Making the switch from products to portfolios

Bank distributors are working hard to align their models with the goal of having needs-based conversations with customers. But matching intention with the reality of delivering longer term portfolio advice is a challenge that requires support from their funds partners, says Damien Mooney of BlackRock.

Many of the larger bank distributors in Hong Kong and Singapore have made a concerted effort over the past couple of years to head in the direction of more of a portfolio advisory approach. Their goal is to genuinely focus on a customer's needs as the basis for the investment conversation.

The efforts to move in this direction are particularly noticeable within those private banks which are determined to try and increase their discretionary business, beyond the mainly single-digit AUM in such mandates today.

"If you talk to the senior management in these organisations, they say they have changed their models, that their RMs are no longer incentivised on revenue per se, that they have got a balanced scorecard among a mix of KPIs, and that every part of the advice process is centred on a needs-based conversation," says Damien Mooney, head of BlackRock's retail and wealth advisory business in Asia Pacific. "But it is very much early days."

Ultimately, he adds, there is some dynamic tension between what the banks are trying to achieve versus their ability to execute it.

HARD TO DO IN PRACTICE

One of the biggest impediments to these banks moving from being product-led sales organisations to being able to offer a portfolio advisory proposition, is the client base itself. "Not all of them want to actually be advised," says Mooney. "Many of them prefer to have a transactional relationship with their RMs."

Time is also not on the banks' side. Changing the nature and focus of the conversation is also difficult amid an environment where regulation on giving advice is so onerous.

As a result, rather than an adviser spending up to two hours on this process, they default to talking to the customer about something they can buy in less time and without as much paperwork required.

DAMIEN MOONEY
BlackRock

Another hurdle for the banks in making a portfolio, needs-based approach work is the dependency on having skilled RMs and portfolio account managers.

This is where some banks have been found wanting.

"RM turnover remains high, so the banks' ability to develop more of a portfolio service at a cost they can maintain is a challenge," says Mooney.

AGAINST THE TIDE

None of these factors are deterring Asia's wealth management industry from trying to effect change.

The pressure to create more sustainability in the advisory model is increasing. This is coming not just from the need to make the economics of the business work better, but also from the spotlight on fee transparency – which Mooney believes is only going to get brighter.

"There is definitely more connectivity among regulators around the cost of an advice-based conversation," he says, "and there is much more focus by investors in today's low interest rate, low return environment on what they are getting for their money."

He also foresees the next five to 10 years as going to be arduous.

"The cost pressures are not abating within the industry, with revenues coming under significant pressure. The squeeze is certainly on," he explains.

It is those incumbents in the industry which can migrate to a model where they will be able to offer the services that scale, and at a lower cost, which will win in the long run.

"I would imagine that 10 years from now, everything will be much more transparent," says Mooney.

"In addition, portfolio-wise, services will essentially be standardised using technology, and, in some instances, product-based commissions will have disappeared." he adds.

TRUE PARTNERSHIP

In bank distributors trying to move towards a more sustainable model, fund houses can help them.

One of the things that BlackRock aims to do in line with this, is have a genuinely differentiated relationship with its distribution partners.

"We don't want to be regarded as just another product provider," says Mooney.

"Three or four years ago, our main relationship with these firms was mutual funds based. Today, we have a very different relationship as a result of the breadth of our product and advisory capabilities," he explains.

For example, BlackRock is making its ETFs available inside the banks' discretionary portfolio teams, plus the firm is doing much more model portfolio business – in some cases providing asset allocation services.

On top of this product proposition, the value-add comes from the firm helping with education, training and also, potentially, with distribution.

More specifically, this might involve conversations about how these distributors can evolve their business using various technologies to make it more focused on portfolio advice. ■

Looking onshore

For fund houses looking to capitalise on the opportunities in Asia, and not get caught up doing the same as everyone else, they need to look onshore.

"That's where the growth potential is," says Mooney. "For international asset managers with any medium to long-term ambition in this region, and which want to build scale, they can't be a foreign company. They can be international, but they can't be foreign."

This means they need to put down roots in markets where they see growth. To do this successfully requires them to determine how they can make themselves relevant.

And that won't only be through selling offshore funds.

As a result, the historical approach of importing an offshore fund range from Dublin or, predominantly, Luxembourg, into Asia, is no longer enough.

For Mooney, two simple facts say it all about the potential from the vast amount of untapped wealth onshore: an average cash balance among Asian investors of four or five times that in the West, yet a much lower percentage of their investments being in managed funds.

"Over time, I think we will see a greater move into managed investments, mutual funds and ETFs," he predicts. "That's going to come from cash and from wealth accumulation. And just having offshore funds won't be enough."