Link to Article on website
Link to Partner Profile

# Asia's Independent Wealth Managers: How Can They Add More Value for Clients?

**The future of the independent wealth management industry in Asia has seldom been more finely poised. The major private banks are fighting tough to shake off decade-old practices, as well as upgrading technology and platform architecture. But the independent firms believe they are ideally positioned, being strategically fleet of foot, client-centric and able to rapidly address digital-enhancements. The Hubbis roundtable discussion co-hosted with Swissquote highlighted the state of play.**

# Executive summary

What is the secret elixir required for independent asset management firms to survive and prosper in Asia  s expanding wealth management business? Hubbis and co-host Swissquote assembled an erudite group of experts from independent firms to a private discussion in Singapore to debate how the industry can compete more effectively with the global private banks and the increasingly prominent regional Asian banks.

Is the growth path of Asia's independent wealth management community set to emulate the success their counterparts have been enjoying in Europe, especially in Switzerland? If so, is one vital key the entrepreneurial founder-mentality effusing through the veins of these independent organisations?

Is another key the seeming freedom the relationship managers (RMs) have when in boutique firms to focus on the client's needs, rather than on the incessant need for revenues from the private bank top management and shareholders?

Perhaps a vital element of the independents' current and future successes is the experience of the relationship managers, most of whom are ex-private bankers and who have migrated to freer pastures with asset-heavy clients in tow? Or the ability of the smaller firms to embrace technology and genuinely open architecture, and then incorporate it without the impediment of legacy systems or other internal obstructions?

Of course, the sector will certainly be buoyed by the rapid and continuing growth of private wealth in Asia, but will the growth of the independents also be fuelled by the shortcomings of the private banking community, whose business cultures seem to remain skewed more towards feeding their corporate profits than satisfying the evolving needs of their HNW clientele.

The answer is that it is all of these things, as the experts at the discussion debated and agreed. Each of these wealth management professionals had a slightly different take on the evolution of their firms and of the industry at large, but the genuinely-conveyed consensus was that the future for the independent and external asset managers is encouraging, possibly even rosy.

THE PRIVATE, OFF-THE-RECORD discussion began with the digital Bank and wealth management platform provider Swissquote's representative at the gathering, Damian Hitchen, CEO for Asia and the Middle East, telling the guests that the firm serves the wealth management industry, not vice versa.

"The digital revolution is picking up velocity," he observed, "but it is important to note that we, as a purely digital platform provider, are reliant on the successes of your industry at large. The independent firms are very much part of that growth story globally and there is great potential here in Asia. Our success relies on your business cultures, your delivery capabilities and your alignment with your clients. We target what you need to enable you to achieve your goals."

The chair then opened the floor to some insights from the representative of a Swiss wealth management firm with offices in Zurich, Singapore and Miami and whose core business he described as independent, modern, global private banking. The firm offers advice and support in most financial matters, including investment advice, asset structuring and discretionary asset management.

"As a successful EAM, we are tried, tested and proven," the guest explained. "We seem to have a like-minded group of people as bankers, as well as clients. We operate with no sales targets, we instead prefer to focus on the client's success and their satisfaction, because that is what inspires our bankers and team members. We have been in Singapore nearly a decade and we have a very generous sharing scheme of the revenues for our bankers, which is why we can attract and retain high-quality team members because finding the right people for our growth is essential."

**"We operate with no sales targets, we instead prefer to focus on the client's success and their satisfaction, because that is what inspires our bankers and team members."**

## IAM what I am

Another attendee said he would step back and attempt to define what an independent wealth manager actually is. "I would say that an IAM is a firm that focuses on what the client needs, first and foremost, rather than stuffing client portfolios with fee-heavy structured or other products. As an IAM, we are freer to think and act strategically alongside the client with a greater alignment of interests."

He added that family office clients and larger HNW and ultra-HNW clients are becoming more interested in direct, private deals rather than relying on the mainstream financial markets. "The classic discretionary markets portfolio is becoming almost a reward for getting the other ideas and products sorted for the clients," he reported.

He also explained that for the past 18 plus years since the internet bubble burst the headline index numbers for the mainstream financial markets might look appealing, but he noted that during those nearly 20 years investors have oftentimes been caught on the wrong side at the wrong time.

## Migrating towards private solutions

"Some of these investors might have tried everything from active managers, hedge fund managers, ETFs, and have so often been disappointed, as it is so difficult to get the timing right," he observed. "As wealthy people, most of whom have made their own wealth, these HNWIs are generally accustomed to calculated risk-taking, so we are seeing a natural inclination towards more private, direct deals that these types of investors can assess, on which they are prepared to take calculated risks and that are not subject to the vacillations of the public, liquid markets."

He added that these HNWI clients also like IAMs for the network and the relationships they bring. "Most of us are ex-bankers, but once in independent firms, it is easier to extend those connections outside the confines of what is often a restrictive banking environment. We tend to be generalists, not specialists, but we use our network and connections to filter out the best for the clients."

## Don't sell, solve

He continued, mining down further into his firm's vision of the IAM's USP. "A long-standing problem historically is that wealth management organisations like the

private banks are structured as sales organisations, rather than being organised as knowledge organisations selling expertise, for lack of a better word," he commented. "We should not be organised in the typical pyramid structures, reporting to a distant management, as wealth management is a counterintuitive business."

"Can the industry reinvent itself for survival?", he then asked, rhetorically. "Well, I am always optimistic, but it comes down to people. If you elevate sales managers who have never seen a bear market, that can be disastrous. Experience is necessary, it only takes is just a few smart people to figure out how different wealth management is and organise it accordingly. Many of the RMs working for IAMs have been bankers and miss-trained and also constrained, then when they are independent they finally come to the realisation that they can be more unique and develop much more rewarding client relationships."

The discussion turned to the rise of the Millennials and the younger generations and the potential impact on the wealth management sector. A guest noted that the Hong Kong Monetary Authority will issue the first five virtual banking licences by the end of 2018 and that two of those are likely to be taken by Chinese Big Tech giants Tencent and Alibaba, while only one is likely to go to a traditional bank.

## Disruption coming?

"The whole banking system is changing rapidly," said one expert. "We have a lot of disrupters right now which are trying to figure out which way the business is going to go. It will be fascinating to see if these giant tech companies out there succeed. Will they make it, or not?"

## People need people

One guest observed that it takes a lot of time to find good people that fit the independent models and who think with a longer-term time perspective, be they bankers or managers. "We have seen the cycles becoming shorter and shorter at the big companies over the past decade for sure," he reported, "and as a result, new bankers in the big houses have less and less time to perform, and here I mean perform for the bank not so much the client. There are few of the major banks that have good programmes to support training young bankers, hardly any in fact. Frankly, I don't see many Singaporean banks doing that either, they seem to prefer to hire from the sons and daughters of wealthy families."

He considers that these cultures are therefore not so much about trust but centre themselves on quick profitability. "That in my view is where the independent firm comes in," he said, "catering towards bankers that have a clientele already or that have the benefit of having enjoyed the trust of their clients already. If they then put 30% or 40% of their assets into cash, that is ok, we have the time, the banks do not. They need to feed this army of people and systems and offices."

**"A long-standing problem historically is that wealth management organisations like the private banks are structured as sales organisations, rather than being organised as knowledge organisations selling expertise, for lack of a better word."**

Another core issue facing Asia is tax compliance, observed another expert. "By some reckonings, around 80% of the money circulating is not fully taxed," he remarked. "The whole of Asia-Pacific has only a few countries which have no capital control restrictions, namely Singapore, Hong Kong and the far smaller Brunei. In so many countries, so much money is swilling around outside the borders, but the countries of the region will in the future need to collect dramatically more taxes, so things will have to change."

And evidence of that has come in the recent past in Indonesia with their tax armistice, designed to bring billions of offshore funds back onshore and then to re-circulate in the local economy. Much stricter tax and other regulatory compliance bring about higher costs for the wealth managers, as well. "These are the other factors driving firms to re-think their business models," commented one expert. "Whatever entity you are in people need to look ahead strategically over the next five to 10 years."

He added that from the client's perspective it does not matter what type of institution the HNW clients deal with, as long as that institution gives them what they expect, namely asset performance first and foremost and controlling losses on the downside. "I think frankly it is not about brand anymore," he remarked, "it is more about the individual and trust. Why don't IAMs employ so many younger RMs? The answer is that the clients prefer some grey hair and experience today, they need the aura and reality of credibility."

**"I think frankly it is not about brand anymore. it is more about the individual and trust."**

## Technology's capabilities

The discussion turned back to the focus on technology and how it will also affect the broad wealth management industry in the next five to 10 years. "We all know that digitisation is on everyone's agenda," said one guest, "but let's look a bit more carefully at the impact. As we see it there are two main parts of the industry, one is access, while the other one is advisory."

Looking at access, he observed that traditional private banks some 20 or so years ago were all closed platform models. "But in the past two decades, we have seen that the banks have gradually moved towards open architecture to some degree or another. Access to products and solutions through their platforms has, therefore, become far wider today and is increasing. And I do not mean only the plain vanilla products, because more complex products such as structured products are becoming increasingly democratised and accessible across banks. The trend is ongoing."

## Bigger might be far from better

Accordingly, extrapolating from that, the same expert looked ahead to a HNW millennial's response to brands such as Alibaba, Tencent, Amazon or Facebook operating banks. "If those types of entrants really enter this space and gear up then that HNW client might then have access to the widest ever range of products ever seen, but does that help them invest, or make the right decisions?"

He thinks not, arguing that the role of advice in the wealth management space will remain the same. "As a trusted adviser to wealthy individuals you do not

need access to 10,000 products to be able to make the returns," he stated. "I do not believe that accessibility is not a solution to making the portfolio work."

A Hong Kong-based expert noted that in the HNWI and ultra-HNWI segments he sees more private wealth organisations trying to offer portfolio advice. "Of course," he observes, "they want to be explicitly paid for the advice, so they want the clients to engage in specific fee commitment and then presumably that would offer the client the fairest recommended outcome. It is clear the wealth managers want to move their clients into a paid advice model. Technology is playing a part in enabling this gradual transition."

Another guest said that, as yet, there has only been modest pressure on their business to adapt to new technologies. "I think there is a little bit of confusion as to the role of technology and how it can impact economies of scale and economies of speed," he reported. "I think that technology is mostly being viewed, certainly by the service providers, like they view the 'cloud' providers who have indeed made a big difference to our business. The outcome of those is economy of speed more than economies of scale."

## A high-touch business

"In our business," he continued, "I am really not so concerned with economies of scale because by definition as a multi-family office we are going to be limited to the number of clients that we want. I certainly still look at our business as being a high-touch business where clients will to some considerable degree still want that direct person to person relationship, whatever technology interface there exists."

However, for those more transaction- and product-based businesses in the wealth field, then there is going to be continued margin compression on the bottom-line, so they will need to adopt digitisation in order to survive and compete. "For example," the same guest added, "in the fund management industry there is a flight to quality where the big names crowding out the smaller names, enhanced by cheaper access to technology."

## Flogging dead horses?

Another guest recalled back in January 2008 when he met with private banks in Singapore and found that almost none of them had products that were bearish in outlook. "There were a few that had some inverse products that they sold as hedging instruments," he explained, "but they were few and far between and pretty much everyone was still selling bull market deals."

And again, by implication, there were plenty of the major banks that were literally clearing their balance sheets of product in anticipation of a rout. For example, this guest noted a big-name global investment bank that was short sub-prime mortgage paper at that time, apparently trying its best to offload it from its vaults before the crisis set in.

**"It is clear the wealth managers want to move their clients into a paid advice model. Technology is playing a part in enabling this gradual transition."**

This expert, who works for a multi-family office, explained that internally within his organisation there are always many different views on the market. "But whatever views we have we never create portfolios that are for our benefit, we always focus wholly on the benefit of the client."

The implication was that he has concerns that the major private banks might take the latter route all too often, especially if they have a major investment banking operation that constantly needs to move a lot of often-weighty product, such as hefty IPOs and other products. "Often one can see that the RMs of those banks have high margin products to sell from within and are under some considerable pressure to do so."

Another representative of a family office reported that there is today only minor differentiation in the market in Asia between the custodians and private banks they use for custody and execution. "However, I think that the banks have now realised they have to open up to private markets, such as private equity, venture capital, real estate and so forth. The big-name banks in Singapore are at least now offering some of those products for their clients, albeit initially with wrappers

### Swissquote: Digital Platform Solutions for Asia's Wealth Management Community

Swissquote, the co-host for the Hubbis discussion on the future of independent wealth management firms in Asia, has been steadily building its clientele in the Middle East and Asia in recent years, driven by the efforts of Damian Hitchen, CEO for both regions.

Hitchen has spoken at several of the Hubbis wealth management forums this year, warning of the clear and present danger to private banks and wealth management firms who do not embrace digitisation and who do not adjust their business models and practices to win over the newer and future generations of Asia's wealthy.

Swissquote provides its platform and tools back to independent and external asset managers (IAMs and EAMs), regional banks or family offices to allow them to trade for their clients on the Swissquote architecture.

"For wealth management firms of any size or location today, having a digital platform is, quite simply, a prerequisite to remaining in the business," claimed Hitchen as he addressed the audience. "Our view is very simple – the risks for those providers or service companies that do not have a digital platform is that many will neither survive nor prosper."

Hitchen is therefore convinced that the "new normal" for the wealth industry is the digital delivery of wealth management. "According to one survey," he noted, "at least 65% of HNWIs review their portfolio at least weekly. Providers need to be able to offer their clients, their relationship managers and their bankers the fundamentals, namely information, access, and functionality."

He explained that all Swissquote clients around the world manage their bank accounts and their global trading via a PC, a tablet, or a smartphone. Swissquote's customers include B2B, for example, full-service global banks, private banks, independent asset managers, and family offices, all of which are looking to provide their clients with an enhanced digital experience.

To create or optimise digital platforms it is essential to make significant financial and managerial investments in new technology. "Any firm considering taking such steps should do so deliberately," Hitchen advised, "with the appropriate investment and also with the best possible partners, if they are unable to deliver in-house"

As banks and wealth providers move ahead into the new digital landscape, Hitchen advises that they constantly reassess their digital journey. "Too often," he said, "the digital experience simply does not work properly, slowed down by inappropriately structured technology solutions or for many of the banks their legacy systems."

Hitchen, therefore, advises firms, whether the biggest or the most boutique, to move rapidly with their digital transformation. "As we see it HNW clients will increasingly prefer to deal with only a few providers rather than dealing with multiple providers, so enhancing via technology in our view will play a major role in building and maintaining that trusted relationship."

The opportunities for the independent wealth management firms in the region to move rapidly and decisively are immense. "The rapid growth of private wealth in the region will mean that the right strategies, the right business cultures, the correct, bold steps with technology, will pay off handsomely."

from some of the big brands, such as KKR, Blackstone and others."

The discussion migrated to the technology and administration interface between the banks and the clients, whether they are investors, IAMs, EAMs or family offices. "On the reporting side we still have major issues because a lot of banks are IT dinosaurs," said one attendee, "adding considerable cost and time for us."

## Platforms for success

A guest who is based in the Middle East reported that whereas Singapore and Hong Kong are lagging Switzerland in the development of the IAM and EAM

models, Dubai is lagging even further behind, in many respects quite notably so. "We have a mini private bank model, whereby we onboard clients ourselves because it can nowadays take the banks three to nine months to do so. We operate a balance sheet as well, choosing this model because we always felt that by just being an independent asset manager in Dubai would take rather too long to become profitable at this stage."

"We ourselves use the Swissquote platform," he added. "One of the differences in working with the platform like Swissquote is that there is an institutional client approach as opposed to private banking approach. What Swissquote offers is kind of a banking model where everything works but at an institutional level, thereby helping margins and facilitating our work with other parties as well."

Another attendee praised technology's empowerment, arguing that digital platform solutions can solve two problems, namely scalability as well as convenience to clients.

"The younger generations of the wealthy in Asia are clearly shifting towards touch banking and the digitisation of platforms suits that trend, of course," he commented. "Technology will certainly enable independents to improve both scale and the client experience."

**"For wealth management firms of any size or location today, having a digital platform is, quite simply, a prerequisite to remaining in the business."**

### EAMs well positioned

He also noted that the IAMs and EAMs are well positioned to benefit with the help of technology, as the major brand banks have broken trust, time and again. "That," he said, "is where the independents have come to thrive, we now have a tremendous

scope, a great combination of listed market products, private products or other opportunities and the ability to exploit these in a tech-enabled world. This also helps our role as an adviser evolve, so we believe there is tremendous growth potential."

"We are similar to other businesses," another expert remarked. "If you want to be successful you must have a certain critical size with a decent platform, you have to have a core competence, you must try to avoid any conflict of interest and you should have alignment with the clientele. Unfortunately, in this industry, this alignment concept and the potential for conflicts of interest have been critical points at which trust has broken down. But I think as independents we are well positioned and moving in the right direction."

**"If you want to be successful you must have a certain critical size with a decent platform, you have to have a core competence, you must try to avoid any conflict of interest and you should have alignment with the clientele."**

The final word went to Hitchen. "I want to clarify that for Swissquote we do not expect the wealth industry to move towards technology, it is actually the other way around. From our perspective, our business and our growth in the wealth management sector and particularly the EAM space actually directly depends on the growth and prosperity of that business. Accordingly, because we are an execution only firm, we seek to offer you certain tools that you can use in the marketplace and then you go out and advise your clients. If that advisory mission does not gain the traction, then that is highly negative for us, as well. Accordingly, we have a clear alignment of interests with you, we welcome your innovations and advances, our success ultimately depends on your achievements and successes." ■