Independent Wealth Management in Asia: Strategies and Formulae for Success

The independent wealth sector in Asia has enjoyed a decade, or more, of strong growth in Singapore. A fast-rising tide of Asian economic might and private wealth combined with strong global financial market performance has made for a powerful incentive for new entrants to compete and established boutique firms to expand further. But as markets turned down in 2018 and as the outlook for 2019 is at best mixed, how should independent firms position their businesses? Hubbis and co-host INTL FCStone organised a private roundtable discussion to contemplate these matters.

Executive summary

The battle for independence

While the independent wealth management industry, of course, works with the private banking community in relation to custodian and other services, the independents are fighting tough to win over Asia's high-net-worth (HNW) clients and their families. Advice-led, client-centric, knowledge-based models that focus on transparency are seen as the best route to combatting the big brand presence of the private banks in the region.

As markets turn, good advice is in greater focus

While private banks might have a wide range of services to offer HNW individuals (HNWIs) and their families, there is far too much focus on product rather than advice. Being aligned with the families and the family offices, insurers, even sovereign funds, presents a huge opportunity, especially as mainstream financial market conditions worsen and become more confused, for example with an inverted dollar yield curve, with mixed signals about rate cuts and so many geopolitical concerns that perhaps in 2017 were brushed aside.

Fast growth for the IAM sector in Singapore

The past decade has seen a rapid expansion of the boutique wealth managers, the independent asset managers (IAMs) and the external asset managers (EAMs). In the past decade the numbers have ballooned from a mere handful in Singapore to almost 80 firms.

Don't copy the private banks

To be independent and successful, experts cautioned against emulating the private bank model. Avoid pushing products, avoid the overt encouragement of leverage, change the mindset to one that puts the client's needs first, rather than the remuneration package and quarterly targets.

The holistic view

A much-used word in wealth management today is "holistic", but for the independent firm, it is extremely apt. Understanding the client must be the first step and the dedicated focus on their needs and objectives must direct all advice and activity if the independent wealth manager is to indeed provide the holistic advice required.

Finding the right people - a major challenge

The hunting ground for the independent sector to find the right client-facing colleagues to keep their business momentum advancing remains the private banks. But there are few relationship managers (RMs) whose clients and their assets are genuinely portable. And trying to coax the very successful private bankers from the brand name corporate folds is of course difficult. Communicating the many advantages of working as an independent is vital to this quest.

Clients like brand names, especially in Asia

While the independent wealth management model has far greater traction in more mature markets, for example, the UK or Switzerland, in Asia the HNWI clientele, particularly for "new" money is resistant to working outside the brand name banks. The challenge for the independent sector is to find clients who will be confident enough to step into the world of boutique advisory firms. Once there, most gradually understand the value of the model and demonstrate high levels of trust and loyalty.

Listen, listen and listen some more

It might sound somewhat stale, but the ability to listen to the client is one of the independent firms' greatest strengths. Outside the incessant pressure on revenues and targets of the brand name banks, RMs can be liberated to truly develop

a deeper and closer trusted relationship with the clients. Very simply, this can then be converted to a more powerful, insightful, inclusive advisory platform that covers the wealth preservation, and wealth transitions needs of the families.

Looking to the next generations

The IAM and EAM sector should also be focusing on wealth transition and the younger generations who hold, inherit or make the private wealth in the region. Catering advice and expertise to these generations is a vital element in sustainable business. And the smart use of technology, digitalisation and the enabling solutions of fintech, must be applied.

Technology the disruptor

Do not underestimate the pivotal role technology is likely to play in this industry. Whatever one might feel about the human element of wealth management and its role in the future, digital advances will make either robo-advisers or the individual RMs far more efficient and targeted. The age of democratisation of data and information is on us, so independent firms must react strategically to this opportunity and challenge.

Tougher times might make for greater opportunity

The discussion concluded with a general view that the challenging financial market conditions facing the world as 2018 turns to 2019 will be generally beneficial for the independent wealth management sector, providing the right strategies and the right people are in place.

THE PRIVATE, OFF-THE-RECORD discussion was attended by senior management at multi-family offices and independent wealth managers in Singapore, many of whom are members of the Association of Independent Asset Managers (AIAM) in Singapore, whose numbers have risen in line with the powerful expansion of the independent wealth sector in the past decade or more.

The discussion presaged the annual Hubbis Independent Wealth Management Forum on Thursday 7th March 2019 in Singapore and the premise for the discussion was to focus on the key topics that are of high concern to this community, and also of course to their clients, the high-net-worth individuals (HNWIs) and ultra-HNWIs across Asia and further afield that these firms service out of Singapore.

The discussion began with a brief introduction from Martin Huxley, the head of INTL FCStone's Precious Metals for Asia. INTL was the co-host for the discussion, predicated on the close and growing connections that the company has with the independent wealth community in Singapore and across the region.

INTL is a Nasdaq listed financial services company with a market capitalisation of around US$735 million [December 2018]. The firm's customers range from producers, processors and end users of virtually every major traded commodity to professional traders, major investment banks and wealth management companies and their HNWI clients.

Huxley began by explaining that INTL offers risk management, trading and execution services across a wide range of assets covering foreign exchange (FX), equities and physical commodities. "My business," Huxley said, ""is actually focused on precious metals, where we are one of the largest global physical bullion traders in the world, outside of the bullion banks, turning over in excess of USD25 billion related to physical trading activities on an annual basis". The majority of our clients are involved in the physical trade but also we also offer electronic platform trading capabilities."

He added that INTL is highly focused on the Asian HNWI market and work closely with many independent wealth management businesses. "Our precious metals operations, especially related to gold bullion, have been growing apace in Asia and the firm's web-based trad-

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ing platform is bringing additional transparency and efficiency to the precious metals markets."

He noted that INTL set out in Singapore in 2006, with the objective of adding unique value to the Asian precious metals market. "Since we began life the firm has enjoyed an exciting decade-plus of growth in regional coverage and sophistication of our services," he explained. "We have for the past couple of years been building strong relationships with the independent wealth management community, hence we are pleased to support this type of forward-looking industry strategy discussion today."

He explained that he is a big believer that gold should play an important role in an investment portfolio management, given the diversity effect, the ease of storage of that wealth, its inherent hedge against crises and other events.

"We see plenty more uncertainty ahead in 2019," he remarked. "The US dollar, the Fed's dovish tone in recent statements and the outlook for interest rates all indicate good times for gold from a variety of aspects. Accordingly, we continue to intelligently build our resources within the wealth sector and that is why we are here today, to gather your insights on the trends in the wealth market at large."

Huxley duly handed the floor to the representative of an independent asset manager (IAM) to give his insights on the role of private banks in the region.

Independent ways

"The private banks serve a purpose in Asia in the sense that they have a wide range of product, brokerage and other capabilities, albeit at a cost," he observed. "But in terms of advice, frankly they remain limited. For example, I receive a call once a year from my private banker, but that is basically a KYC [know-your-client] update. From my perspective as a customer and from within the industry, I do not see them having evolved an advisory role in this region, although they have certainly been more successful at that in the US and Europe."

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"There is certainly a growing role in Asia for good advice," he continued. "For people in an advisory capacity who are aligned with the families and the family offices, insurers, even sovereign funds, there is a considerable opportunity, especially as mainstream equity market conditions have turned negative in the region since February [2018]. We, for example, feel we have a strong niche, especially in the area of helping Asia-based investors better understand quantitative risk management, how to use derivatives and how therefore to optimise portfolio allocation."

MARTIN HUXLEY
INTL FCStone

"Focused on the client, I am I am"

The past decade, observed another senior adviser, has indeed seen the rapid expansion of the boutique wealth managers, the IAMs and external asset managers (EAMs). "For example," he recalled, "some 10 or so years ago there were less than a handful of firms in Singapore, but today as many as 80. And the AIAM boasts approaching on 40 members today."

The key to success, he commented, is to be independent and offer plain, sensible advice for appropriate portfolio management and other facets for Asia's HNWIs. "We must work solely for the client and we must be paid directly by the client," he added.

"Sometimes," he observed,

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"we see independent firms simply replicating the private bank model, determinedly pushing products, encouraging leverage and so forth, but that is just behaving as a private bank would, only with a different label. You must change your mindset, really understand and work for the client with a long-term perspective, not just a focus on meeting quarterly targets."

Taking a holistic perspective on wealth and succession

Another expert remarked that the private banks in Asia are, in reality, little more than brokerages. "They are not presenting a proper, holistic platform for their clients. And the clients do not really understand what they are paying for, which in many cases is not that much."

He also noted that there is also a great need for advice on the succession of wealth and tax-driven work. "But the banks have virtually proven themselves incapable of delivering that, largely because they give their wealth planners tough targets that are revenue based, so wealth planning often ends up manifesting itself as universal life sales, in order that the planners - and their employers - can reap their high commissions."

Another expert said that is he was to build a private bank today, it would be with independent advisers instead of relationship managers (RMs). "I would build the best execution, the best IT, the best platform," he explained, "but I would not hire and keep an expensive salesforce with what are oftentimes overpaid RMs. Most of the time, those RMs overestimate their own strengths and underestimate the strengths of the brand, but if they were to go independent, will the client follow them? Usually not, which is why it is so tough to hire. But if it is an emphatic 'yes' then that is the sort of person we want in our firm."

A fellow attendee agreed that there are many bankers who are not that capable, but also noted that there are some who are brilliant and who more than justify

their cost in the organisation and who bring real value to the client. "But the challenge then is to work out why would somebody like that who is so successful in a private bank want to come to an independent wealth management. It is far from easy."

"To give you my perspective on that point," another guest contributed, "I have a good perspective, as I was a private banker and later on I became a headhunter working with private banks. I moved to the independent sector, to an EAM, two years ago because I see it as an excellent model for individual clients. However, I do acknowledge that there is a problem in Asia, which is that the neither the successful RMs nor their HNWI clients easily move from their brand name banks, no matter how good an offering we make them as independents. This was especially the case in Indonesia, where I worked on the independent model and where clients did not want to step away from their global bank brands."

"Having said that," he continued, "some of the successful private bankers understand gradually that if they are confident of their relationships, the EAM model is ideal, especially as so many of the private bank RMs are genuinely fed up with their banks, from an organisation, reporting and regulatory viewpoint."

The danger, another expert observed, is that either RMs don't move because they simply do not have the strong enough relationship with their clients, or they might prefer to move to another private bank, for a higher package, and possibly without bringing much new business to that bank. "And so," he warned, "the game goes on and on, sort of a bidding up game of corporate musical chairs."

But, for those RMs who do not fear a dilution of their clients' AUM, in other words, whose clients are genuinely portable, the EAM model offers another truly viable alternative. "However," one guest noted, "trying to find these people is like hunting for a needle in the haystack."

"I would concur that Asian people as a generalisation like brands," another guest commented. "New money in North Asia is especially receptive to the brand name banks, even though those clients might be paying over the odds and receive a poor service. But they generally do not want to easily connect to a boutique type name, they want to tell their peers the brand they work with, as there is a certain amount of kudos associated with that."

Moreover, he added that this mindset is tough to change. "However," he elucidated, "the independent wealth sector is generally populated with people with immense experience, which is valuable, particularly as market conditions are today less accommodating, more challenging. For example, will the RMs at the private banks be capable of devising a plan for dealing with an inverted dollar yield curve and protecting the client for the possibility the Fed does not hike again? I reiterate, that in the private banks the RMs generally have far less experience, they continue to work from the cheat sheet, they keep trying to push product, not solutions. But in the EAM environment, it is really fascinating to build a business, to fundamentally think about what customers want, to really work focused on the markets, that is how we can gain real traction."

How then can that individual in the independent firm communicate the differentiation of himself and his firm when introducing himself to a client?

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"Ah, that is a tricky part," came a reply, "I like to say that we bring the best of both worlds and that we are outstandingly good listeners. If we listen to the client rather than trying to push them products or views on the market or whatever it is, we can understand what they really need and want. Additionally, we do not think in silos, so we can help our clients

with both personal and professional assets, as most of them are entrepreneurs. And we can link to other parts of our organisation that have corporate finance or securities dealing licenses, to help them more broadly, or we can work in partnership with trusted firms who expand our capabilities and expertise."

Knowledge-led client centricity will win...

One expert remarked that the industry must be led by knowledge. "I have often woken up and thought, no let's move to transactional because it is too tough to push advisory and discretionary," he said.

"But we stick to our guns," he continued, "because we firmly believe we are doing the right thing. Today, 90% of our revenues come directly from our clients, we don't take any retrocessions, or commissions, or kickbacks of any type, in other words, we are dedicated to being transparent. A small matter for some perhaps, but for example, we always put our clients into institutional mutual funds - with their much lower fees - not the retail version of those funds, unlike most of the private banks, unless they are dealing with the vast ultra-HNWI portfolios."

But, he cautioned, in his experience, it still takes a lot of time for the clients to warm to this model, to fully appreciate and buy into this approach. "I reckon on average about six to eight months passes before a client might actually turn to us and say the like and respect the model. Patience, therefore, for an independent firm is essential. Eventually, most clients understand the value of what it is we are delivering and most then go on to be loyal and close relationships."

The battle cry

A guest wondered why the private banks are not pushing harder to achieve a more predictable revenue base, rather than the continuing hefty reliance on transaction-based revenues. "We know how tough it is in Asia to convert clients to fee-based models rather than transaction based, so we know that even boasts of 8% of AUM allocated for discretionary are far in excess of the reality today. But the private banks have been very slow to build that model and the mindset still has hardly changed, and whatever they say, in truth they remain highly focused on pushing products, pushing commissions."

"As an independent asset manager, our job should be to literally tear these HNWIs and ultra-HNWIs and their families from the private banks," another expert at the discussion stated boldly. "The private bank will generally offer them some generalist RM who seldom knows that much, who seldom has great experience, and who is generally fuelled by a cheat sheet of ideas and products provided to him at the start of each day, not by his own experience or expertise. The focus for him, or her, is on the revenue, not specifically on fulfilling the client's actual or imagined needs. Personally, I think the private bank AUM model, is arcane and is bound to fail."

He explained that his firm effectively has two licenses in Singapore, a securities dealing license and an asset management license. "We work with five family offices in this region, who are geographically dispersed across the region; they are looking for proprietary deals and for investments in areas they know and understand. They are often staffed by second, third

and fourth generations who want to take the money they have inherited and hope to build it into the multi-hundreds of millions their parents or grandparents have. They are generally well-educated, and smart." The firm is highly focused on maintaining its relationships across these different generations, working to fully understand and then cater to their different needs.

In terms of the younger generations of HNWI clients in Asia, digital and fintech solutions are increasingly important for the independent wealth management model.

"We look at this area as a means to defining ourselves digitally in a dynamic environment," said one guest. "Fintech is especially relevant in relation to the millennials and younger generations. In order for us to be sustainable in the future, I believe in becoming more aware of the opportunities and therefore mixing in digital and wealth management events where we can learn about digitalisation from the providers and from our industry colleagues, for example hearing how they are approaching these matters, is vital and empowering."

The discussion closed with this focus on the role of technology. "I believe we are underestimating the impact of technology on the business," observed one expert. "Bill Gates once remarked, back in the 1990s, that over a three-year period people overestimate the number of changes but on a 10-year basis tend to underestimate the changes. Right now, a lot of us are sort of sitting pretty feeling that we enjoy our long-term relationship with the clients and that is a human connection and cannot be affected, but actually I think technology is going to disrupt it fairly substantially."

He elucidated on this. "To put it fairly crudely, this industry is a middleman. But when information and data access become so much easier and far more transparent then we will be competing not just with other independent wealth managers in Singapore but probably with the best hedge fund managers in the world or the leading private equity managers in the world because everything is going to be consolidated by some Big Data aggregator and presented to you in the palm of your hands so you can actually compare and buy those products pretty seamlessly. We need to be highly aware of all this and prepared on a five to 10-year view."

The discussion concluded with a general view that the challenging financial market conditions facing the world as 2018 turns to 2019 will be generally beneficial for the independent wealth management sector, providing the right strategies and the right people are in place. ■