Beyond the trade: where to find robust revenue

Despite a successful 2017 for many private banks and wealth managers, they need to start preparing for tougher market conditions – and potentially a correction – by looking beyond transactional volume to other solutions and ways to deliver value to clients. The focus must shift toward a more sustainable revenue pipeline.

ACCORDING TO A HUBBIS SURVEY of 1,000 respondents, it seems that some people are burying their heads in the sand about the possibility that markets could turn sour and transaction volumes might dry up.

For those practitioners who aren't so short-term, however, a number of options exist for how wealth managers can re-orientate their offerings and value propositions to create more robust revenue streams.

For firms that get this right, they will also benefit from the subsequent shift in their business model away from a reliance on commissions and towards recurring income.

Or, at least, they can start to operate within some kind of performance-related structure.

Meeting client needs of tomorrow

Diversifying the scope of services is an effective way for organisations to create a more sustainable business, believe many industry practitioners.

One of the most popular routes, according to survey respondents, is to expand the offering from investments to wealth solutions.

This would enable firms and advisers to then deliver on the growing customer needs - and their own awareness of these issues - for protection, estate planning and asset transfer.

Wealth structuring solutions also highlight the value that many players believed can be derived from tailored solutions as being critical to maintaining revenue.

This extends to another avenue that survey respondents believe makes sense for organisations to add to the mix - financial solutions for the client's businesses.

This can either be delivered in-house, if the expertise is there, or via tie-ups with third party providers.

Today, an increasing share of business is given to the private banker or wealth adviser who helps solve a client's business-related financial issue - such as creating liquidity against their stocks and planning for succession.

Bankers only focused on managing a client's investment portfolio are slipping down the pecking order.

Selling insurance also features on the radar of some organisations as a new revenue angle, especially given the growing need among wealthy Asian clients for protection as part of their longer-term wealth planning.

Organic routes

Beyond pure revenue-generating ideas, however, it is also important to ask: are efforts to find new sources of income a misguided approach anyway, simply reinforcing the problem of being too focused on the short term?

Surely the industry should be focused on making the economics of the business work, coupled with delivering a superior customer service? This would then lead to more energy going into business development initiatives to acquire clients, for instance by referrals.

In line with this, managing the wealth of existing clients, including wealth consolidation, should take a much higher priority for RMs, rather than searching for new ones.

Given the cost of acquiring new clients and the challenges in onboarding them, industry practitioners agree that RMs should be much more focused on providing more advice to manage assets within portfolios - not just trying to add more products for short-term commission.

More consistent and stable revenue is also dependent on being able to keep clients. Retention, by delivering a superior customer service, is therefore crucial.

Fundamentally, however, this only really becomes viable if RMs and advisers are better trained.

They need to have the skills and competency to foster deeper and more meaningful client relationships. In turn, they can then deliver the right solutions that will breed intimacy and 'stickiness' to the bank. ■

MORE MANAGED INVESTMENTS

From an investment perspective, the overwhelming suggestion from survey respondents for driving annuitised revenue without a reliance on trading is via discretionary portfolio management (DPM).

There is also a call for managed advisory services more broadly, where fees are paid on portfolio performance.

This will help to create a greater focus on portfolio-building solutions via multi-asset and adaptive risk.

Tied into this is a greater need for income generation and capital protection to preserve clients' AUM plus meet their liquidity needs.

Adding more alternatives to client portfolios is also a viable option to diversify sources of revenue. Private equity, co-investments and private-held debt should be made more accessible to clients.