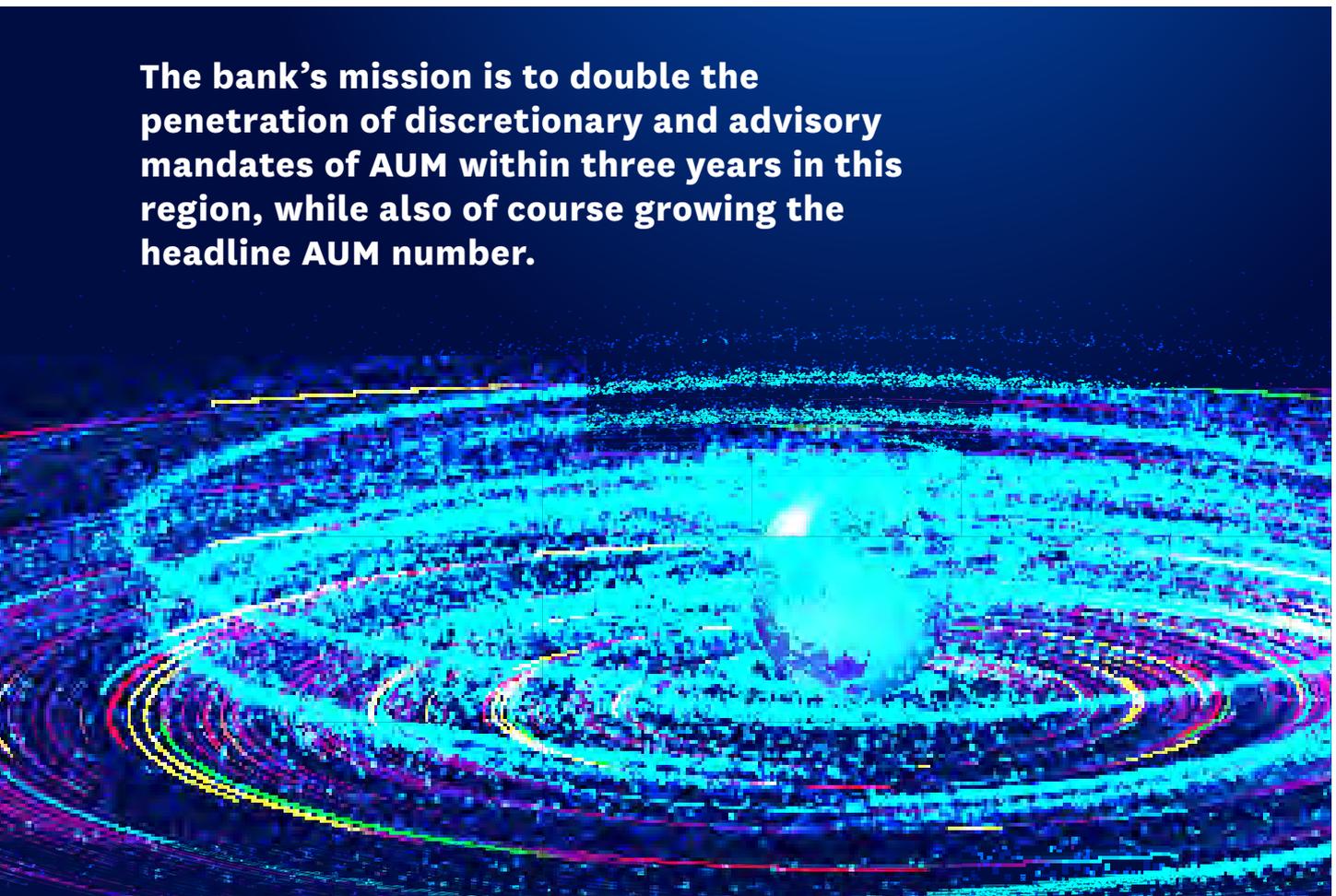


Credit Suisse Private Banking: The roadmap to recurring revenues

The bank's mission is to double the penetration of discretionary and advisory mandates of AUM within three years in this region, while also of course growing the headline AUM number.



Executive summary

SJ Hwang, head of Credit Suisse Private Banking's Products and Solutions Group for Asia Pacific, is a firm believer in the value of education. Why? Because education helps produce new ideas and new solutions. In his prominent role at the bank, Hwang is overseeing the refinement of the offerings for the bank's high net worth (HNW) and ultra HNW (UHNW) clients in the region, with a core mission to help boost recurring revenues by building out the penetration of discretionary and advisory mandates, in addition to several other initiatives.

This is not easy, as Asia's HNW clientele are less inclined to pay advisory fees and like to self-direct the transactional side of their wealth and portfolio management activities. But Hwang and colleagues have devised a multi-faceted strategy to gradually, over the coming years, build the Discretionary Portfolio Management (DPM) and the Advisory businesses and aim to double the penetration of assets under management (AUM) the bank maintains in the region.

One key element is to keep educating over 600 relationship managers (RMs) the bank has in the Asia Pacific region, to make sure they are well-equipped with a full understanding of Credit Suisse's House View - Strategic and Tactical Asset Allocation, Capital Market Assumptions, Economics, Investment Themes/Supertrends.

Hwang has great hopes for the Portfolio Advisory business "Credit Suisse Invest", which in effect retains the discretionary element while allowing the client a certain degree of control. Through "Credit Suisse Invest", the bank and the client work off risk-calibrated asset allocation strategies. Although only launched some 14 months ago, Hwang believes the AUM for this segment will within three years rise to USD 15-20 billion from the USD 4-5 billion already gathered since inception.

In the near-term, the bank must adapt to the rising interest rate environment, which has lessened the demand for the profitable leverage play of recent years. And Credit Suisse, like other private banks, must adapt to the higher volatility in the mainstream financial markets, which has driven clients to boost cash holdings and reduce transaction activity.

Hwang and colleagues have several key priorities for the year or two ahead. These include boosting the bank's recurring revenues; advancing and enhancing the advisory process and mandates; and driving product innovation, in such areas as sustainable investing.



SJ HWANG IS HEAD OF CREDIT SUISSE Private Banking's Products and Solutions Group for Asia Pacific. He sat down with Hubbis to outline his vision for the bank's private banking offering.

Hwang has had a lifelong passion for education. When his son went off to boarding school at St. Paul's School and subsequently to Harvard College in the US some years ago at the age of 13, Hwang and his wife, living 9000 miles away from their son in Hong Kong, quickly got involved as regional Asia co-chairs for the Harvard College Parents Fund.

"We see education as the future of our global society," he says, "and we are lucky enough to be able to help support a community that through generous giving enables these institutions to further the limits of education."

Today, Hwang's passion for learning extends to his role as a Managing Director of Credit Suisse and Head of Products and Solutions for Private Banking Asia Pacific. In this role, Hwang is a champion of the need for ongoing education and training for the bank's roughly 600 relationship managers (RMs) in the Asia Pacific region, to keep them fully abreast of Credit Suisse's House Views on the markets, economies, asset allocation and risk management perspectives.

Enabling and encouraging

"We have now set up regular sessions in the region for the Client Investment Performance/CS House View initiative which is part of the broader effort to upgrade education, skills and to gradually encourage the RMs to migrate clients towards discretionary and advisory business that will be more recurrent in nature and more predictable."

Getting Personal

SJ Hwang is Managing Director of Credit Suisse and Head of Products and Solutions for Private Banking Asia Pacific. Born in South Korea, Hwang's father was a career diplomat, giving him exposure from an early age to a variety of emerging market countries in Africa and Asia. He attended Yonsei University in Korea and then gained his MBA in the US from the University of Chicago.

Hwang first worked at a Korean conglomerate and then briefly at Goldman Sachs in Hong Kong, before joining Credit Suisse in 1993, spending most of his career with the bank building up the institutional research team in Asia Pacific and also as head of equities distribution for non-Japan Asia. In 2010 he took on the role of CEO and global head of equities at Samsung Securities in Hong Kong but then re-joined Credit Suisse in 2012.

His return to Credit Suisse was in many respects a return home, even though it was in a different area of expertise. The move into private banking came through the then-CEO out here and was a natural for me with my background, he explains.

It has been a fascinating journey, working with UHNW clients and being part of the growing sophistication of this industry in the region. My background running the research operation in the region and also in equities distribution is immensely helpful in understanding the big picture of what drives Asian economies, corporate profitability and also personal wealth generation.

Hwang's passion is education. This has been a lifelong passion of mine, so I seek out peripheral roles around education and take my roles seriously, allowing me I hope to provide sensible, grounded advice to people in this area.

Another of Hwang's distractions is golf which like wealth management requires all the elements of the game to be functioning well at the same time driving, iron play, chipping putting and so forth. I seldom get these elements right on the golf course, but I do enjoy striving towards improvement, he says. His favourite course is in Hong Kong at Discovery Bay.

His wife Helena shares his passion for education, as well as being a successful entrepreneur who started a high-fashion brand and import/export business with major department stores in Korea.



SJ HWANG
Credit Suisse Private Banking

The bank's mission is to double the penetration of discretionary and advisory mandates of AUM within three years in this region, while also of course growing the headline AUM number. However, Hwang knows this is no easy task, this is Asia and it is a tough market in which to drive the private banking business more towards the increasingly discretionary and advisory model in Switzerland.

"We have a gradual mission to change mindsets and to encourage the RMs and the clients to engage beyond the pure transactional business," Hwang adds. "Of course, the transaction business is still very important for the bank, but for longevity, we want to drive the business towards diversified mandates, as they leverage the collective intellectual framework and power of the firm - the best of what the firm has to offer globally."

Staying on top

When Hwang sat down with Hubbis to outline his vision of global private banking offering and its manifestation in the Asia Pacific region, it is with this big picture in mind - how Credit Suisse should

position itself to remain at the cutting edge of wealth management in the Asia Pacific region in the years ahead.

"One of our fundamental objectives is that we want to upgrade the skills of our staff and also that of our clients towards more discretionary and advisory mandates," Hwang explains. "Education is vital for the clients as well, as we want to make sure they fully appreciate the virtues of long-term investing, of a professional approach to their wealth and to the diversification of their portfolios."

But this is not an easy task in Asia. "Sometimes," Hwang admits, "it is challenging as here in Asia clients really still like to retain control of every trade. We have to first convince the RMs and then get them to convert their clients, neither of which is easy. But we do know we are on the right track. For example, in a more volatile market situation, as we see this year, portfolio returns need to be balanced against managing the downside and protecting clients' principal."

Hwang believes the starting point for a bespoke private banking offering is identifying and understanding clients' needs. "We try to separate their needs into three broad categories, namely the client's business, his personal wealth and his personal and family situation and aspirations."

In the first category, this is where Hwang believes the bank can best combine the power of Credit Suisse as a global investment bank with its leading private banking expertise.

"On the personal wealth front," he explains, "we aim to be the trusted adviser to help our clients become better investors, basically by professionalising this and removing the emotion from the investing."

To be the trusted adviser

And on the personal side, Credit Suisse wants to build on its trusted adviser relationships to help the bank's clients focus on their personal longer-term objectives, as well as those of the families, including wealth transition planning.

Hwang explains that the cornerstone of the whole investment process revolves around the components of Credit Suisse's 'house view': the strategic and tactical asset allocation; the capital market assumptions; economics; investment themes; and finally, what the bank terms 'super trends'.

"These ingredients must be combined to help us take the emotion out of investing for the benefit of our clients," Hwang elucidates. "Our strategic asset allocation, for example, is determined by the capital market assumptions where we track about 90 asset classes globally, looking at the risk-return profile. We can then tweak that to give a tactical asset allocation which takes into consideration factors such as investment themes in the market, currency movements, sector aspects and other elements. The next step is for portfolio managers to populate each of these strategies with high conviction ideas."

Hwang added that regional and global investment committees then help refine the approach, their actual involvement depending on the mandate from the client. There are, he says, essentially three levels. The first is discretionary, where clients pass the asset allocation and transactions over to the bank. The second is what Hwang calls 'portfolio advisory', which takes the form of 'Credit Suisse Invest' where the bank and the client work on a predetermined strategy based on asset allocation, but where the

client retains a degree of control. The third is traditional transaction advisory, where clients buy and sell assets for their portfolios.

Hwang noted that Credit Suisse does not profess to get its market and individual asset calls right all the time, but that it adheres throughout to an approach that is fully institutionalised. “That is the key difference,” he says, “as the decisions are by analysis and investigation, not by reaction and emotion. Relative to benchmark, 80% of our Private Mandates outperformed on three and five-year return periods.”

Hwang says that the future for Credit Suisse will involve additional leveraging of in-house and external expertise. “We adopt an open architecture and we focus carefully on the selection of funds using internal and external resources and partners,” he explains. “So, for example, we will, of course, use research from other leading banks and houses to augment our selection and advisory processes. Our mission is to provide best of breed for our clients and stay on top of the developments in the market.”

Credit Suisse Invest - a success story

One of the solutions that Hwang believes differentiate the bank from competitors is the portfolio advisory service, or Credit Suisse Invest, which was launched in mid 2017. Hwang believes the early success is based on a number of factors: regular investment ideas, monthly portfolio quality reports, personalized asset allocation, technology-enabled solution via Credit Suisse’s Digital Private Banking, flat fee pricing and access to retrocession-free share classes.

Hwang also noted that Credit Suisse Invest offers a flat fee pric-

ing structure. “As a fiduciary, we want to be sitting on the same side of the table with the clients, so the flat fee option offers value.

Moreover, we provide clients with full transparency on product fees and possible retrocessions, as a matter of best practice, even though this is beyond the requirements even as laid down by the regulators. In short, we have made transparency a cornerstone of our business.”

Hwang says the bank wants to be ahead of the curve. From a client’s perspective, a flat fee takes away any incentives anyone might have to over-trade, or churn, a portfolio.

Road bumps to negotiate

There are nevertheless some nearer-term road bumps to contend with. For example, Hwang notes that the benign net interest rate climate of the years since the global financial crisis is changing now with geopolitical uncertainty, global trade tension, tightening global monetary policies from the central banks and rising rates.

“As such we have seen client deleveraging and derisking. Generally, after a remarkable Q1 this year for transactions, the higher rates and increased volatility in the mainstream markets have conspired to soften transaction revenue momentum, while recurring revenues have maintained steady robust growth,” Hwang reports. “This simply serves to reinforce our determination to further grow our recurring revenues through discretionary and advisory mandates, funds and other recurring revenue based investment solutions.”

As to Hwang’s key priorities for the next 12-18 months, these he says include growing recurring revenues; advancing and enhancing the advisory process and mandates; and driving product innovation. ■

Key Priorities

Hwang explains that in his role as head of products and solutions at Credit Suisse Private Banking he has several key priorities for the next 12-18 months. These include growing recurring revenues; advancing and enhancing the advisory process and mandates; and thirdly, driving product innovation, for example in the sustainability arena especially for the younger HNW wealth clients in the region.

Growing recurring revenues will be achieved by an ongoing and consistent programme of upgrading the RMs knowledge of Credit Suisse’s advisory process, to help the bank’s clients better understand its discretionary or advisory mandates. A total dedication to professionalism and transparency is at the forefront of this effort.

Additionally, the increased collaboration between Credit Suisse’s investment banking and wealth management experts will further build and cement links to the individual and family wealth clients that also control such a large portion of Asia’s listed and private companies.

Product innovation is an ongoing priority for the bank, as Hwang and colleagues tailor products and solutions to cater for the current and anticipated wealth clientele in Asia Pacific.