

Mastering the Winds of Change - Unveiling the Future of Asian Wealth Management Amidst Shifting Horizons

In today's dynamic and ever-evolving Asian wealth management industry, professionals are confronted with a multitude of challenges and opportunities that demand their utmost attention. Following on from [our recent Survey on the Evolution of Asia's wealth management markets and the outlook ahead](#), we found that the winds of change are sweeping across the private wealth management landscape in the region, with three pivotal trends emerging as game-changers: fee compression, the transition towards annuity revenue, and the accelerating evolution of portfolio diversification. These transformative forces are reshaping the very fabric of wealth management practices in Asia, demanding a comprehensive understanding and proactive adaptation to cater to the discerning needs of high-net-worth (HNW) private clients.

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Fee Compression: Adapting to a Changing Landscape

Fee compression has emerged as a significant challenge for private banks and major institutions. The global tilt towards fee compression necessitates a shift in focus towards boosting recurring revenues from advisory services, discretionary portfolio management (DPM), and other value-added offerings. As transaction fees continue to decline, wealth management firms must adapt by transitioning from a brokerage model to an advice-giving model. Clients who are unwilling to pay for advice may need to be dropped unless their transactional activity remains robust, making them viable clients. However, most private banks in Asia have struggled to encourage clients to engage in DPM, with typically less than 10 percent of assets under management (AUM) allocated to such mandates. To survive in a competitive environment, private wealth management firms must prioritise delivering investment expertise and exceptional performance to ensure their clients remain loyal, deterring potential migration to external asset managers (EAMs) or multi-family offices (MFOs).

The Transition Towards Annuity Revenue: Ensuring Sustainable Growth

The global geopolitical landscape is expected to remain volatile, leading to a trend towards more diversified portfolios across a wider array of assets and geographies. This demand for greater in-house selectivity and expertise, combined with fee compression and the drive for efficiency, opens doors for electronic and digital investment platforms to serve clients in Asia. Wealth management professionals must adapt to this trend by enhancing their capabilities in assessing and recommending diverse investment opportunities, including emerging technologies, innovative industries like clean energy, and blockchain-related assets.

One example of how this sort of awareness can lead to the creation of tangible value for clients is in ensuring that current social trends are made accessible to the region's private wealth clients. One such notable example is found in the rise of Environmental, Social & Governance (ESG) and sustainable investing, which presents a significant growth market, particularly among

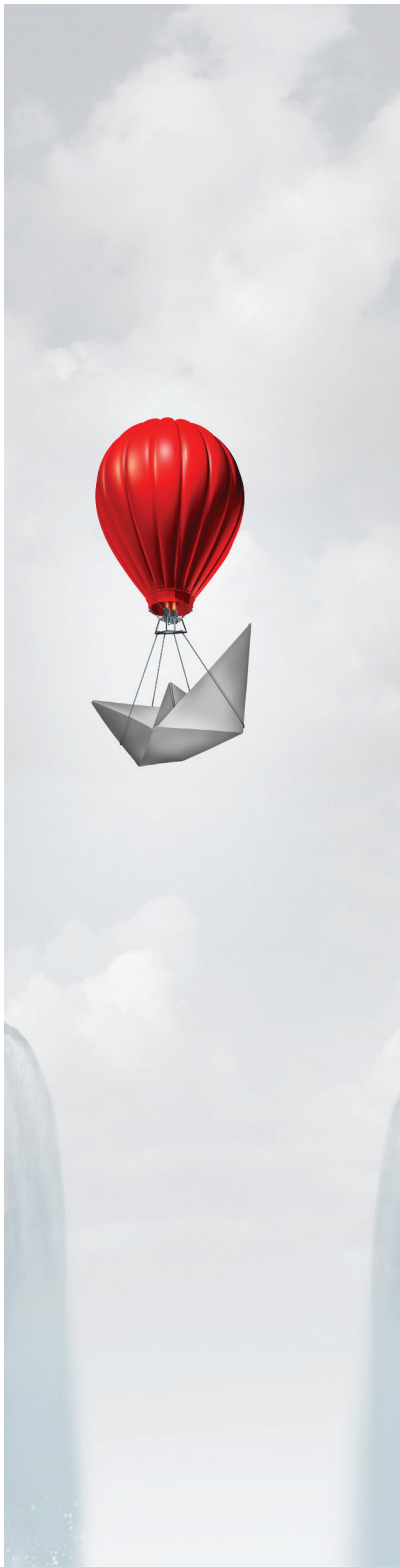
younger generations. Wealth managers need to incorporate highly-mainstream-appealing investment opportunities, such as like those surrounding the buzz around ESG, into their investment strategies and offer clients access to alternative asset classes aligned with the principles which appeal to them personally.

The Evolution of Portfolio Diversification: Navigating New Opportunities

Another critical factor shaping the wealth management industry is the de-dollarisation of portfolios. While still in its early stages, the trend towards reducing exposure to the US dollar is likely to accelerate, reshaping private client portfolios. Wealth managers should prepare for this shift by diversifying currency exposures and incorporating investment strategies that capture the benefits of global de-dollarisation.

Furthermore, the increasing interest in new asset classes, such as cryptocurrencies and digital/ tokenised assets, presents both opportunities and challenges. While there is a growing appetite among investors to explore these alternative investments, the ecosystem and regulatory





frameworks surrounding these assets need significant improvements to entice private banks and traditional firms to engage meaningfully. Wealth management professionals must closely monitor developments in the digital asset space and stay informed about regulatory advancements to effectively advise clients on digital investment opportunities.

Delivering Value in a Changing Landscape: Building Trust and Satisfaction

In response to these industry trends, private wealth management firms, whether digitally led or human advisory-led, need to deliver a distinct advisory model that provides value for money. This model should be holistic in vision, personalised, tailored to individual clients, and scalable. Clients expect a comprehensive approach that addresses their financial goals, incorporates their values, and offers personalised solutions. Wealth management professionals should leverage client data and behavioural insights to develop personalised models and consistent advice that reduce decision paralysis and remind clients of their goals and priorities. By providing a distinct advisory model and embracing technological advancements, wealth management firms can differentiate themselves in a competitive market and enhance client satisfaction and trust.

Research Insights and Industry Reports: Guiding Success

To navigate the changing landscape successfully, wealth management professionals should consider the insights from academic research and industry reports. Studies, such as Ayres and Curtis's examination of excessive fees in 401(k) plans¹, can be applied to the present realities in the wealth management industry. It highlights the importance of minimising fees and offering diversified investment options that provide tangible value to clients. Wealth managers must ensure that their clients' portfolios are structured to optimise returns while considering the impact and fairness of the fee models being utilised. Fiduciary duty and client protection should be guiding principles in delivering wealth management services, paving the way for lasting success.

Notably, a recent EY Global Wealth Management Research Report² serves as a clarion call, highlighting the dire need for wealth managers to adopt a strategic approach in navigating the increasingly complex landscape, all while grappling with mounting pressure to "do more for less." As client expectations continue to evolve, wealth management professionals are compelled to wholeheartedly embrace sustainable investing, digital asset opportunities, and personalised advisory models

1. Ayres, Ian and Curtis, Quinn, Beyond Diversification: The Pervasive Problem of Excessive Fees and 'Dominated Funds' in 401(k) Plans (February 21, 2014). Yale Law & Economics Research Paper # 493, Available at: <http://dx.doi.org/10.2139/ssrn.2399531>

2. 2023 EY Global Wealth Management Research Report - When volatility causes complexity, how can wealth managers create opportunity? - https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/noindex/ey-2023-global-wealth-research.pdf

to genuinely deliver value and fortify trust. Transparent cost disclosures, competitive fee structures, and unwavering clarity in reporting product performance stand as indispensable pillars of client satisfaction and retention. Consequently, wealth management firms must demonstrate unwavering commitment to technological advancements, enrich investor education, and provide unparalleled clarity in costs and

center stage, strategic mergers and acquisitions can serve as transformative steppingstones. Wealth management professionals are implored to scrutinise their business models, investment decisions, and strategic priorities, strategically capitalising on the abundant growth opportunities that lie on the horizon.

Further to the above, a piece of analysis by Deloitte aptly shines a spotlight on the disruptive trends

models that harmoniously intertwine technology-driven solutions with the indispensability of personalised human expertise. The democratisation of investment solutions, the newfound significance of robust retirement planning, and the complexities arising from an aging advisor population represent pivotal factors that warrant meticulous attention from wealth management firms on their path to unparalleled success.

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charges to fortify the bedrock of client trust.

Echoing this sentiment, a Bain & Co. report³ underscore the exigency for wealth management firms to embark on a transformative journey, realigning their business models to seize the fruits of profitable revenue growth. The introduction of three emerging models - integrated platform provider, customer acquisition specialist, and specialist provider - opens new avenues for leveraging technology, scaling operations, and delivering an unparalleled customer experience. As the pursuit of scale and expanded capabilities takes

permeating wealth management, emphasising the seismic impact of technology, shifting investor expectations, and regulatory transformations. The advent of the re-wired investor, profoundly shaped by technology and the lingering echoes of past financial crises, ushers in a new era of demands. This new breed of investors seeks seamless digital experiences, personalised advice, and unencumbered access to a vast array of investment solutions. Thriving wealth management professionals must embrace digital tools, harness the power of big data analytics, and sculpt innovative hybrid advisory

Riding the shifting ties

Wealth management professionals in Asia find themselves standing at the precipice of transformation, where fee compression, the transition towards annuity revenue, and the evolution of portfolio diversification herald the dawn of a new era. Amidst this ever-changing landscape, those who wish to remain competitive and deliver exceptional value to their private clients must be steadfast in their pursuit of knowledge and adaptation. By deftly navigating these emerging treacherous waters, wealth management professionals can ascend to unparalleled heights. Armed with industry insights, research acumen, and a relentless commitment to innovation, they can usher in a future where their clients' aspirations are met and surpassed, firmly establishing themselves as trusted advisors and guardians of prosperity amidst the shifting horizons. ■

3. Bain & Co. - In a New World: Time for Wealth Management Firms to Shift Course, <https://www.bain.com/insights/in-a-new-world-time-for-wealth-management-firms-to-shift-course/>

4. Deloitte - 10 Disruptive trends in wealth management - <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/strategy/us-cons-disruptors-in-wealth-mgmt-final.pdf>