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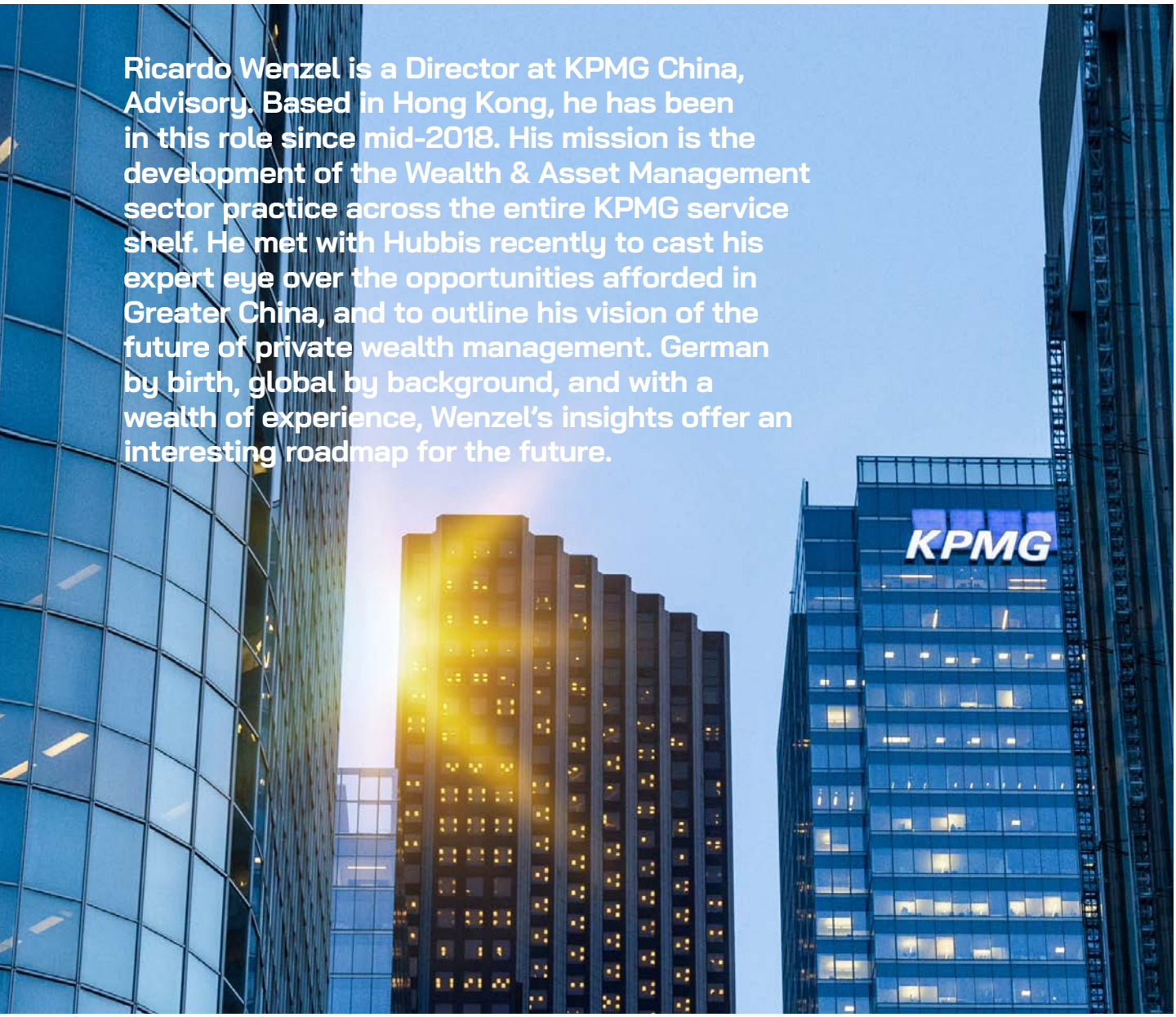
Greater China Beckons for Private Banks and Wealth Managers Prepared for the Challenges Ahead



Ricardo Wenzel is a Director at KPMG China, Advisory. Based in Hong Kong, he has been in this role since mid-2018. His mission is the development of the Wealth & Asset Management sector practice across the entire KPMG service shelf. He met with Hubbis recently to cast his expert eye over the opportunities afforded in Greater China, and to outline his vision of the future of private wealth management. German by birth, global by background, and with a wealth of experience, Wenzel's insights offer an interesting roadmap for the future.

KPMG is a global network of professional services firms providing Audit, Tax and Advisory services and operating in 147 countries and territories and with more than 219,000 people working in member firms around the world at the end of 2019. KPMG China has a vast footprint, with 23 offices across 21 cities and with around 12,000 partners, directors and staff across the major cities of the country.

The firm dates its history in China back to 1992 when KPMG became the first international accounting network to be granted a joint venture licence in mainland China. KPMG was later also the first among the Big Four in mainland China to convert from a joint venture to a special general partnership, as of 1 August 2012.

Based in Hong Kong, Wenzel's role for KPMG China is sector coverage for wealth and asset management and is part of the leadership team of the recently created KPMG China Wealth & Asset Management Centre of Excellence. "My main focus is the wealth management side," he reports, "as that fits my background ideally, so briefly my priority task is actually to deploy the firm across service lines, those service lines covering predominantly technology, operations, strategy, deal advisory, regulation and risk for a dedicated wealth management sector offering."

Ricardo Wenzel's Key Priorities for 2020-2021

The main priority right now, Wenzel says, is clearly for the world to come through the Covid-19 crisis and emerge the other side and assist our clients here in the region in doing so.

"And in the more normalised times that we all hope and believe will return," Wenzel comments, "my priority number one is to build out the engagement with existing and new wealth management clients in the Greater China area, which for us also includes Hong Kong SAR and Macau SAR; in all those markets, we are thoroughly dedicated to growing the business in the wealth and asset management sector, which is a strategic one for our firm globally."

The second core mission is specific to KPMG China, namely, to increase the firm's activity from a cross border perspective, which Wenzel says, of course, goes hand in hand with growing the business.

"That means helping clients to expand right into China and vice versa as well; right now, the push is obviously more from offshore to onshore, largely due to the scale of the opportunity and because of regulatory requirements being eased around ownership requirements and restrictions as well as new onshore product regulation which intends to bring the domestic playing field closer to international standards," he elucidates. "It is easier now for foreign parties to assert more control in China, and there is more willingness from a regulatory perspective to take in foreign players than before, so definitely the opportunities are significant. But important for is also the growing trend onshore to offshore."

The third core priority is to expand and deepen our activity in helping our clients with their digital transformation and the required change management around that.

SETTING THE SCENE

To set the scene, Wenzel starts by referring to a report KPMG put out in December looking broadly at the wealth management market and its future in Hong Kong. KPMG's second annual Hong Kong Private Wealth Management report was jointly authored by the Private Wealth Management Association (PWMA) and KPMG China. The report offered an in-depth view of the current industry landscape, growth opportunities and trends along important themes of technology, regulation and talent.

The report is largely based on an online survey of PWMA member institutions as well as interviews with industry executives in Hong Kong. For the second time, a broad client survey was conducted with more than 250 clients of PWMA member institutions to gather their views on the industry. The survey was conducted from June until mid-July 2019, well before the Covid-19 outbreak that has turned the world upside down.

"The findings at the time were interesting," Wenzel comments, "as they showed a more pessimistic outlook than the previous year, with macroeconomic headwinds impacting assets under management (AUM) in Hong Kong and the overall outlook on

RICARDO WENZEL
KPMG

profitability. However, the industry has maintained positive net inflows and the aggregate return on assets from the sector outperformed major indices. The findings at the time revealed there were still opportunities for strong growth in the future."

Wenzel notes that the survey highlighted two areas that were the subject of key recommendations in the 2018 PWMA-KPMG China White Paper ('Hong Kong: A leading global wealth management hub of the future') and which provide the biggest opportunity for growth in the immediate future.

TWIN CHALLENGES: CHINA AND TECH

First, the ongoing development of the Greater Bay Area is a major opportunity for Hong Kong, as an offshore wealth centre, to better access wealth created in mainland China. Second, an increasing number of respondents cited attracting more family offices to Hong Kong as the main opportunity for growth.

"And in relation to technology," Wenzel reports, "we found that an increasing number of industry respondents believe their technology platforms are not sufficiently geared towards addressing client and employee needs; they pointed to the implementation of regulatory requirements diverting limited technology resources away from developments that might enhance the client experience and operational efficiency. However, the gap is growing at a time when clients' expectations around digital offerings are increasing."

Getting Personal with Ricardo Wenzel

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He also has a core speciality on the technology side, having worked as a Partner for roughly two years previously at Ventris Capital Advisors, a Venture Capital start-up he helped co-found and that focused on emerging B2B technology companies covering the spheres of FinTech, Blockchain and Cybersecurity in the US, Germany and Israel. During those two years, he was also involved in capital raising from Asian Family Offices and the acquisition of venture advisory mandates.

Prior to Ventris, Wenzel spent most of his career at UBS AG in middle and front office roles in Zurich and Hong Kong, where his last three years was as Head of Asset Servicing Greater China, spanning global custody, securities lending, private label fund advisory and portfolio analytics.

In his early career from 1998 to 2001, Wenzel spent 3 years in finance and accounting at a Swiss-Chinese joint venture of the Liebherr Group with the Xugong Group in Xuzhou, China. Wenzel came the first time to China in 1993 for one year to study Mandarin Chinese at Guilin University.

His university studies include a degree in Finance & Accounting at Ravensburg in Germany, and the later completion of his MBA in Finance at the University of Edinburgh in 2003.

Wenzel enjoys water sports such as outrigger canoeing and hiking the Hong Kong countryside. Travels in more normal times mostly sees him around Asia in his favourite place Vietnam. He highlights a 4 weeks long hike along a forgotten section of the old Ho Chi Minh trail through the Annamite Range in Laos and Vietnam. "It was the trip of a lifetime, self-planned, on foot with a good friend, through unbelievably beautiful nature which however still bears the scars of past calamities," he recalls.

The survey's findings also highlighted the challenging regulatory environment as the most significant constraint on Hong Kong's attractiveness as a private wealth management hub, with source of wealth, investment suitability and disclosure requirements topping the list of regulatory pain points for clients. "Interviewees did, however, praise Hong Kong's regulators for their ongoing efforts in engaging with the PWM industry to implement practical solutions to resolve key regulatory issues," Wenzel comments.

of the report - shortly before Covid-19 raised its head - presented appealing avenues for growth. "Firms that are able to create and execute comprehensive strategies to further penetrate the mainland Chinese market and attract family offices will be well placed for long-term success," he explains. "The ability to leverage emerging technologies, navigate the regulatory environment and deliver an enhanced experience, not just for their clients, but also for their employees, will also be a key factor for success."

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Another area of concern was the observed lack of relationship managers (RMs), which remains a critical and key talent gap, with a drop in reported numbers in 2018. "Technology enablement is expected to help attract and retain talent by driving administrative efficiency, allowing RMs to focus more on higher-value activities," Wenzel remarks. "However, clearly this can only go part of the way, and the industry needs to urgently address talent supply issues."

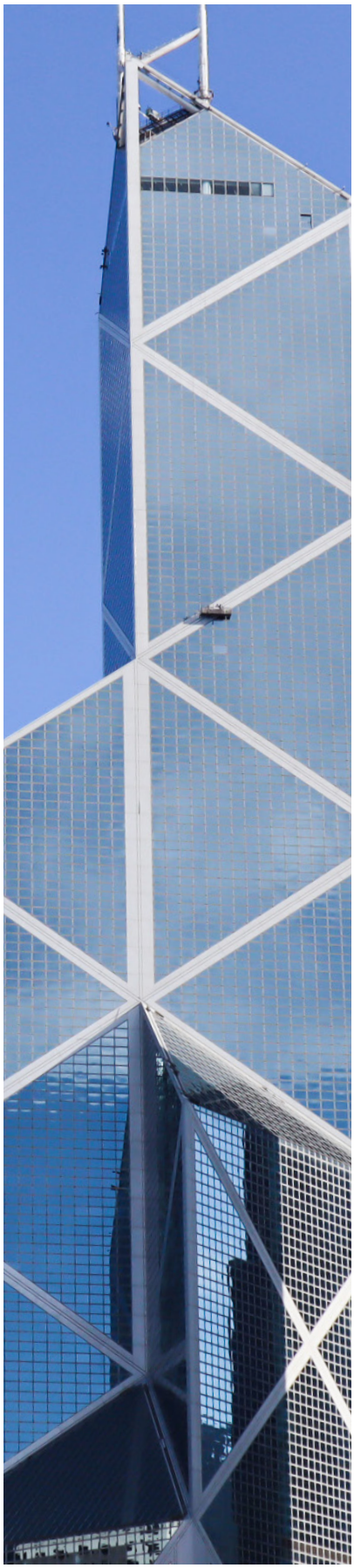
OPPORTUNITIES AND HURDLES

Wenzel also points to the new opportunities that at the time

When challenged to mine deeper into the private wealth management landscape of the future, from his perspective, Wenzel agrees that the basic transactional and custody services are today increasingly being commoditised, and that essentially a customer does not need the help of a private bank if his or her investments are largely self-directed and plain vanilla, and if their financial education, insights and knowledge are such that they do not really need handholding.

HORSES FOR COURSES

"Those types of clients do not actually need to pay more for the



private bank route," he says, "but if they have more complex needs, perhaps in terms of more bespoke structured products, segregated account management or access to alternative investments and so forth, then there is clearly more justification to pay fees. Accordingly, a need-based client segmentation has become much more relevant today." As he notes: There might be an ultra-HNW client who only requires custody, and simply wants access to online execution, who does not even want to deal with an RM at a private bank and hence would not need the Rolls-Royce features of an expensive UHNW setup.

Another core reason to work with banks or wealth management firms might relate to family needs, such as family advisory, family governance, or estate planning. "Those are all services which you don't really conduct through some online portal," he comments, "so for the upper tiers of wealth and even for some of those self-directed clients, a hybrid model is very important, so that the more bespoke services can be neatly combined with more plain vanilla execution and custody via digital solutions and platforms."

THE PARTNERSHIP MODEL

Wenzel considers the path of revenue generation, noting that widespread fee erosion across private banking and in the asset management space is leading to greater focus on cost reduction and a trend toward partnerships in order to access new revenue pools without huge investment to do so. "We are seeing more partnerships between major and medium-sized private banks, focusing on China and Southeast Asia, even on Japan," he reports. "This is all about access to new onshore revenue pools, driven by the quest for end clients, with the international partner bringing their brand, their advisory, risk management and investment expertise, greater global access, and so forth, and the onshore partner client base and local market expertise, ideally as a fair balance of advantages that both partners bring to each other."

Wenzel says the degree of closeness varies from situation to situation, moving between a plain partnership agreement to a formalised joint venture to outright purchase of an institution via M&A.

MORE CONSOLIDATION EXPECTED

He elaborates on the M&A angle, noting that there are no mega deals taking place as yet, but there is a broad consensus that in order to achieve economies of scale and improve cost-income ratios in the industry, consolidation will be an ongoing process. "Scale is essential," he states, "and right now basically all of the private banks are not yet running a scalable business model, so they need both more technology and more efficiencies throughout their operations in order to improve cost/income ratios. Clearly, this will have a significant impact on the landscape. This is especially true as the regulatory environment is now remarkably demanding, with the regulators increasingly focusing on best execution, transparency, conduct, conflicts of interest, greater accountability, so retrocessions, for example, will very evidently either disappear or be disclosed here in Asia, following the European model, with an obvious consequence for margins."

All this leads to the inevitable question as to whether private banks survive, and if so, how they can do so. "Either you build scale and build a massive asset base - and here maybe from a ROA perspective those returns are declining but still generate good revenue from an absolute perspective - or if you do not have the scale, then you must prove the quality of advice, service and products you offer within a specific niche or client segment.

WORKING IN TANDEM?

Wenzel observes that for quality of advice to prevail, the banks have to reconcile the potential conflicts of interest between the client and the bank. "There is inevitably some tension in there," he observes, "where for example the banks have to be very careful not to get into their weekly or monthly calls with clients pushing the house view, the preferred product or solution unless they are absolutely positive that this is in the best interest of the client. The typical what I would call 'old school' type private banking also has to adapt to the NextGens and evolving client expectations, they need to become comfortable with technology, not only as users but also from client perspective, and also to understand that the CA alone no longer 'owns' the client exclusively, that model is over, or soon will be."

The private banker of the foreseeable future, Wenzel believes, is a different animal with different behaviour. "They would be more generalist who does not profess to know all the answers but is willing to orchestrate with the organisation to achieve the best content and outcomes for their clients," he predicts. "They will have to be comfortable with and understanding of the role technology plays in enabling client interaction, be it around trade and order management, portfolio analytics and reporting capabilities, client communication, e-docs and so forth.

"They will be efficient enough to actually free up their time using technology and other expertise within their organisations to help promote more qualitative, higher-level discussions with clients, rather than seeking to transact and engage with clients for things those clients could easily do themselves."

Wenzel's vision of the future of private wealth management in his markets will have to wait on ice for a time, while the globe tackles Covid-19. But evidently, from his insights and experience, there are both great challenges and exciting opportunities ahead. ■