

‘Honesty is best policy’ in dealing with HNW clients

Executive summary

Harmen Overdijk is a 20-year veteran of the private banking business, and is the founding partner of The Capital Company. Based in Hong Kong, his company is an independent asset management firm offering global as well as Asia-specific investment advisory and related services to international investors. In a recent interview with Hubbis CEO Michael Stanhope, he shared his insights on the shrinking pool of private banks in Asia, what challenges wealth management firms in Asia are facing today, and why transparency and honesty is always the best policy in dealing with HNW clients. Overdijk also advises wealth managers that they should define their value propositions and core competencies if they want to move towards fee-based services.



HARMEN OVERDIJK
The Capital Company

HARMEN OVERDIJK, FOUNDED PARTNER OF THE CAPITAL COMPANY, observes that the biggest challenge for independent wealth managers and private banks in Asia is that “The market mindset is slowly changing, but wealth service providers here are still unsure of how to adjust to this.” He points out that even most of the latest digital offerings, whether apps or web applications, are merely offering existing services, but in a digital format.

“That in itself doesn’t solve the fundamental problem of the wealth management business model in Asia, which is based on the way people in places like Hong Kong and Singapore have done business for many years; it is very transaction-driven,” Overdijk explains. “This is very common with first-generation wealth – and that business model isn’t inherently very transparent.”

He says that this business model is slowly disappearing all over the developed world, and not only in the wealth management business. The regulatory reforms of the EU's recent Markets in Financial Instruments Directive (MIFID II) have been specifically aimed at offering greater protections for investors and injecting more transparency into all asset classes. These reforms have completely changed the way investment advisors conduct their businesses, making the cost of services much more transparent for clients.

Overdijk stresses: "None of these regulations being put in place says you have to charge any less for your services, they simply make it clear to your clients what you are charging, and what you are charging it for." He believes this transparency is very important, and that it has rightly become a discussion point for many wealth management firms in Asia. "The problem is not whether to move; rather, it is a problem of which direction to move to."

He observes that it is clear many firms in Asia want to move to a fee-based advisory or portfolio management service, but the core problem many wealth managers face is that this move is hard to sell to their clients, because the offerings that have been developed in the region are simply not meeting clients' needs.

Wealth managers 'should clearly define value propositions and core competencies'

Overdijk adds that the key question wealth managers and organisation should ask is "Where am I adding value?"

"The problem is that many banks say "We can effectively do anything you can think of for you", he explains. "But that's not really true. Maybe they can, but they can't do it all well."

He believes that wealth management firms and private banks need to be more specific on what their strengths and core competencies are, and focus on that client segment.

He continues: "I strongly believe this is going to change much quicker than we think, and that is mostly thanks to the latest developments in the mainland China market. If I look at the market there, it is developing much more quickly, and in the direction I think the Asian wealth management industry as a whole should move to."

"To a certain extent, it is much more transparent, much more digital – but it is not merely about digitalising the tasks we have been doing for the last 30 years, but offering a new and different approach

to investment. That should be the way here in Hong Kong as well." Overdijk says that if companies in Asia want to offer fee-based advisory services to clients, they should approach this from a completely different angle from the current transactional models of today.

"If you want to merely provide discretionary portfolio solutions, you can offer the more long-term portfolios that are suited to clients who want to build their pensions," he says. "But, we know there is also

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an increasing number of clients who want to be more specific, who want more excitement in their portfolios. So let's build an offering for that client," he says.

"But I haven't seen that with any of the wealth management firms in the market at the moment."

However, Overdijk admits that this is easier said than done. "And that is where firms need to think about why they might not be successful in selling a fee-based service."

He also believes that these changes should not come about as a result of regulatory incentives, but from companies being able to come up with offerings with which they can show their value. "And clients will buy that," he says.

Honesty is mostly about being transparent with clients

Overdijk also believes that being honest with clients about what they can expect is extremely important, and that there are two parts to this concept: the first being not only giving clients good news and hope, but also being realistic in terms of what can be done and achieved. "Let's not just talk about getting 20 per cent returns, or telling clients: here's a nice product that can make you a 12 per cent coupon if the market doesn't move – or does move," he advises.

"More important than that, we have to know what clients are actually after - what their incomes are,



what their spending patterns are and what they want to achieve in the longer term. And we build their portfolio to reflect that, even if we have to tell clients they might need to de-risk, or increase their risk, or that their portfolio need to be more stable, or more strategic - even if it means it needs to be more boring.”

The other part of being honest with clients, Overdijk continues, is that wealth managers should be upfront

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about what exactly it is that they can do for their clients, what they can expect of them, and what they will be charged for the provision of services.

He observes: “That is the basis of how firms in other parts of the world do business, but this is not necessarily how many firms are presently doing business in the financial industry in Asia.”

Overdijk reiterates that ideally, companies should not be led by regulatory changes, but by demand, such as in the example of what is currently happening in China, where the demand-led regulatory reforms have led to a stronger, more transparent approach overall. “This is where we want the industry in the rest of Asia to go over the next five years,” he says.

Advice for senior wealth managers in a rapidly-shifting industry

Overdijk says senior wealth managers in Asia who may not necessarily be sure about their next move in a changing industry should perhaps focus more on what they want to achieve, and less on generating revenue and profits. He advises them to consider, “What is the type of client I am after? What kind of services can I offer them that will be profitable for me?”

“Yes, the world is moving in the direction of digitalising almost all our services and offerings, but the question remains of what we can actually offer our new clients, the clients we don’t have yet, or even the ones who may not be wealthy yet,” he says.

“What would they like to see from us? And how do we deliver that to them? Do your clients want to speak to a private banker, or do they want to interact with them on a digital platform?”

Again, he advises wealth managers to move towards full transparency with clients. As an example, when providing a price list for their services, managers should be clear: “Yes, we may be expensive, but it is because you will get really good service from us at this or that level.”

“I think that’s where the market should move to, but that is going to take time. At the moment, there are too many wealth managers in private banks saying the same things they have been saying for the last 20 years, when we were discussing back then how we were going to grow our businesses in Asia.”

Overdijk warns that the fact that there are now fewer private banks in Asia than 20 years ago is a crucial indication that mindsets have to change. If not, he says, “This will just continue. There will be a number of firms that will not be successful, in this way.” ■