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Fast forward to thriving independent wealth management in Hong Kong

The Hong Kong independent wealth management industry has grown apace since the global financial crisis of 2008/9. But how do these smaller firms differentiate themselves, how do they convince clients of their independence and integrity? And can they make enough fees to prosper?

These were the topics discussed:

- *Where will Hong Kong's independent wealth management industry be in 2020?*
- *Whats are the challenges and opportunities?*
- *Independent? Some are more independent than others.*
- *What can we do as an industry to refine and drive a clear value proposition?*
- *What are the challenges of hiring and retaining talent?*
- *What types of bankers are best suited to this type of model?*
- *How should independent firms decide which type of business they should be in?*
- *Where will the next generation of independents come from?*
- *What's the development of independent wealth management in each of Singapore and Hong Kong?*
- *What are the respective Associations in each city doing to help drive larger, more inclusive industries?*

PANEL SPEAKERS

- **Stuart Dowding**, Managing Director, First Names Group
- **Jessica Cutrera,** Managing Director, Capital Company
- **Cyrill Arzner**, Chief Executive Officer, Swiss International Asset Management
- **Philipp Piaz**, Partner, Finaport
- **Riccardo Lehmann**, Managing Director, Swiss-Asia Asset Management
- **Kenneth Ho**, Managing Partner & Founder, Carret Private
- **Tobias Bland**, CEO, Enhanced Investment Products

INDEPENDENT ADVISERS ARE NOW ENJOYING a period of diversification that should, they hope, lead to a greater migration of clientele from the typical private bank to their more dedicated, entrepreneurial, tailored service models. Refining and differentiating the value proposition is a key priority for the independent wealth advisers.

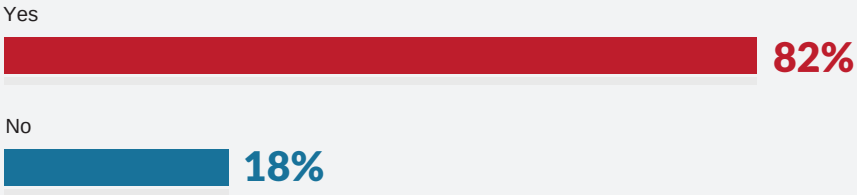
But as many challenges face them as opportunities. How do they attract more talent from the established global and regional private banks? And how can they gain additional traction with the regulatory community? Can they keep pace with technological innovation?

STUART DOWDING
First Names Group

hubbis

JESSICA CUTRERA
Capital Company

DO YOU FEEL POSITIVE THAT THE INDEPENDENT WEALTH MANAGEMENT MODEL WILL GROW DRAMATICALLY OVER THE NEXT 10 YEARS?



Source: Hubbis Independent Wealth Management Forum 2017 - Hong Kong

Some of their business models are purely fee based, spurning any form of investment product, retrocession or transaction-based compensation in preference for an AUM [assets under management] fee, or a flat fee for financial planning and discretionary asset management.

"We are really focusing on creating a more successful investment experience for clients and how you apply that to client portfolios," explained one panellist. "There are lot of different business models for our industry in Hong Kong but the most common theme perhaps is increased transparency. We feel passionately that clients must know how the people that advise them are compensated."

CYRILL ARZNER
Swiss International Asset Management

Bigger does not mean better

Another panellist explained that after the 2008 fi-

nancial crisis, private banks simply aimed to get bigger, but not necessarily better. “So what I wanted to do was build a practice that was aligned with the client. We too have been focusing on the fee driven business, but the core focus of China demand that we create a value proposition differentiated not only by performance but by sourcing and identifying outstanding products and providing corporate finance solutions.”

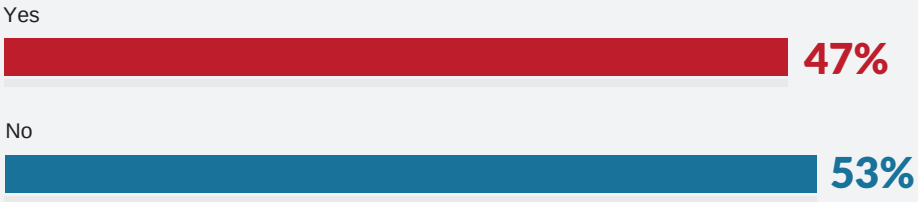
The theme of the difficulty of servicing clients within private banks was taken up by another expert who previously worked for a leading bank. “The attention as a banker you are actually allowed to spend time for real client work has decreased to a level where it is just no longer possible to do whatever it is the right thing for the client. We, for example, as an independent have the time to source investment products that for a private bank would be too small, too marginal. It is also considerably more fun to go and find these precious opportunities.”

So many of the private banks direct their clients towards the offerings of the major global investment management firms - all household names for anyone who invests in the financial markets. They rebate back to the private banks tens of millions of dollars of retrocessions each year and that is not 100% transparent to the clients,” explained one panellist. “As an independent adviser we are not rebate retrocession driven, we try to be 100% transparent.”

One of those present said it was encouraging that as a smaller asset management company with half a

PHILIPP PIAZ
Finaport

DO YOU THINK A SIGNIFICANT NUMBER OF PRIVATE BANKERS WILL JOIN INDEPENDENT FIRMS IN THE NEXT FEW YEARS?



Source: Hubbis Independent Wealth Management Forum 2017 - Hong Kong

RICCARDO LEHMANN
Swiss-Asia Asset Management

billion dollars AUM it was a constant struggle to be recognised by the private banks, whereas the independent advisers have much more flexibility to look at innovative products.

Striving to achieve transparency

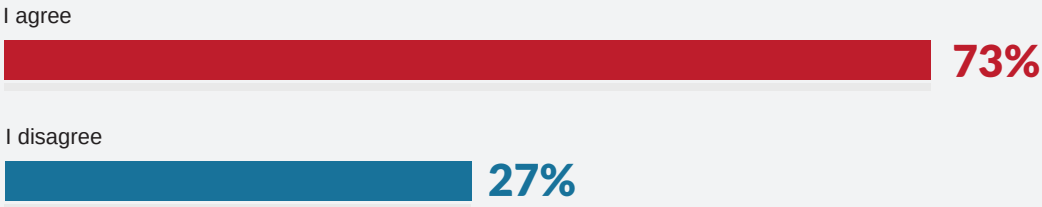
"As a purely independent trust business we do not take retrocessions or commissions," said another expert. "That astonishes many people we meet but we say we focus on the client. Of course, for clients to work with a big-name bank has advantages, but the independents can offer more dispassionate advice and choices as they are not tied down so much."

Another panellist explained that the need to focus on product targets or target name funds, structures and custodians detracts from the ability to focus on the client's goals, their tax position, key factors that will drive their financial future.

"This is driving growth of the independent wealth sector," agreed another panel member, "but a key challenge remains to attract good quality bankers from the private banks. And the bankers need to understand what types of clients will turn to the independent advisers, as it is not likely to be the client who is content with discretionary management at a global bank."

Additionally, to take the leap to independence the banker needs to have sufficient financial wherewithal

THE PANEL HAS REPEATEDLY SAID THAT PRIVATE BANKS DON'T ACT IN THE BEST INTERESTS OF THEIR CLIENTS.



Source: Hubbis Independent Wealth Management Forum 2017 - Hong Kong

KENNETH HO
Carret Private

and expertise to be able to earn their own money. But assuming sufficient confidence and financial whetherwithal to weather any adversity, the opportunities are there, for example to offer such a broad range of opportunities to clients that they are then able to attract a whole new range of clients.

Technological innovation must not be ignored

Technology is a vital area for expansion as independent asset managers need to have a product solution as well as a technological solution. Fintech and other new software innovations will in coming years revolutionise the way clients interface with their advisers and radically alter the way they transaction, with major implications also for the custodian industry. But for smaller firms this all represent a financial and managerial challenge that is not to be underestimated.

But how does the independent firm 'prove' its worth? "I would say an asset management company is more like a tailor," explained one panellist. "We are tailors not branded shops in a mall. We take the time over intricate details."

Tailored solutions

Another added: "We believe that when a client goes to the independents they get a person who actually takes the time to understand what the client requires." Regulatory concerns and compliance are other core areas of focus for smaller firms.

"One of the most important objectives for the AIAM [see box article] is dialogue within the community and then being able to share some of that feedback on a consolidated, no names basis with the regulator. But it is a challenge to achieve that dialogue with the regulators."

"I believe that to have a prosperous financial environment," said another adviser, "the regulator or the regulatory bodies as well as the market participants should also work hand in hand, should be on a professional level and exchange ideas and information. Singapore is more advanced in this area than Hong Kong due to relentless effort from the various stakeholders."

The independent wealth community in Hong Kong has set out its stall to be transparent, to add value and to be as compliant as the global and local markets require. Communication of its end goals and value proposition are essential to its continued momentum. At the end of 2017 the sector's report card was encouraging as the members grappled positively with growth amidst the many market challenges. ■

TOBIAS BLAND
Enhanced Investment Products

THE REGULATOR OR THE REGULATORY BODIES AS WELL AS THE MARKET PARTICIPANTS SHOULD ALSO WORK HAND IN HAND, SHOULD BE ON A PROFESSIONAL LEVEL AND EXCHANGE IDEAS AND INFORMATION

AIAM AIMS FOR TRANSPARENCY, STANDARDS AND DIALOGUE

The Association of Independent Asset Managers of Hong Kong (AIAM) was founded in 2015 by practitioners who were pioneering the concept of independence within the local wealth management industry.

AIAM's objectives included enhancing public understanding of the unique business model of Independent Asset Managers (IAMs), while at the same time working to enhance their reputation and professionalism.

Protection of investors and the combating of unscrupulous business practices in wealth management industry were key drivers. Establishing and communicating a code of ethics and best practices were priorities, as well as being a unified voice to dialogue with regulatory authorities.

While not as far advanced as Singapore, there is cause for optimism that the independent wealth sector in Hong Kong is winning its campaigns on many of these fronts.