Adding value makes a difference

As an increasing number of private banks downsize, or even close, Kees Stoute of Hubbis looks at the traits of successful organisations in wealth management today.

The face of the wealth management industry is changing. With tighter regulations, (cheaper) digital solutions and more sophisticated customers, private banks are finding it more difficult to do business today.

Despite the growth in wealth and the number of wealthy individuals in Asia, private bankers are finding it increasingly difficult to run a profitable business, says Kees Stoute, managing director of Hubbis.

For instance, the costs of doing business have gone up for a variety of reasons, including the need for technology upgrades and better compliance controls.

At the same time, he explains, revenues are low because commissions are declining in an environment where they are being scrutinised, plus clients are much more reluctant to pay when they don't always see the value of professional advice.

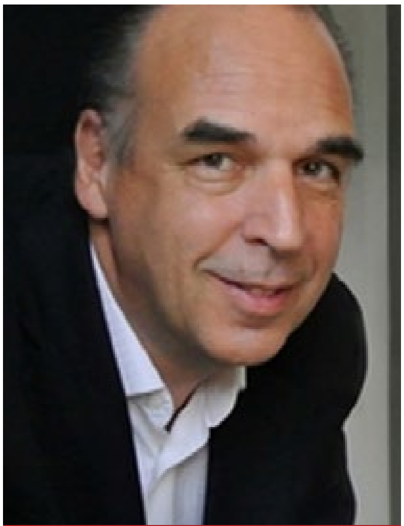
As a result, the margins in the private banking and wealth management industry are much thinner than in the past, explains Stoute.

This has led to a lot of stress and consolidation in the industry. "10 years ago, Switzerland had 180 private banks. Now, there are only 130. As per a recent KPMG report, in the next three to four years, we'll see a reduction of another 30%," he says.

THE TROUBLE WITH ADVICE IN ASIA

A recent study by Scorpio Partnership concluded that the winners in the wealth management industry will be those firms with bigger clients, a deeper relationship with these clients, and a relatively high recurring income ratio.

While private bankers in Asia have no problem finding big clients or even developing deep relationships, Stoute says that delivering a relatively high recurring income ratio is a challenge for most.



KEES STOUTE
Hubbis

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Discretionary investments typically give rise to recurring incomes. Yet, while these kinds of investments form about 60% of a client's portfolio in the US, and around 40% in Europe and South America, Stoute says they're nowhere near as successful in Asia.

The reason, he explains, often complicated by excuses, is actually very simple. "Contrary to the popular belief, people in Asia, like people anywhere else in the world, are more than happy to pay for professional advice," says Stoute. "But they need to at least have a feeling that the advice is professional. That is the problem. They don't believe the wealth management offering is a professional service offering, in Asia."

Amid cut-throat competition and increasing growth targets, he explains that client advisers seem to find it difficult to achieve the results they seek while ensuring the client's interests are put first.

Trading off the trust they've built with clients for short-term gains, by churning portfolios, for instance, is a mistake that Stoute says will cost them and their banks dearly in the long run.

He believes it is about time that they realised this and therefore take steps to remedy the problem.

OVERCOMING OBSTACLES IN PERCEPTION

Stoute says there are three obstacles private banks must tackle before clients can be expected to fully understand the value they derive from the professional services offered.

First, clients aren't always aware of the work their advisers do for them. "It is necessary for us to go and educate our clients about the exact role we play in their lives when we take on the responsibility to manage their wealth," emphasises Stoute.

"There are three obstacles private banks must tackle before clients can be expected to fully understand the value they derive from the professional services offered."

Next, there is a genuine lack of trust in the relationships that are built in the industry today, he adds.

Commission-chasing advisers have hurt the portfolios of clients too often, and the latter have grown wiser with time. "As long as there are advisers who believe that being unethical is realistic and doing what is good for the client is idealistic, we will never be seen as a professional service industry."

Instead, private bankers need to genuinely work towards helping their clients to grow their wealth and also achieve their objectives.

Collectively, over a period of time, it is expected that the trust in the industry will be restored – and if the efforts are genuine, clients will see value in the professional advice they receive.

The third obstacle is the 'short-termism' from which the industry suffers.

Private banks seem to have a short-term outlook towards their business, which Stoute says causes their advisers to chase quarterly revenue targets rather than spend time educating the client and tailoring their portfolio in a way that helps them achieve the results they expect. In turn, such a longer term approach would help increase the revenues for the bank over time, to create both more sustainable income and a loyal client base.

Yet while proposing these remedies seems easy, implementing them in a way that maximises results is not.

In the face of incremental challenges, only time will tell whether more private banks will be forced to shut in Asia because they fail to learn from mistakes, says Stoute.

Those which will prosper, however, will be the organisations that realise adding value to clients makes the ultimate difference, he adds. ■

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