Big Opportunities and Major Challenges for Asia's Wealth Management Community

A panel of experts at the Hubbis Investment Solutions Forum reviewed the state of the wealth management industry to determine whether the cost and revenue pressures are of such a scale as to threaten the survival of some of the key players. Or whether, as they generally felt is the case, the growth of private wealth in Asia will easily accommodate the players that are adaptable, nimble, forward-thinking and who create value and valued-added solutions for their clients.

These were the topics discussed:

- *What's your USP?*
- *What have you got that means you will be here in five years?*
- *How must you refine and redefine your value proposition today?*
- *Are you nimble, responsive and adaptive?*
- *What's the advantage and disadvantage to pure-play firms vs universal banks?*
- *What is the client expecting from you today?*
- *What trends are we seeing in Europe and North America in wealth and asset management?*
- *Where is growth coming from over the next five years? Bigger share of wallet? Lending? Next-gen leads? Organic vs acquisition vs partnership?*
- *Biggest opportunities for the next three years?*
- *Biggest challenges for the next three years?*

PANEL SPEAKERS

- **Vincent Magnenat**, CEO of Asia Pacific, Lombard Odier
- **Arnaud Tellier**, Head of South-East Asia, BNP Paribas Wealth Management
- **Simon Lints**, Chief Executive Officer, Singapore, Schroders Wealth Management
- **Rohit Bhuta**, Chief Executive Officer, Crossinvest
- **Richard Nino**, Executive Vice-President, Head of Global Distribution, Fiera Capital

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THE KEY TAKEAWAYS

Being relevant

Competition is so intense in the wealth management industry, and pressures on costs are driven ever higher by rising prices, wages and regulatory burdens, so each player in the industry must be able to continuously re-imagine their proposition and structure themselves internally and externally in terms of products and services to be entirely relevant to clients.

Managing ambiguity

Some of the players in the industry are more than 200 years old, and some are more recent entrants growing rapidly through acquisition as well as organic expansion. In either case, the ability to manage ambiguity, as one panellist explained, is vital, which means analysing and understanding how the business is shifting and evolving, and then positioning accordingly.

Diversification of asset strategies

The panel all agreed that clients are shifting more of their portfolios away from the public markets to private assets, making alternative and multi-asset strategies a key driver for growth.

One approach - a full suite of offerings

For some of the larger private banks, the ability to offer a fully comprehensive suite of products and services is the key to being competitive, especially in Asia as so many of the clients are business owners and entrepreneurs who have an extensive range of needs from corporate to personal and family finance.

Sustainability of model

A key trend players in the industry are seeing is the move to an advisory model, away from transactional-driven revenues. This is making their model more sustainable.

Sustainability of investment strategy

Aside from the trend towards private assets, the panel identified the rising importance of impact investing in the form of SRI and ESG principles, as well as the trend towards philanthropic causes amongst very wealthy clients.

Buy or partner?

The panel considered that expansion in the Asia region will take place both via acquisition and strategic partnership, especially as the onshore wealth management proposition gains greater traction over the offshore proposition globally.

Hiring not a cure-all

The hiring of RMs that will bring large books of client assets is not a panacea for players seeking greater AUM and wanting to boost profitability. There are ever more regulatory impediments to moving clients from one bank to another and RMs take time to adapt to their new environments, new platforms, and new culture.

Transparency vital

The industry needs to push for realistic fees rather than pursue some disastrous race to the bottom to win clients. To take the latter route is endangering the industry. Instead, the industry must be transparent, to show the clients exactly how they charge fees, and where, without then "hiding" fees from them. But the regulatory impetus for this in Asia is not yet there, so a level playing field remains at least three or five years away.

The perception of value

If clients see value and service, they are prepared to pay fair fees. If clients do not see the required levels of value-added, they will opt for the cheapest, tech-enabled offerings, for example, from new entrants to the wealth industry.

Nurture the nextgen

Asia is undergoing a fundamental transition from the older, founder generations to the younger generations who are both creating and inheriting Asia's vast, rapidly expanding private wealth. Every panel member highlighted the vital importance of reaching out to these next generations as their future clients, with family office and estate planning offerings as core elements of this strategy.

SIMON LINTS
Schroders Wealth Management

"**SURVIVAL IN THIS BUSINESS,"** one guest from a private bank began, "is for us the ability to re-think everything and to offer products and services that are relevant for the clients of today and tomorrow."

"We are at the opposite end of the spectrum in terms of longevity," came another voice, "and that sets the stage for the way we view the world. Only 15 years old and today with almost USD110 billion in AUM, achieved organically and through some 20 acquisitions we see the single biggest challenge as what we refer to as managing ambiguity, which is how we get our heads around understanding exactly how the business is shifting and evolving."

He explained that a critical shift that the firm sees amongst clients is the growing focus on alternative strategies, driving the firm towards constructing more multi-asset strategies in the real assets space.

Hiring – only part of the solution

The discussion shifted to the quest for talent, with one banker explain that his pitch would be the bank's longevity, the bank's deep base of talent and the range of products and services the bank offers.

"Most of our clients are business owners," he remarked, "so we can take care of so many areas for them, form their property assets, their family assets and estate planning, and of course their investment portfolios through a wealth platform that is one of the best in the industry. Moreover, we

VINCENT MAGNENAT
Lombard Odier

are a pure advisory model that focuses strategically on philanthropy and sustainability, which will be increasingly important in the future."

Another private banker also emphasised the bank's history and the sharing of the bank's strategy for Asia with potential hires, focusing on Singapore, Hong Kong, and Tokyo for Southeast Asia, North Asia and Japan onshore and a clear value proposition. "That is the first pillar for us," he explained, "the second pillar being strategic partnerships with major local financial institutions in the region to compete in the growing global trend to onshore wealth management, and the third pillar is the expansion of our family offices offering."

Time is of the essence

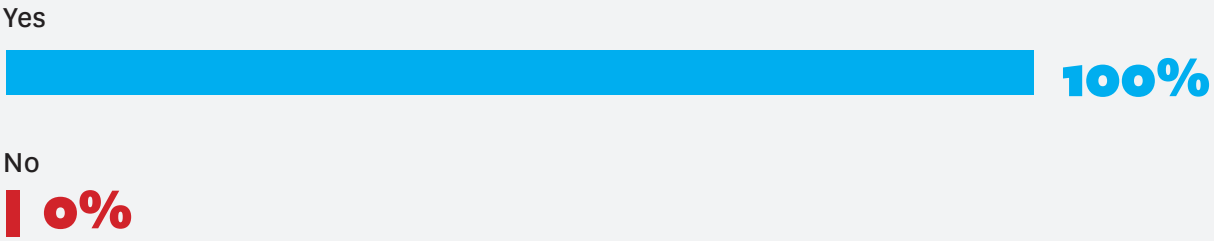
An expert commented that the strategy of hiring other banks' RMs does not work well, due to the difficulty of moving client assets and also the whole compliance issue involved. "It is also difficult for an RM to move to a new platform, new systems and so, it takes time," he commented, "so although if you do the right homework, the success rate can be good, it does often take longer and requires more support."

A panellist advised anyone hiring to consider the quality, not the size of the book an RM might offer to bring across, as transactional revenues are uncertain, at best.

"They have to continually go out and push products to the clients,! He commented, "whereas we are fee-based with three verticals, asset management with discretionary and advisory portfolios, completely fee-based, the second is private investments, and the third is the family office business. We do not aim to compete with the banks, as every bank is going to the client with something better, bigger and cheaper, so we aim to meet the client's unmet need, so we can then partner with the banks to find these opportunities."

ROHIT BHUTA
Crossinvest

DO YOU EXPECT TO SEE MORE CONSOLIDATION IN THE WEALTH MANAGEMENT INDUSTRY IN THE NEXT FIVE YEARS?



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Stick to the right principles

He also highlighted how his firm is ever mindful of the principles demanded in Australia today, namely the five principles - obey the law, be honest, offer value, remove all conflicts, and be transparent. He explained that clients will often listen to his firm's fees then go and find cheaper deals with the banks.

"But the reality we explain to the clients," he explained, "is the banks might apparently charge a lower fee, but they are then picking up extra fees elsewhere, so the clients come to understand that our fees are transparent and they see the whole picture, they know there is no such thing as a free lunch."

Consolidation likely

The chair referred to a poll taken during the event that indicated continuing consolidation will take place in the wealth industry. "I still believe alliances and partnerships are the way forward," said one banker, "and you can see that in Japan recently with some of the deals announced there between Swiss and local firms. Size is one factor, but more important is to deliver on your strengths and to be able to outsource, to find partners for what you are not best at and leverage each other's strengths and networks."

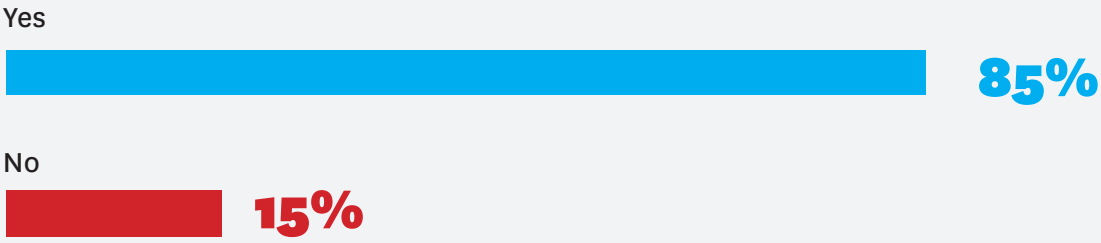
Another banker maintained that there will undoubtedly be more consolidation in the industry, as it becomes more competitive and more complex, and with fee levels and investment returns falling.

"We all need to adapt, and adapt our cost structures," he observed. "Our approach is to offer a complete suite of products and services to clients. We realise we might not be the best in each area, but

RICHARD NINO
Fiera Capital

ARNAUD TELLIER
BNP Paribas Wealth Management

WHO OFFERS THE MOST HONEST PRIVATE BANKING SERVICE?



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we do offer a comprehensive platform and range to cover all their needs. Adapting means introducing technology, which is vital, and adapting the mindset and the structure of the organisation."

Transparency and value

"I do believe the clients are increasingly seeking transparency," said a senior banker. "I am optimistic because I see things changing, I do see clients prepared to accept reasonable fees if clearly presented."

"Value is essential in this equation," opined another guest, "especially with the advent of technology and new competitors. If the client cannot see any value-added from working with us, then he will use the online or smart solutions available. But if we can demonstrate and deliver value, the client is often prepared to pay."

There is undoubtedly margin compression in the industry, another panellist confirmed. "Only yesterday one of my senior RMs came to me about a zero per cent custody fee offered by a bank," he reported. "The race to the bottom is something we must resist, as clients will pay if they perceive they are receiving a real service. I, for one, think there is going to be a lot of change in the industry over the next five to 10 years, perhaps especially in the independent and external asset management space."

A smarter clientele

"We see the clients getting smarter over fees," said another panel member. "They are more savvy, asking questions such as what the hidden fees might be, whether they will get access to retail fund shares or institutional shares, and so forth. But the reality is the industry is not moving fast enough in this direction, and in fact, most of the RMs I interview for jobs do not even know of the difference between the retail and institutional class of funds. It is up to us in the industry to drive this forward, but in reality, we are still perhaps five years off, even if the regulator is gradually pushing for change."

And a younger client base

The discussion closed with the panel focusing on the need to address the family estate issues and to engage more with the younger generations. "Our clients are still expecting us to offer the same qualities as before, the same quality of service competitiveness, but they are also asking for more transparency and stability. Asia is transitioning to a new generation of wealth owners, especially in places like Hong Kong, and we have an active nextgen programme, sometimes with two bankers covering the same family to cover the generations. We are investing a lot of time and energy in this transition." ■