revenues, to a customer oriented vision, developing and retaining customer relationships so the bank can establish long term customer relationships. As private banking is a service where the long term customer relationship is the goal pursued, competent customer relationship management is recommendable for a private bank as it also increases the value of the service for the customer and the long term profitability for the bank. In efficient customer relationship management the bank needs to understand the different combinations of clients, products and volumes as the information about who buys what and how much enable the bank to have commercial approach based on the client and no longer solely on the product. (Lindgreen & Antioco 2005.)

As result of better information through customer relationship management the bank is able to acquire a proactive approach which will create a demand for a certain product. Also it is possible to set up a distribution and marketing channel through which the standardized or specialized services can be informed for customers according to the individual client's importance for the bank. By having

information about a customer the bank can make a profile from a customer in which the profile identifies clients first based on the fact of profitable and less profitable clients, and through this the less profitable clients can be directed towards acquiring services from less costly distribution channels. (Lindgreen & Antioco 2005.)

A study made by Lindgreen and Antioco shows that often in the banking sector the less costly channel, the Internet, is preferred also by the more profitable clients because of its ease of use and real-time access. This is the case in Finland also as Internet access to a bank is simple to use and it is a real-time access to a clients' banking services. The suggestion of the study made by Lindgreen and Antioco is that it is a major factor that the bank develops a relationship with its clients that are based upon trust. This way the bank is able to anticipate a client's need without looking to see if they are desperate to cross-sell. (Lindgreen & Antioco 2005.)

As customer relationship management provides these effects, also relationship marketing is a vital part of banking sector and is one of the most important reasons for long term customer relationships between a bank and a customer. Relationship marketing is defined as activities through which the bank attracts, interact with, and retains more profitable and high net-worth customers. Several studies empirically have proven the positive link between relationship marketing strategies and business performance. One example of this is the German bank in contrast to American banks, managed to maintain a stable market position during the 1980s and the early 1990s as a consequence of relationship oriented banking strategies. (Leverin & Liljander 2006.)

In order to be attractive, relationship marketing should enhance customers' perceived benefits of engaging in relationship with the bank. As customers use more self-service technologies, close customer relationships in banking are becoming increasingly rare. Especially in private banking, using new technologies to advantage and using strategically customer relationship management, customer satisfaction and loyalty towards a bank can be maintained and even increased. It is very unlikely that a private banking customer who is satisfied with the service received, and therefore loyal to its current bank,

will change the bank to another one even if there is a cheaper price for the service available. Each bank has their own loyalty programs that provide economical and other benefits for customers. These loyalty programs have been studied and it is noted that they have a significant positive impact on customer retention and service usage. If relationship marketing and customer relationship management should be improved, necessary resources and motivation on the bank's part are crucial to ensure successful execution of relationship strategy. This is because the bank is the party which is more dependent on effective relationship management as the goal is to keep customers loyal and satisfied. These issues need long term fitness from the bank and from its employees. Also the effects of long term customer relationship for the bank need to be understood. (Leverin & Liljander 2006.)

One study which backs the theory of the modern way of doing business and relationship marketing is the study made by Kapoulas, Murphy and Ellis. The study claims that it is through interactive communication that trust and commitment are built and developed among the interested parties. As Finnish banks have the issue that customers lean towards Internet access to a bank, the modern way of doing business between parties and using the Internet access to advantage is possible. The study also found earlier conclusions that Internet access is under-utilized and Internet access can be used to improve relationships by encouraging parties to communicate with each other. Thus it is important to communicate in the right way. Conversations between parties can fail as soon as customers lose interest, and this can have a negative effect on the relationship between the parties. But if the conversation carries elements of interactivity, it enhances the conversation and replaces the company-to-customer communication with conversations of solving an issue together. Through this dialogue the conversation enables both the company and the customer to solve the problem together and will add value to customers as it also increases the value of the customer relationship between the customer and the company. Through this, the customer loyalty can be increased. (Kapoulas et al. 2002.)

2.1 Acquiring a customer relationship with a bank

Private banking service is customer relationship management with high quality. In order to acquire a private banking service from a bank, the customer first needs to acquire a customer relationship with the bank. Nowadays Federation of Finnish Financial Services sets up rules on who can be a customer of a bank and what needs to be considered by the bank before setting up a customer relationship. Rules for customer relationship are similar for both domestic and foreign customers.

The bank offers basic bank service to its customers within the limits which are set by legislation, orders of authorities, and by the terms of the account and other contract terms. Basic banking services can be provided for a customer if the customer can show that there is reason for needing banking services. Such a reason can be regular payment or salary from another Finnish account, paying expenses related to real estate or living related expenses within Finland. Bank can reject a customer relationship only with a heavy reasonable doubt of using banking service other than within the legislation, terms, or otherwise there is a reasonable suspicion of violating legislation or terms of contracts. If the customer cannot be trustfully identified, banking services cannot be opened as there is a risk of using another person's personal information to advantage. Also if customer already has acquired banking services from another financial institution or a bank, services can be rejected. (Federation of Finnish Financial Services 2013b.)

The bank needs to acquire enough information to know about business of the customer and about reasons for acquiring banking services. These issues are handled with the customer. Therefore the bank can ask for additional information about incomes or other information which will help the bank to justify the need for the banking service. If the business of the customer is something other than what customer has informed the bank, or the usage of banking services is something else than what the customer told the bank in the first place, the bank is obligated to clarify the meanings of customer's business and is also obligated to require information about where the customer has received assets which are coming to the bank account. These issues are more closely handled in Chapter 3.1 regarding money laundering. (Federation of Finnish Financial Services 2013c.)

Basic banking services include an account through which the customer can handle daily banking issues. Also a tool by which the account can be used and the handling of payment orders are within the limits of basic banking services. Most often it is thought that basic services include a card through which payments and withdrawals can be made and an Internet access to the banking services is opened. Basic services only include a card where the account number is written and payments can be handled through payment service, direct payment or through payment machines. (Federation of Finnish Financial Services 2013b.)

Often a payment card and an Internet access to banking services are opened within the first few meetings, when customer can show his or her reliability and also show that regular payment will be coming to the bank account. For domestic persons this is much easier because their personal identification number is set up a while after birth and some history of handling banking issues and proving regular incoming payments is easier. For foreign persons, the rules are the same but proving reliability and regular payments can be harder if foreigner does not have any history about handling banking issues in Finland. Rules for banking services are the same for domestic and foreign persons but with foreign customers more accurate procedure and more accurate documentation of the customer relationship is needed because the possibility of international money transactions are much higher with foreign customers.

3 Risk management

Every bank must have a risk management department which oversees the daily business issues and also supervises that business is done under the regulations and the orders of the Financial Supervisory Authority and Finnish laws. As mentioned earlier, the Financial Supervisory Authority regulates what needs to be discussed and documented when a customer begins the journey of investing savings into investment products, but it also regulates how to act in order to prevent money laundering and terrorist financing.

3.1 Principles on the investigation and prevention of money laundering and terrorist financing

Money laundering has been a criminal act in Finland since 1994. A new act called the Act on Preventing and Investigating Money Laundering and Terrorist Financing was made in 2008 in order to reform the money laundering act. Nowadays banks are obliged legally to prevent criminal use of the financial system in Finland for the use of money laundering and financing terrorist activity. Banks are obliged to advance the investigation of such activities and also to aid in tracing recovering funds of the proceeds of crime. The Finnish Financial Supervisory Authority supervises the banks to follow laws so that prevention of money laundering and terrorist financing is done. Financial Supervisory Authority also supervises that banks consistently operate according the policies required by law and it also performs yearly inspections on the supervised banks to prevent money laundering. Supervision is not only limited to the branches located in Finland but also the branches located outside of Finland. The supervision of subsidiaries of Finnish banks is primarily the responsibility of the supervisory authorities of the country in which the branch operates. (Financial Supervisory Authority 2013c.)

Based on the legislation against money laundering, the Financial Supervisory Authority provides regulations, guidelines and recommendations for banks on proper carefulness with customers and on prevention of money laundering and terrorist financing. Financial Supervisory Authority is also obligated to report to the Financial Intelligence Unit of the National Bureau of Investigation if there is a reason to doubt the legality of funds or the source of funds involved in the operations of the bank. (Financial Supervisory Authority 2013c.)

3.2 Obligations of banks and customer due diligence

The Act on Preventing and Investigating Money Laundering and Terrorist Financing, 503/2008, is applied in every sector of banking industry. It is applied in financing, investments, insurance sector, real estate business, payments and in currency exchange services. Every bank has three major obligations regarding the Act on Money Laundering and Terrorist Financing which are customer due

diligence, obligation to gather information and reporting on these obligations. (Finlex 2008.)

The Act also includes regulations on enhanced customer due diligence which is applied if the customer, service or transaction features a higher risk of money laundering or terrorist financing, if a non-ETA party is involved in the action through the correspondent banking relationship or if the customer is a person who is politically exposed. If these legal obligations are not obeyed, it is a punishable offence in the Criminal Code of Finland. (Financial Supervisory Authority 2013c.)

Banks are always obligated to identify customers and verify their identities with a document from a reliable and unbiased source. No bank should have unidentified customers, and the bank must reject establishing any customer relationship with parties who will not or cannot give information on themselves or about their operations. Also others involved within the same customer relationship such as beneficiary owners must be identified and their identities verified if it is required. Banks are obligated to have knowledge of their customers and the coverage of the customers' operations. Banks must obtain sufficient information on the background, coverage of business and payments of customers in order to evaluate what can be defined as a normal line of operations for each customer and what can be defined as exceptional activity. (Financial Supervisory Authority 2013c.)

If a bank is in a customer relationship with a person who is a politically exposed person, the bank is obligated to know their customers' operations more thoroughly. Knowing the customer and enhanced supervising of the operations of a politically exposed person procedures need to be put into action also if the customer's family member, or a close associate, is the person who is politically exposed. This is done because politically exposed persons have a higher risk for criminal acts, for money laundering opportunities and for financing terrorists. (Financial Supervisory Authority 2013d, Finlex 2008.)

Knowing and identifying a customer is much easier when operating with a domestic customer as there is much more information available. This information can be found from "Suomen Asiakastieto Ltd" which includes data about

customer payment defaults and other credit data. (Suomen Asiakastieto 2013.) This type of information is not available for Finnish banks about foreigners who do not live in Finland and therefore it is more difficult for banks to build a complete picture about a foreign customer. Because of this difficulty, banks require certain documents from the foreigner and from customers' businesses to build a picture about the businesses of the customer.

The evaluation and detection of any exception is based on the competency, experience and customer knowledge of the personnel of a bank. Customers and their use of services must be continuously monitored. Banks are personally responsible for training the personnel on all levels of the bank's organization. The personnel must know how to detect exceptional activities and transactions. Banks which operate in Finland cannot have any anonymous numbered bank accounts or admin accounts. Also there cannot be any banks which are called shell banks. These are banks which operate without a permanent establishment or personnel. Finnish banks will not transact business with shell banks. (Financial Supervisory Authority 2013c.)

As banks must monitor their customers' transactions and the use of services, they need to investigate the reasons for the use of services if they notice that activities of the customer are unusual compared to their ordinary operations in size or structure or if the activity does not serve any obvious financial purpose, or if the activities do not match with the customer's financial position or businesses. Banks are obligated to refuse a transaction from a customer if they do not receive all the required information for establishing a customer relationship or the execution of a transaction. Bank must also refuse to execute a transaction if there is a reason to suspect the purpose of the transaction or there is a reason to suspect the legality of the source of funds. (Financial Supervisory Authority 2013c.)

The bank must report to the Financial Intelligence Unit without delay if the bank has a reason to suspect the legality of the funds or other assets involved in a transaction after they have fulfilled the obligation to obtain information. Bank must also provide all necessary documentation and information for the investigation which can have significant information regarding the investigation of the case. If customer is making a transaction to a state whose system of preventing and

investigating money laundering and terrorist financing does not meet the international standards, the legislation informs to fulfill enhanced customer due diligence, duty of care and reporting obligation must be taken into action. These enhanced obligations in practice mean more detailed and more careful identification of a customer. Enhanced duty of care involves being more familiar with the customer's business transactions. (Financial Supervisory Authority 2013c.)

3.3 International financial sanctions

United Nations and the European Union can place international financial sanctions on banks based on the legislation which is given by the European Union through the directive 2005/60/EC. In the directive it is mentioned that this directive and The General Agreement on Trade in Services allows members to adopt measures necessary to protect public morals and prevent fraud and adopt measures for prudential reasons, including for ensuring the stability and integrity of the financial system. (Eurlex 2005.)

Legislation given by the European Union is applied to use in all European Union member countries. These legislations are also used in Finland. Also the name, associations, groups and other parties subject to the sanctions are published. Finland follows the regulations and legislation of preventing money laundering and terrorist financing and also puts the sanctions into action as enforcement act regulates. In financial sanctions the bank is required to freeze the funds of persons, associations and communities based on the regulation without any specific administrative decision. If this regulation is not followed by the bank, it can be punished by the regulation of Criminal Code Chapter 46. (Financial Supervisory Authority 2013c.)

Banks are required to follow the changes in financial sanctions and also review their customer register regularly. Banks are also obligated to monitor transactions and other business operations to be sure that it does not offer banking services or make money transactions for parties who are listed on the financial sanctions list or subject to financial sanctions. These sanctions must be taken into consideration when doing business with country risk control, correspondent

banking relationships, product related processes or when financing export and import industries or businesses. (Financial Supervisory Authority 2013c.)

If a customer is found from the customer register and the customer is matched with the information of sanctioned party, the bank must report it to Financial Intelligence Unit and the Ministry of Foreign Affairs, and at the same time the bank must freeze the funds of the customer. Banks are also required to report to the Financial Intelligence Unit and act by its orders if the bank's customer register includes a customer whose information partially matches with the sanctioned party. In this case there is no required freezing of the funds of the customer, but orders by the Financial Intelligence Unit must be followed. This may happen if the sanctioned list does not contain detailed information about the sanctioned party and therefore it is hard for the bank to identify its customer based on the information provided by the sanctioned list. Banks are also obligated to use sanctions list which are maintained by the Office of Foreign Assets Control. In this case as well, the bank must be certain their customers are not sanctioned parties which are listed by Office of Foreign Assets Control and that there are no transactions done with those parties who are listed. (Financial Supervisory Authority 2013c.)

4 Foreign citizens in South Karelia

As South Karelia and other Eastern Finland including Lapland are close to the international border, these areas also interest foreigners in many ways. Lappeenranta University of Technology and Saimaa University of Applied Sciences located in Lappeenranta are one of the most important factors why foreigners come to live to South Karelia. For the 2013 semester, Lappeenranta University of Technology accepted total of 850 new students to begin their studies at the University. Of 850, 147 new students were foreigners and also 147 exchange students arrived to Lappeenranta to study in the University. There are currently over 60 different nationalities represented in the University alone. The nationalities are represented by students, researchers and teachers. When the students studying in the Saimaa University of Applied Sciences are added to the total amount of foreign students, the number increases even further. There are

also many other reasons why foreigners come to live into the South Karelia region. Most common reasons are the opportunity to do international business across the border, family relations and purchasing real-estate for permanent accommodation or for summer accommodation. (YLE 2013)

The data collected by The Research and Analyzing Company, TAK Ltd., shows how the amount of foreign citizens in South Karelia region has evolved from 1990 until the end of 2012. In the last twenty two years, the amount of foreign citizens living in South Karelia region has increased to be ten times more than it was in the year 1990. From Figure 1 it can be seen how this progress has evolved. The nationality of Russia or former Soviet Union is most often represented in the top nationality of foreign citizen who live in South Karelia region.

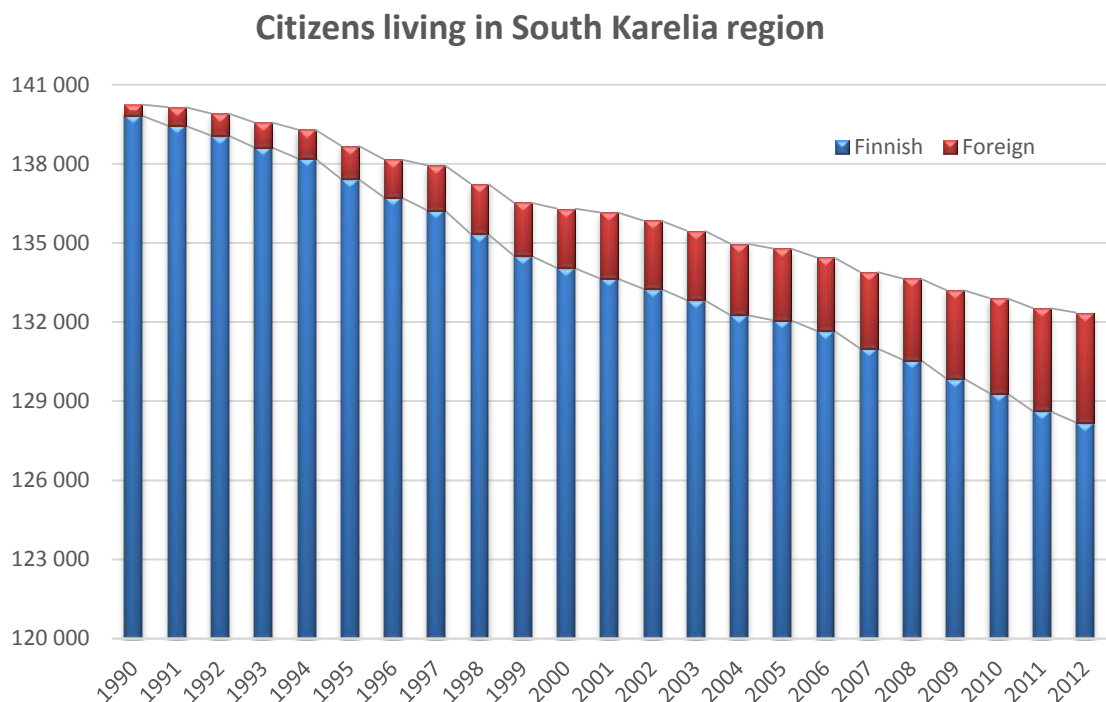


Figure 1. The development of the amount of foreign citizens living in South Karelia region and development of the total amount of citizens in South Karelia.

As the total amount citizens in South Karelia region has been decreasing each year since 1990, the amount of foreign citizens has increased at the same time. From the 1990 to 2012 the increase of foreign citizens has been rapid in South Karelia. At the end of 2012 the total amount of foreign citizens living in South Karelia was 4 179. As total the amount foreign citizens have increased, same

progress can be seen in the amount of foreign citizens living in Lappeenranta as Figure 2 shows. The amount of foreign citizens has increased more than ten times from 1990 until the end of 2012. As the decrease in total amount of citizens in South Karelia is a negative issue for the region, it is a positive issue that foreigners have increased their share in the equation. This has supported the total amount of citizens in the region so that whole amount of citizens has not decreased as rapidly as it might. These issues are seen from the economical point of view such as taxation, labor, and as an issue for the region to continue its development and growth via services and business opportunities. It is important to recognize that the unofficial amount of foreigners in South Karelia could be higher as Finnish nationalities also include foreigners who have changed to the nationality of Finland.

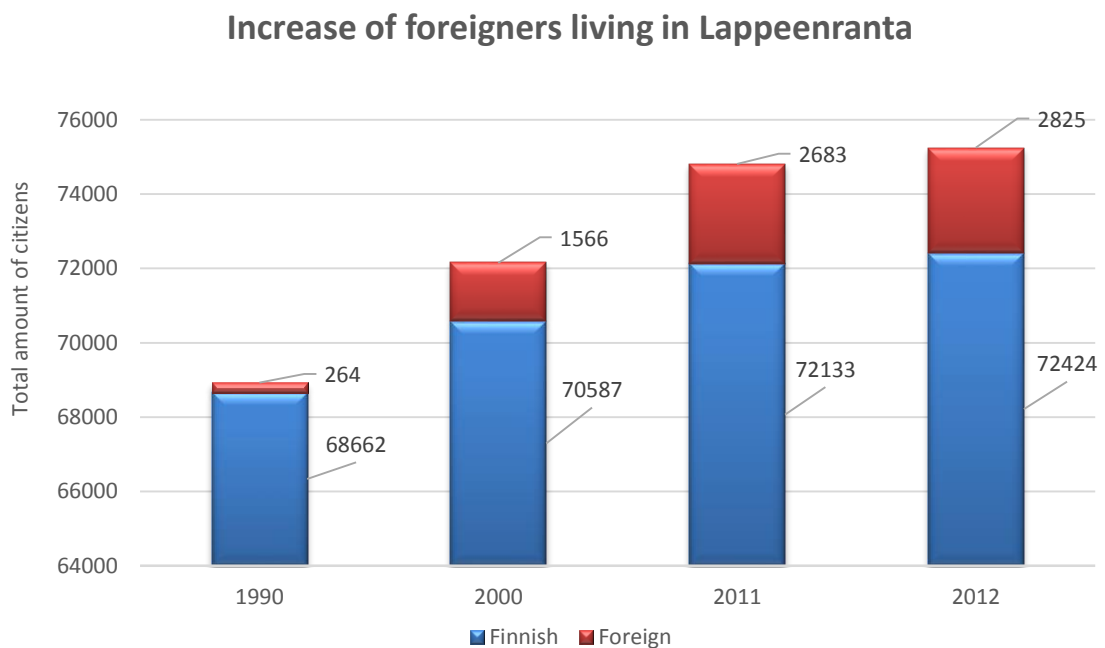


Figure 2. Increase in the amount of foreign citizens who live in Lappeenranta.

Foreigners living in Lappeenranta of the total amount of foreign citizens living in South Karelia

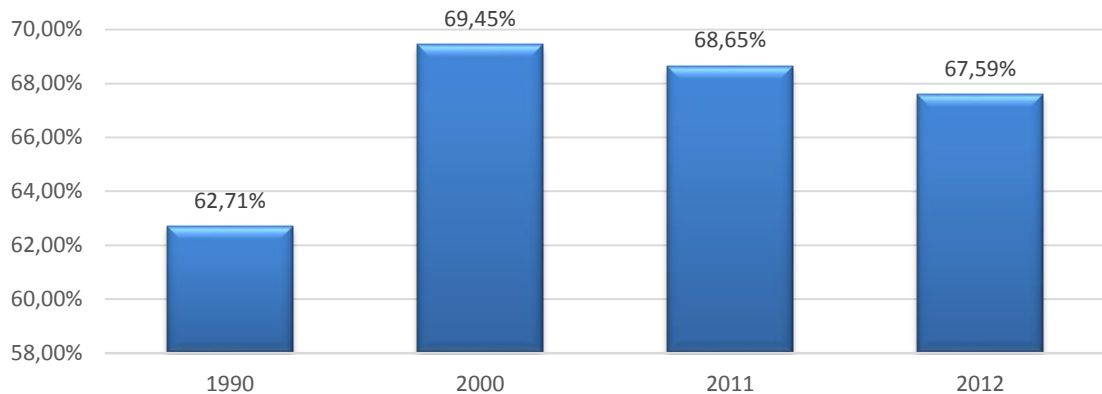


Figure 3. Percentage of the foreign citizens who live in Lappeenranta from the total amount of foreigners who live in South Karelia region.

It is possible to see from Figure 3 the percentages of all foreigners living in Lappeenranta of the total amount of foreigners in South Karelia. The percentage has been above 62.7 percentage from 1990 and in 2012 the percentage of foreigners in Lappeenranta from all foreigners in South Karelia has increased approximately 5 percentage points to 67.6 percentage. The share has been higher in 2000 but it has been decreased by 5 percentage points in 2012. The figure shows that Lappeenranta is the most favored city in the eyes of foreigners and the latest development shows that other areas of South Karelia such as Imatra are increasingly interesting to foreigners.

The amount of foreigners living in South Karelia region is obvious also through statistics which follow businesses operated by foreigners. In September 2012 there were approximately 4 000 businesses operating in Finland owned by foreign citizens. Approximately 1 000 of these were operating in South East Finland region (Etelä-Saimaa 2013a). One reason for this is the location close to the international border between Finland and Russia. As Russians represent the majority of tourists coming to Finland, services provided for Russians also need to be located close to their travel destinations.

The research made by TAK Ltd. shows that trips made by Russians through the border control points located in South and South East Finland mostly concentrate to the South Karelia region. In 2012, Russians made more than 4.3 million trips

to Finland. Of 4,3 million trips, 56.2 percent were spent in Lappeenranta and Imatra. As most of the trips are tourist or business trips, the trips also include travelers who go to spend time in their summer house or visit other real-estate located in Finland and South Karelia. (TAK Ltd. 2013)

The foreigners who spend time in their own summer houses and in other real-estate are potential customers for any bank in Finland as they have the required contact to Finland for acquiring a customer relationship with a bank. As the potential foreign customer who do not live in Finland permanently often come from Russia, it is a positive issue for banks operating in South Karelia that border cross points in South Karelia are most often used among Russians as they enter Finland. Also the train link to St. Petersburg, Allegro, is one opportunity for Russians to enter Finland and South Karelia.

5 Possibilities for the bank related to foreign citizens and foreigners

As the amount of foreigners in South Karelia has increased to be more than ten times bigger than it was in 1990 it is obvious that foreigners are increasingly potential customers for banks. The possibility to open a customer relationship with a bank requires some type of connection to Finland such as studying in school, a job or ownership of real-estate. The foreigners who live outside of Finland but own real-estate in Finland or have some other required connection to Finland, can be considered as potential customers for a bank. The following calculations provide information about what is the full potential of foreign customers and what concrete advantages a local bank can gain from acquiring a customer relationship with foreign customers. The purpose of these theoretical calculations is to represent the advantages and results from establishing a customer acquisition of foreign customers compared to the current situation of a local bank if the potential of foreign customer is not taken into consideration. For reasons of confidentiality, the identity of the bank has been disguised, under the name of First National Bank.

If the numbers are interpreted through a theoretical case where a bank has 80 000 customers at the end of 2012 and none of the customers are foreigners

and the bank can establish a customer relationship with foreigners who live in Lappeenranta the bank can increase the customer volume by 3.5 percent. If the bank operates in South Karelia region and it can acquire a customer membership with foreigners who live in South Karelia region, the bank can increase its customer volume by 5.2 percent. This volume is not so clean as the population is aging in South Karelia region, which leads to the customer volume which will naturally decrease. Foreigners provide the support for maintaining and increasing the customer volume which is negatively affected by the natural aging of population. When foreigners who live abroad but have the required connection to Finland are considered, the potential of foreigners increases even more. Naturally all, not even half, of the foreigners who live in Finland have the potential to acquire a private banking service. The potential is bigger in foreigners who live abroad but have the required connection to Finland for establishing a customer relationship with a bank.

Figure 4 represents how wealth is divided for individuals who have wealth over one hundred thousand US dollars and how many of those individuals have wealth over one million US dollars. The numbers are based on a research done by Credit Suisse in 2013. From Figure 4 it can be seen that there is a greater number of Finnish individuals who have wealth over one hundred thousand US dollars but as Figure 5 shows there are more Russian individuals who own more than 1 million US dollars compared to Finnish individuals who have more than 1 million US dollars. (Credit Suisse 2013)

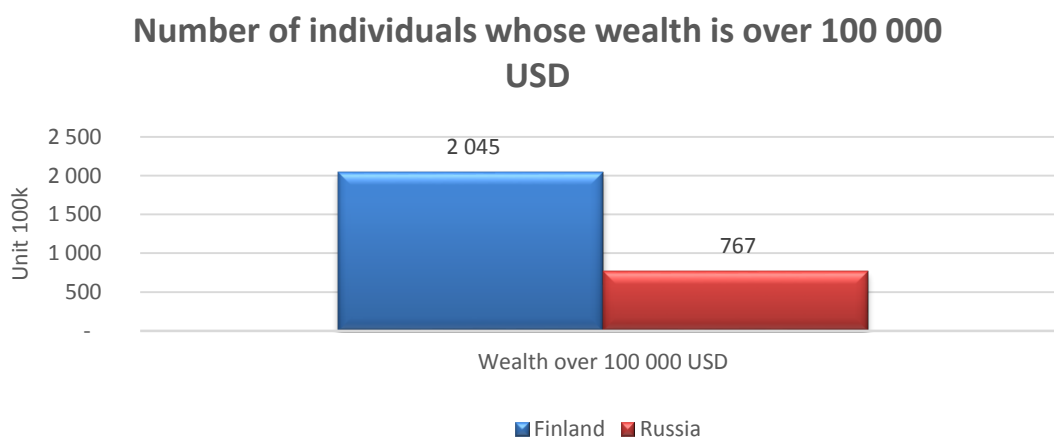


Figure 4. Number of adults in Finland and in Russia who own wealth over 100 000 USD.

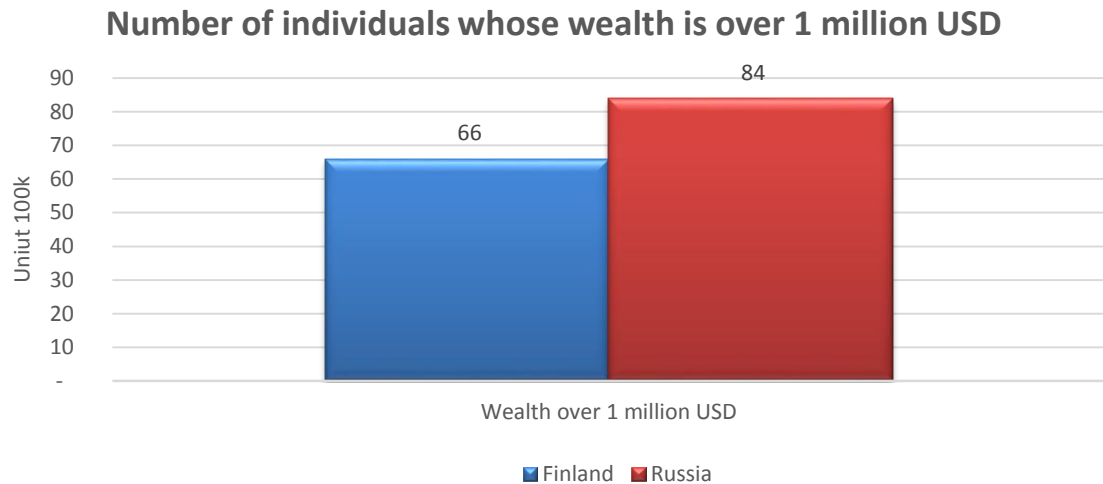


Figure 5. Number of adults in Finland and in Russia who own wealth over 1 million USD.

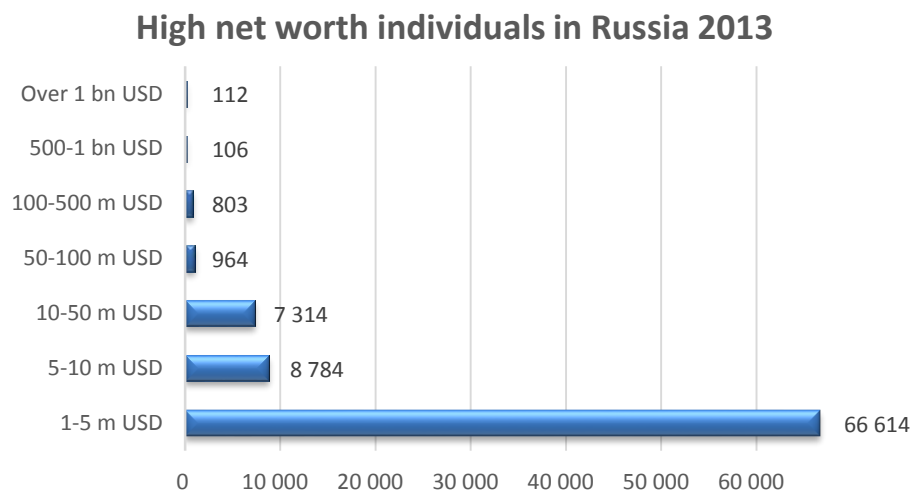


Figure 6. High net worth Russian individuals whose wealth is over 1 million USD in Russia 2013.

According to the research made by Credit Suisse in 2013 there are more than 84 thousand individual adults in Russia who have wealth over one million US dollars. The number of individual adults with wealth over one million US dollars is greater in Russian than it is in Finland where 66 thousand individual adults have wealth over one million dollars. As Figure 6 presents, the wealth of Russian individuals is significantly greater than it is in Finland. Size of wealth includes financial and non-financial wealth. Non-financial wealth includes other property than cash or investments, such as real-estate or land. The share of financial wealth in both

countries is 40 percent of total wealth which includes non-financial wealth as well. This indicates that if an individual adult owns wealth of one million US dollars, the individual adult has approximately four hundred thousand US dollars of cash in an account or in investments. (Credit Suisse 2013.)

The research made by Credit Suisse increases the amount of potential customers for private banking service in theory but there are still issues which need to be taken into account. Positive issue for a bank operating in South Karelia region is its location close to the border. If the potential customer has a required connection to Finland it is possible to acquire a customer relationship based on the criteria given by the Federation of Finnish Financial Services and Financial Supervisory Authority. Also the location close to the border makes it easy for a Russian to come to Finland and manage banking issues and investments which do not require long traveling. In theory the customer can come to Finland to handle banking issues on Friday when the customer goes to spend the holiday or the weekend in Finland. Location in South Karelia region also means that there is a greater chance to acquire a customer relationship with a potential customer from foreign country than it is for a region in inner Finland, for example. In theory this means that the amount potential customers who need a private banking service in South Karelia increases by 86 thousand individual adults, if only adults with wealth over one million are taken into account. If this consideration is taken further in theory, it is possible to calculate what the incomes are for a bank which provides private banking service for foreigners.

If only ten percent of the potential foreign customers establish a customer relationship for private banking service and all of these new customers would have a total wealth of one million, it would mean 8 400 new customers for a bank with a total financial wealth of 3.4 billion US dollars. As mentioned earlier the share of financial wealth is approximately 40 percent of the total wealth. This would indicate that if each customer with a wealth of one million, the financial wealth would be four hundred thousand US dollars. If 75 percent of financial wealth is taken under private banking service to be invested, the investments would be worth three hundred thousand US dollars in the beginning. If each customer would for example pay a yearly fee of 0.5 percent for receiving private banking service, the total income for a bank would be 12.9 million US dollars from

8 600 new customers and from their three hundred thousand US dollars per customer. The theoretical calculation includes only the yearly private banking fees and does not include other incomes such as money transaction fees and trade fees. This would be a significant increase of incomes for a bank which operates only in South Karelia. In the First National Bank's financial report from 2012, there was 1.13 billion euros of savings by the customers deposited to the bank. According to comparison of the theoretical calculation and the financial report of the First National Bank from 2012, the bank could increase the amount of savings and cash in its accounts to be four times bigger just by acquiring customer relationships with foreign customers. These comparisons can be seen graphically from Figure 7.

Comparison of the current situation in First National Bank and theoretical calculation



Figure 7. Comparison of the current situation of First National Bank in 12/2012 and theoretical calculation which includes the 12/2012 situation.

Foreigners who live in South Karelia region are potential customers of private banking service as well. According to the taxation information provided by Finnish Tax Administration from 2011 and 2012, approximately 3.70 percent of all are foreigners from the persons who have the highest incomes under taxation in South Karelia (Etelä-Saimaa 2013b). As the list of highest income earners under Finnish taxation only represents the persons who have made their incomes in one single year, there are also many persons who are not registered in the list such as persons who have saved or collected the required amount of money in the longer term to become a potential private banking customer. These persons work in normal positions many years and live the normal life and at the same time

money is placed aside from the salary. These persons, domestic and foreign, do not show in any public lists and therefore they are invisible for the bank who wishes to negotiate and present the private banking service to them.

5.1 Finnish taxation law and limited taxation responsibility

When considering putting money into investments or investing through private banking service, it is important for the investor to consider the taxation consequences of investing money. Taxation of a foreigner can be different from the normal situation depending on if the foreigner is living in Finland permanently or only has the required connections to Finland to establish a customer relationship with a bank but do not live in Finland.

According to the Finnish Tax Administration the taxation responsibility is divided into two different categories, normal taxpayer and limited responsibility of a taxpayer. If a person is not categorized as a normal taxpayer, the person is categorized to have limited taxpayer responsibility. (Finnish Tax Administration 2013.)

Generally a person is included to the normal taxpayer category if the person lives in Finland. Tax instructions define a person living in Finland as a person who has a permanent apartment and a home in Finland. Income taxation regulations define a person to be living in Finland even though the person is not physically staying in Finland. In normal circumstances a person lives in Finland if the person is registered to the citizenship register. Even if a person is not registered to the citizenship register to be living in Finland, the person can still have a permanent apartment or home in Finland as described in the regulations of income taxation. One simple example of this can be a person who goes to another country for a short period of time to work. In the citizenship register, the person is listed as person who has moved out from the country but under the taxation regulations the person is seen to be living in Finland. Also a person who studies in Finland for over a month is defined as person in normal taxpayer category. (Finnish Tax Administration 2013.)

Others, such as communities and estates, are categorized as normal taxpayers if they are domestic. A community is domestic if it is registered in Finland or it has

been established according to the Finnish taxation. Estate is domestic if the person who has been deceased was living in Finland when they died. If a person is categorized under normal taxpayer category, the person is taxed in Finland from incomes which the person receives from Finland or from abroad. (Finnish Tax Administration 2013.)

A person is categorized under limited taxpayer responsibility if the person does not live in Finland. Also a foreign community is categorized under limited taxpayer responsibility. If a person is under limited taxpayer responsibility, the person is required to pay tax only from incomes which are received from Finland, such as wages received from work which is done in Finland or a dividend received from a limited company which is Finnish. Some interest incomes received from Finland are not under income taxation for a person who is under limited taxpayer responsibility. These tax free incomes include interest received from savings accounts and interests received from bonds. (Finnish Tax Administration 2013.)

A foreign person changes to be a normal taxpayer if the person is staying in Finland continuously for over six months. A foreigner under category of normal taxpayer is changed to be person under limited taxpayer responsibility immediately when the person moves away from Finland. Finland has also made taxation contracts with other countries to prevent the double taxation of a person. Contracts made with other countries do not matter when person is categorized to a normal taxpayer or a person under limited taxpayer responsibility. (Finnish Tax Administration 2013.)

6 Practice based study

As there are opportunities among foreign citizens and among foreigners who do have the required contact into Finland, there is also a need take the opportunities into use in banks. That is why a practice based study regarding the topic has been placed into action for a bank which operates in South Karelia region. The author of this study took part in the development of documentation and instructions regarding offering investment products for foreign customers who come from Finland and from abroad. The study has been negotiated with risk management team and with the banks management team separately. Bank's

board of members identified the need for regulating and for writing instructions related to private banking service so that service can be offered for foreign citizens and foreigners by the rules given from Financial Supervisory Authority and from the Federation of Finnish Financial Services. The board of members then approved the project and launched the project into action.

Reason for selecting a practice based study method for this thesis is that it answers all the questions of this case, and as the situation is individual when comparing to other companies, the practice based study gives all necessary information for the author to develop suggestions and related information for the company for its individual situation. As practice based study was used, it also means that suggested steps in this case may not suit other companies as each situation can be individual. A practice perspective also provided answers as to how work is provided explaining the dynamics of everyday activity, as well as how the activities are generated to use them in different situations and how regulations from different parties affects the activities which are done by the organization. (Hydle & Breunig 2013)

This study is one part of a bigger concept where the services are planned to be more useful for foreign citizens in general and that the image of the bank would increase in the eyes of foreign citizens. Instruction were asked for from the headquarters of the bank, but there the need for instruction for providing private banking service for foreigners is seen to include too high incidence of issues related to risk management and the amount potential customers are not fully understood.

Even though the instructions were asked for by a bank operating in South Karelia and in the region where the level of potential amount customers is highest, there are foreign citizens and foreigners in other parts of Finland as well. One example of this is Helsinki where foreigners are represented among the residents with higher share than they are in South Karelia. The possible effect of not having the instructions for providing investment services or private banking service can be negative for the customer relationship. If a customer who has come live in Finland or has bought a summer house from Finland wishes to receive private banking services from a bank and cannot receive the service because of the lack of

instructions and regulations inside the bank, the potential customer can go to a competitor bank to negotiate about the services. As there are banks which already have instructed and regulated their operations regarding foreign customers, they are ready to welcome the customers.

The board of members of the bank operating in South Karelia region issues a team of personnel who discusses and writes the instructions for the bank regarding the private banking services. The team which received the responsibility for the project then started to negotiate about issues which have an effect on the quality of the service and has an effect on the service in general.

6.1 Language barrier

The bank already provides services for foreigners and foreign citizens by offering loans and basic services, but there are no detailed instructions for offering private banking services or even general investment services. Foreign citizens are often served as other Finnish residents but in some cases the fact that the customer is a foreigner, the threshold for offering investment services or private banking services is higher. Often the higher threshold comes from the fact that there are few among the staff in a bank who have the required skills to negotiate with a customer in English. Bank's own regulation also requires that contracts are made in Finnish, Swedish or English. Therefore there can be a need for an interpreter who translates the contract orally for the customer. Most often the customer in South Karelia is Russian as the earlier studies show, but there are also other nationalities represented in South Karelia region and if the customer is for example Chinese, there can be difficulties for the customer to find a translator.

In other banks where the author of this study has been working, the contracts are signed and go through in English if the customer has the required level of understanding English. The estimation of customer having the required level of understanding for English is done by the bank's personnel who are negotiating with the customer and therefore the decision for the need of interpreter is individual for each customer. Also there can be a need for an interpreter if the bank's personnel cannot negotiate in English or in other required languages.

In some banks the level of skill to negotiate in English is tested through an official language test which is provided by a company that specializes in language skill testing. If an employee passes the test by the required standards, the employee can officially negotiate with foreign customers in English. This is one possible way to solve the language skills issue inside the bank. In terms of cost efficiency and work efficiency there is no need to provide the language skill test for every employee of the bank, but it would be beneficial to place one or two employees from each department where the possibility of doing business with a foreigner is seen. That way the specific employees, who have proved to have the skill of negotiating in English, can specialize for handling the foreign customers.

There are costs from issuing this kind of language test and when the person is negotiating with customers in English they are paid for doing so with a small extra payment. As there are costs of having these employees in use, receiving a small extra payment for using the language skills for the company is justified. Benefits from having specialized personnel with required skills comes through employee efficiency as other employees can concentrate on work with Finnish customers and foreign customers are directly managed by one or two employees who are specialized for them, and profits from the services can be higher through pricing. As the skills of employees develop in the future and next generations develop their foreign language skills, the possibility of recruiting a person with good language skills and required experience from banking would be beneficial for the company.

From a risk management point of view, the fact that an interpreter is part of each negotiation where the customer and negotiator cannot negotiate in same language is the safest choice. Terms and words of the financial world can be somewhat hard to understand and therefore it is more important to have an interpreter taking part in the negotiation so that terms and specific words are understood by the customer and by the bank's representative. It may appear that when interpreter is not used in a negotiation, some words and sentences could not be understood by the client and the negotiations can go horribly wrong. Using an interpreter minimizes the risk of misunderstanding and negotiations can go forward with ease. This also minimizes the risk of misleading the customer or the negotiator to understand something otherwise than it is in reality and the risk of

receiving bad collateral, for example, is minimized. Naturally this risk is also minimized with a complete review of the collateral documentation and other documentation. In investment negotiations the risk of misunderstanding is relatively higher as investment words are not often used or known even if the customer or the negotiator speaks fluent English which is used in daily life. Hard words to understand are often seen in terms of an investment or for example when clarifying what some structured investment product includes, how market effects affect the progress of the investment or how the investment is priced during its maturity and how the investment can be sold during its maturity, and are there some specific terms about when the investment would be sold.

The interpreter would need to hold a certificate for interpreting the needed language. If just anyone would be able to take part in the negotiation as an interpreter, the risk of misunderstanding would be higher as specific words from the financial vocabulary can be hard to interpret if the interpreter does not have the required skills for business.

6.2 Banking services towards foreigners

As the case company was studied further by getting introduced to the marketing material, the products available for customer and the requirements for acquiring a customer relationship, a great lack of banking services in English was noticed. This issue is seen most through the lack of Internet access for handling banking issues in English. Internet access for handling banking issues is only possible in Finnish or in Swedish. First question on noticing this is does the case company want to serve foreign citizens who do not understand Finnish or Swedish? This lack of service provides a great opportunity for competitors to acquire a business relationship with a foreigner. As earlier mentioned, foreigners are a possibility for every company. Lacking an important part of a banking service does not encourage foreigners to establish a relationship with the bank. Although service can be provided in the bank's office in English or through an interpreter, the customers who are interactive and know how to use a computer will look for better services from other banks.

As there is also the risk management point of view in this matter, it still does not remove the fact that there are lots of foreigners who live in Finland and can be

treated as domestic customers by the rules given by Financial Supervisory Authority. If foreign citizens do not understand Finnish well enough, how can they use Internet access which is in Finnish if they wish to handle their daily banking issues, investments or other services? This is a question which is important to take seriously as the amount of customer potential in domestic citizens is limited and as there are many foreign persons who come to study in Finland for longer periods of time and will need banking services including Internet access to the bank. Other banking services, like payment cards and documents are available in English if needed and there is no great issues related to those. From the risk management point of view, as the bank has to know its customers, it is reasonable to have a certain period of time to review the banking behavior of the customer before providing greater services for the customer. By doing this the bank can be assured that the person will not use the services of the bank and the trust between the bank and the individual for any criminal or other illegal purposes. The whole category of banking services can be provided for a foreigner if the person is living in Finland.

For the foreigners who do have enough contacts in Finland and reasons for establishing a customer relationship with a bank, the category of banking services is somewhat limited for risk management reasons. If a person mostly lives abroad it is recommended to acquire payment card and other daily banking services from the country where the person permanently lives. If a person only owns a summer house from Finland, it is possible to open an account for paying the monthly expenses which comes through the ownership. Foreigner who do not permanently live in Finland can also receive financing for the purchase of land, house, apartment or a summer house, but within reasonable limits with a reasonable risk for the bank. Financing terms are the same for domestic persons and for foreigners who permanently live in Finland and for foreigners who only wish to purchase a property from Finland. Nevertheless each financing case is individual, but there is also a greater risk for a bank when financing a person who does not permanently live Finland.

What is not currently actively promoted for foreign persons, even for those who are citizens in Finland, are the savings and investment services. Offering savings and investment products in retail banking for foreigners can increase the revenue

of the bank and through this the variety of services can be increased towards foreigners. The potential customer for investment products can be identified in negotiations where mortgage and other loan issues are negotiated.

For other foreigners who have the required contact to Finland but are not living in Finland, the possibility for offering savings and investment products is also good. As these foreigners often are applying for finance to purchase a property, it is recommendable also to save money into a savings account or to an investment fund at the same time as they are paying the mortgage back to the bank. This way the savings can later work as collateral for the loan and the property which is purchased can be freed from any responsibilities. This is also one way for the bank for decreasing the risk of financing per customer. It is recommendable to study if the investment fund can work as a part of collateral starting with the first investment to the fund. These potential customers can be identified when negotiating a loan for an individual customer.

6.3 Marketing towards foreigners

One important factor for acquiring more customer relationships with foreigners is to have solid marketing materials and good connections at Lappeenranta University of Technology and the Saimaa University of Applied Sciences. When research was done to review what kind of marketing material the bank has in English, the result was that there was practically none. This is one issue that needs to be corrected as marketing materials such as brochures are a good way of delivering information for reading independently. If the customer is seriously interested of establishing a customer relationship with the bank, the brochures and other marketing material will raise questions regarding the services of the bank and later the customer can have better and deeper negotiations with the bank about banking services.

The idea of a brochure is not to give detailed information about banking services. Instead the purpose of a brochure is to increase the interest towards a certain banking service or the bank in general. Detailed information can be given later in the negotiations. Additionally brochures are good to have in English as the employees of the bank go to promote its services in locations outside the bank's offices. Possible places for using these brochures are the campus areas in

Lappeenranta and other campus areas, certain events which are organized by a third party or yearly events organized by the city of Lappeenranta, or other events by another city. Brochures can be placed for display also in the bank and they need to be located so that foreign customers can take the brochure home easily. One good example of this is to place the brochures close to the cashier services and information desks.

As marketing for foreigners through the Internet would also be a very good opportunity for the company, the problem in this case is that the company represents the national company and as the host company has regulated that very little marketing material will be done in English and through the Internet channels, this possibility in the current situation is out of the question. Possibility for active and proactive marketing in English through Internet channels would need an updated regulation from the national company.

As the potential in foreign customers has been increasing in the last twenty years and it is still increasing, the brochures and other marketing material need to be produced in a cost effective way so that brochures can be used easily for a long term period. This is the reason why marketing material needs to introduce the bank and products only in general, and to create the interest towards the bank and its products. By doing this the need for updating the brochures is minimal. When the target is to create marketing material which is long lasting, no pictures of personnel is required. Instead some non-personnel pictures are good to use. It would be also beneficial to consider what could be the key issues through which the potential customers' interest towards the company would be increased and what would be the key message in each brochure for a reader. A project team for considering these issues would be good to organize.

As cost effectiveness is one important factor to consider, brochures are good to have in a computer file or behind an intranet link from which the brochure can be printed and folded into a brochure. Also the language of the brochures is good to be English as there are many nationalities represented in Finland. By doing this brochures are easily provided when needed and no storage room is reserved for brochures in the office. The brochure should be in both Finnish and English as there is a possibility that bank personnel negotiating cannot speak or understand

English, and through the brochure the person can show issues regarding the bank or the service if there is no interpreter available. When brochures are in a computer file it is easier for the marketing department to update the brochure with minimal expense and less time consumption.

Other cost effective ways for advertising the bank for foreign customers would be using targeted Internet sources such as Facebook and other similar social networks. This is problematic as the regulation of the First National Bank does not give a chance for doing marketing in any other language but Finnish and Swedish.

6.4 Private banking services and risk management

As private banking services require more savings for investing and the service itself provides high quality of complete banking services for the customers the risk management is a vital part of the service. As Figure 4 and 5, and also the theoretical calculation on page 29 show, the potential of foreigners living outside of Finland alone are a good possibility for a bank operating in South Karelia region. The potential in Finland from foreign citizens does also exist as the review of taxation list shows. Use of an interpreter is required for ensuring that no misunderstandings occur and the safe and trustworthy customer relationship can be established with a foreigner. Depending on the customer and the interpreter, the terms of contract and other documents given for the customer can be in Finnish or in English. By signing a contract or an assignment, the customer confirms that the writing is understood and therefore it is important to be sure that customer fully understands what is being done.

As financial markets can change quickly with short time notice it is important from the investment's point of view that changes to asset allocation can be done quickly if necessary. That is why for the private banking services the discretionary portfolio management service would suit best for foreigners, especially for those foreigners who live abroad. This way the decision making process does not include any decision making from the customer, and portfolio management would not only be faster but also safer from the customer's point of view. Consultative portfolio management requires decision making from the customer. Otherwise any changes inside the portfolio cannot be done. When contacting a customer by

phone it might be hard for the customer or for the bank's employee to understand the English which is spoken if there is a strong accent in the speaker. Additional assignments given by the customer would be suitable to receive through e-mail or through Internet banking if possible. Verification for the assignment can later be asked via telephone conversation if required.

Meetings with customers need to happen inside of Finland as the legislation of consumer protection could change depending on in which country the meeting is held. The fact which matters the most regarding the legislation of consumer protection is the place where the meeting is held. Even when the customer relationship is managed in Finland and if the meeting is held in Russia the consumer protection legislation can be different in Russia than it is in Finland. Another fact that needs to be taken into account is which telephone number or e-mail address are contacted. This matter can affect the decision of which county's legislation is used if the actions based on these conversations are taken into a court of justice. If telephone number is Russian or e-mail address ends with .ru, there is a risk that decisions in a court of justice could be done based on the Russian legislation.

From the risk management point of view it is important to do the required documentation about the customer by following the instructions of the Financial Supervisory Authority of Finland. Also the risk in misunderstanding can be deleted by using a certificated interpreter in the negotiations. If a foreign customer wishes to invest greater amounts of money in investment funds or other investment products it is important to clarify the original source of savings as there is a higher risk for money laundering and terrorist financing if the money comes from abroad. If the money comes from inside of Finland it is still important to identify the original source of the money.

These rules are the same for foreign and domestic customers, but domestic customers have a better chance of showing the original source of money as it often is a contract of selling property or inheriting money. Documentation in both cases needs to be made so that the deal fulfills the legislation of the change in ownership. For maintaining contact with the customer from the bank, it could be possible to review the possibility of including terms which allows the bank to end

the private banking service if the customer is unavailable and cannot be reached after one year from the last contact. This is for the safety of the customer and customer's funds as markets can change direction significantly within a year. In other issues, for example marketing material, using an interpreter when possible is recommended, and basic banking services should be offered as previously considered.

7 Conclusions and summarization

After a review of the current situation of banking services for foreign citizens and other foreigners, the potential of foreigners for the bank and the regulations issued by Financial Supervisory Authority and by the Federation of Finnish Financial Services, the possibilities, risks and limitations for offering banking services are good to summarize.

The Financial Supervisory Authority and the Federation of Finnish Financial Services regulate how banking services should be offered and operated with domestic and foreign customers. These regulations are important to follow as dismissing regulation can lead to receiving a fine or to terminating the license for offering banking services in Finland if the dismissal is severe. Regulations still open the chance for offering banking services for foreigners if the required contacts to Finland have been established. Banks are required to know their customers and with careful banking operations and with accurate documentation the background, the reason for establishing a customer relationship, and the movement of money can be investigated. Documentation throughout the customer relationship is suitable to have if new issues arise, and later these issues can be investigated more thoroughly if necessary. As globalization is increasing in every way, the risk of money laundering and terrorist financing increases, and the need of minimizing the possibility for illegal use of banking services is increasing as well. Most of surveillance is done through the risk management department in headquarters, but local employees need to be aware of situations where transactions and other use of banking services differ from normal business of an individual person or a company. Risk management in foreign citizens or in foreigners living outside of Finland is in higher role as there

is a higher risk for illegal actions and using financing, investment or basic banking service products to advantage in illegal way.

As the study shows, foreigners have significantly increased their presence in South Karelia region in the last twenty years. The amount of foreigners who live in South Karelia is still somewhat low of the total amount of citizens, but it has been increasing and there is a high possibility for the share to be increased even more in the future. When adding to the equation the amount Russians whose wealth is above 1 million USD, the potential need for Private banking service alone increases significantly. This possibility is good to consider as banks in South Karelia region operate close to the border of Finland and Russia and therefore are in a special situation with a possibility of doing business across the border in situations when the customer relationship is managed inside of Finland. If a bank manages a customer relationship in Russia, the bank needs to apply for a license for operating inside of Russian borders. This can be time consuming and costs of receiving a license for operating in Russia can be significant. Even if the calculation in page 25 is theoretical, it shows the potential for what Russians offer for banks in South Karelia if the operation and customer relationship is done by the regulations and the quality of service towards the customer is high.

Before banking services can be offered to a foreigner in more detailed level, the operational instructions for customer relationship management and risk management need to be done properly and with care. Also, improving the banking services for foreigners are vital for the bank to have an edge against competitors. One example of this is to have Internet access to a bank in English. Also having marketing materials and brochures in English is vital as it gives preliminary information about the bank and its services for a foreigner. As there are lots of foreign students in Lappeenranta University of Technology and in Saimaa University of Applied Sciences, this can increase the amount of customers of the bank by promoting banking services in the campus area. This is hard to do without proper products or marketing materials. To manufacture marketing materials in cost effective way and to be able to use same marketing material for longer periods of time, brochures are good to create with information and pictures that do not necessarily need yearly updating. Also having brochures stored in intranet so that they are easy to print out and be folded into a brochure

is a cost effective way for making marketing materials. Information in a brochure needs to create the interest for a potential customer towards the bank. Later in negotiations, the additional information can be handed out and negotiated through with a customer. In negotiations it is preferable to have an interpreter involved. This way, the risk of misunderstandings or misguidances can be minimized.

Presumptions and language barrier can be removed if employees are aware of these issues and are willing to work with them. Presumptions do not improve the possibility of fluent negotiation or the quality of the customer service. In worst case scenario it may lead to a situation where an individual's perspective is considered to be the perspective toward foreigners by the company in which the employee works. In this case there is a risk where other potential customers which would be profitable for the company go and seek service from competitors.

As a conclusion for the study, foreigners are a great possibility for a bank operating in South Karelia region but there is also a higher risk for illegal acts. Risk management needs to be aware of all situations, and employees must know their customers. By following the regulations given by the regulators, revenue of a bank can be increased and in the best case scenario, revenues can be increased significantly. Foreign citizens living in South Karelia region offer the potential to increase market share, but the high revenue customers are mostly those foreigners who live across the border. If these foreigners do have the required contact in Finland, they have the right to receive banking services from Finland. Using an interpreter in negotiations is recommended for minimizing the risk of misunderstandings. Marketing materials and basic banking service needs to be improved towards foreign customers as international students and other foreign citizens do not necessarily understand Finnish. When a company begins operating with foreigners, the business involves risks. All business includes some level of risks. Risks needs to be minimized and managed so that risks do not increase or be too big in an individual customer relationship.

7.1 Research issues for future

As the study reaches its end, more research issues rose for the future to study. Major issues for study are how the bank can start operating across the border

more fluently but at the same time minimizing the risks of operating across the border. Globalization has evolved and domestic customer potentiality is somewhat limited. In order to increase market share and revenues, operating with foreigners will improve the chances to compete against rivals. It would be beneficial to study which country's legislation is used in different types of cases where negotiations are done through e-mails or telephone, and is there a chance for legislation behind the decision made by a court of justice being different if the decision is made in Russia or in Finland.

Another matter which would benefit every company is to study how presumptions against foreigners might be decreased among employees and how the attitude in customer relationship management towards a foreign customer can be placed into more positive way of thinking. These issues are important for high quality service and for avoiding unwanted situations where a foreigner is served under the service standards of the bank.

Lastly it would be beneficial to study if there is any public organization or private business through which the banking services can be promoted for foreigners when they are in the beginning stages of acquiring the needed contact from Finland in order to have a right to receive banking services. This study concentrates on the issues from one company's point of view and about how the company can fully use the potential of foreigners to their advantage. Therefore, conclusions in this study may not suit another company which is considering the same issues. Also industries differ and therefore conclusions in this study may not suit another company operating in a different industry.

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