Delivering Investment Products & Advice to Clients – Time for a Re-think?

A group of experts gathered for the second panel discussion of the Hubbis Independent Wealth Management Forum to discuss the current issues facing independent wealth management organisations. Transparency is considered to be an important strategic consideration, although there were mixed views on the prevailing ethics in the industry, especially in relation to taking retrocessions. Embracing what technology can offer as well as ensuring performance is paramount and will help differentiate and increase the perceived value of the independent wealth management sector.

These were the topics discussed:

- *Transparency, Margins, Costs and Fees - what's changing?*
- *What are the changing requirements of the 'platform'?*
- *Do clients more readily accept the transaction (and possibly retrocession) model or the management/advisory fee model?*
- *How must indepdents tweak the investment models?*
- *What digital expectations do clients have?*
- *As transactional revenue reduces how do firms replace that revenue stream?*
- *What's the future of Discretionary and Advisory Portfolio Management?*
- *What's the role of technology and AI?*
- *Are Fintechs and Big Tech threatening the independent business model?*
- *How independent is independent?*

PANEL SPEAKERS

- **Damian Hitchen**, CEO, Middle East & Asia, Swissquote
- **Yai Sukonthabhund**, Partner and CEO, Crossbridge Capital
- **Rohit Bhuta**, Chief Executive Officer, Crossinvest
- **Alex Borissov**, Partner, Finaport
- **Edwin Lee**, Chief Executive Officer, Covenant Capital
- **Rachel Chen**, Head of Digital Wealth (dollarDEX), Aviva
- **Will Lawton**, Global Head, Quo

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THE KEY TAKEAWAYS

The value of independence

Smaller organisations are more able to work with and for the clients, which enhances credibility, and it is easier to build trusting relationships. The independent space is growing around the world because of this alignment of interests, despite increasing competition from Fintech and algorithmic trading.

Technology represents opportunity

While technological solutions can risk a race to the bottom in terms of fees, if these advances are correctly used in tandem with professional advice, technology can boost performance and make life easier for both advisers and customers.

Ethical dilemmas

Panellists had differing opinions on the ethical dilemma of retrocessions. Some argued that they are an easy option, while others felt they are simply unethical, or that they were too risky with changing regulations. Most advised eschewing them entirely, preferring an honest fee-for-performance model. Transparency was agreed by all to be the most critical factor.

Future goals

Delegates suggested several vital ways to help the independent space survive and thrive - alignment of interests between the adviser and customer, open architecture to enable flexibility, investment expertise and specialisation.

Justifying fees

Managing customer expectation is about performance. Delivering consistently means that fees are justified in the modern retrocession-free model from a value-added perspective.

A place for both big banks and independents

The independent firms are far more willing to embrace the digital opportunities that now exist, while the larger banks are more constrained. It is a great time for independent asset managers, as panellists predicted that banks may choose to be distributors and let the independents focus more upon discretionary.

ALEX BORISSOV
Finaport

PANELLISTS AT THE RECENT INDEPENDENT Wealth Management Forum began by focussing the challenging environment in the independent wealth management space. "67% of people in a recent survey did not even understand what the independent space means," a delegate explained. "That poses a real challenge when differentiating ourselves and providing value to the clients."

"To most clients, a larger bank means security," another expert added, "however smaller organisations are more able to work with and for the clients, which enhances credibility, especially if aligned with not taking retrocessions or commissions and maintaining complete transparency. We are solution-providers, we are truly independent. These characteristics set the smaller independent organisations apart from the bigger banks."

The lay of the land - where are we now?

In considering how the industry has evolved over the last few years, an attendee pointed out that change has been a major factor. "We began with a traditional advisory model as well as some discretionary mandate solutions, and over the last 13 years the level of competition from Fintech and algorithmic trading has increased," he explained. "Access to both private markets as well as the more traditional mainstream markets have also gained importance as clients look for increased yield on their investments. Our prime objective is to seek out opportunities and provide solutions to stay on top."

EDWIN LEE
Covenant Capital

DAMIAN HITCHEN
Swissquote

"If you look at the current situation," an expert offered, "an investor can use a low-cost platform to buy a product much more cheaply than they would get it by going through an adviser. People are getting wise to this, and there is a risk of a race to the bottom for companies to offer the cheapest products. However, there has always been a demand for professional face-to-face advice, and high-quality research and skills must be paid for. This is where the real value is for us, rather than in the technical side of digital product purchase."

Another attendee had a different viewpoint—"We do try to bring low-cost solutions to the public through a robo-advisory platform," he explained, "as it is not just the high net worth individuals who are looking to save money. We try to understand what people want and provide solutions, including partnering with other organisations if necessary."

ROHIT BHUTA
Crossinvest

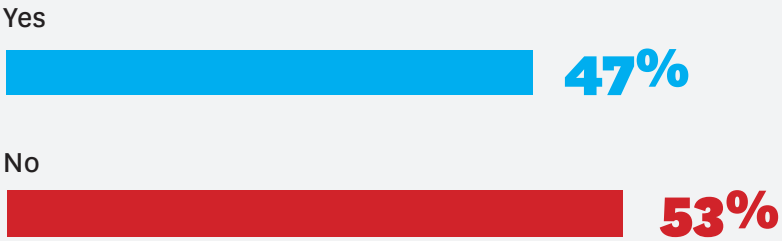
A question of ethics

Regarding the problematic subject of retrocessions, panellists again had differing viewpoints. "It boils down to ethics," pointed out one expert. "I am not against retrocessions, but it should be transparent, the client should know exactly what they are paying."

An attendee agreed. "Globally," he said, "we know that some regions have banned retrocessions or what some call 'inducements' so that clients' interests are better looked after. While we can only guess when and if that will hit our region, we do believe that it is the right thing to do, and as independent wealth managers, we can choose to take the lead by being transparent with our fees and by making sure our clients are the ones that pay us, not the fund managers."

An expert then explained that their no-fee platform model accumulates thousands of high net worth customers and that they made the choice to

SHOULD WE BAN FRONT END FEES IN ASIA TODAY?



Source: Independent Wealth Management Forum 2019 - Singapore

accept retrocessions as an alternative way to make money to fees. "It is convenient and works for us," they asserted, "but we strive for transparency with our clients."

"Attracting clients by offering zero fees is unsustainable, a business needs to run itself. The world does not work like that," argued an expert. "Instead of undercutting with low fees, we address the risk profile, the return and other factors in a systematic, methodical way. This is where higher-level digital technology integration comes in."

"The fee and retrocession issue is no longer up for debate, as there are now legal constraints and digital transparency requirements in many jurisdictions," another expert added. "Clients are also demanding transparency, not only momentarily but retrospectively. Clients can sue not only for the loss of income ten years ago, they can also sue for loss of main capital that has been invested. That has huge implications going forward on limiting your liabilities in terms of risking your company."

What is in store for the future?

So, how can the independent sector thrive in the times ahead? "There are three key issues in moving forward," an expert clarified. "Firstly, there needs to be alignment between the clients' needs and what the wealth manager is offering, secondly there must be open architecture to allow the flexibility to meet those needs, and finally wealth managers need the investment expertise to assess the many opportunities."

Another delegate then countered that trying too hard to wrap all the different roles into one can cause problems in a small independent organisation, and that it is more effective to segregate those roles and keep a narrower focus of expertise.

Deliver what you promise for commensurate rewards

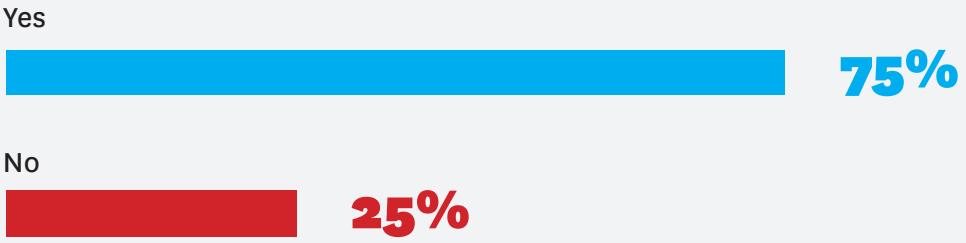
"Managing customer expectation is all about performance," a delegate pointed out. "I am happy to pay high fees if I am getting high performance. If we manage our performance expectations, if we deliver consistently year after year is there any discussion to that? In the retrocession-free world, we have to justify why we are a fee-based business not from a conceptual perspective but from the value-added perspective. So, we need to concentrate on that, on secure products, on better results, on giving access to options that did not exist before. New frontiers, new developments, that is the objective."

"As an industry, we need to be cognizant of the fact that we all have businesses to grow and therefore we all have to make revenue, so we should be concerned about the race to the bottom in terms of fees in the industry," another expert added.

Integrity, honesty and performance moving forward

"There have been some enormous fines handed out to banks recently in France and other places," observed a guest. "It is difficult to make money in this industry, and the added liabilities are creating immense downsides. Will the big banks lose

SHOULD THE REGULATOR FORCE YOU TO DISCLOSE ALL FEES TO YOUR CLIENTS?



Source: Independent Wealth Management Forum 2019 - Singapore

their appetite for wealth management because of this, and does it therefore represent a good opportunity for smaller wealth managers who are nimble and clever?"

"The independent environment is growing around the world and I see that happening because the clients' interests are aligned with the independent asset managers," an expert answered. "For them, payment is based upon performance, so absolutely the opportunity is there. The independent organisations are far more willing to embrace the digital opportunities that now exist, while the larger banks are more constrained. It is a great time for independent asset managers."

An attendee then explained that there are four principles with which that every wealth manager should operate. "Be honest, be ethical, be transparent, and do the right thing for the client," he stated. "There is no need to complicate it any further. When regulations are created, people tend to try and find loopholes. Banks will probably choose to be distributors and let the independents focus upon discretionary. I think that is where we are headed which is promising for the industry."

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The panel concluded with an attendee light-heartedly noting that in Hong Kong when the audience of a wealth management forum was asked if people in the wealth management industry operate in a more ethical way today than in comparison to ten years ago, 95% of the people had said no. But he joked that perhaps here in Singapore people are significantly more ethical, or maybe they did not know the difference. ■

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