Opportunities and Challenges for Asia's Wealth Management Community

A panel of experts at the Hubbis Investment Solutions Forum reviewed the state of the wealth management industry to highlight what value proposition might be required to survive and prosper in the future. They debated whether the cost and revenue pressures are of such a scale as to threaten the survival of some of the key players, and whether the growth of private wealth in Asia will propel the market, or if only the biggest and best can survive. And can the smaller, adaptable, nimble, newer competitors can forge a market presence and prosper.

These were the topics discussed:

- *What's your USP?*
- *What have you got that means you will still be here in five years?*
- *How must you refine and redefine your value proposition today?*
- *Are you nimble, responsive and adaptive?*
- *What's the advantage and disadvantage to pure-play firms vs universal banks?*
- *What is the client expecting from you today?*
- *Where is growth coming from over the next five years? Bigger share of wallet? Lending? Next-gen leads? Organic vs acquisition vs partnership?*
- *Biggest opportunities for the next three years?*
- *Biggest challenges for the next three years?*

PANEL SPEAKERS

- **Richard Straus**, Senior Managing Director, Head of Private Banking, EFG Bank
- **Jean-Louis Nakamura**, Chief Investment Officer, Asia Pacific - Chief Executive Officer, Hong Kong, Lombard Odier
- **Silvio Struebi**, Partner, Simon-Kucher & Partners
- **Stewart Aldcroft**, Chairman, CitiTrust
- **Michael Benz**, Senior Advisor, Synpulse

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THE KEY TAKEAWAYS

The smart monetisation of opportunities is vital

Costs can be managed, but revenues are the key to any organisation's success. To achieve in the future world of wealth management, banks and other firms must reinforce their value proposition and price their services accordingly.

Adapt to the future environment

New competitors are coming in to grab market share, focusing on the customers of tomorrow, especially the younger generations who are inheriting or making the wealth of tomorrow. The needs of the millennials certainly need addressing.

Greater acceptance of the fee-based model

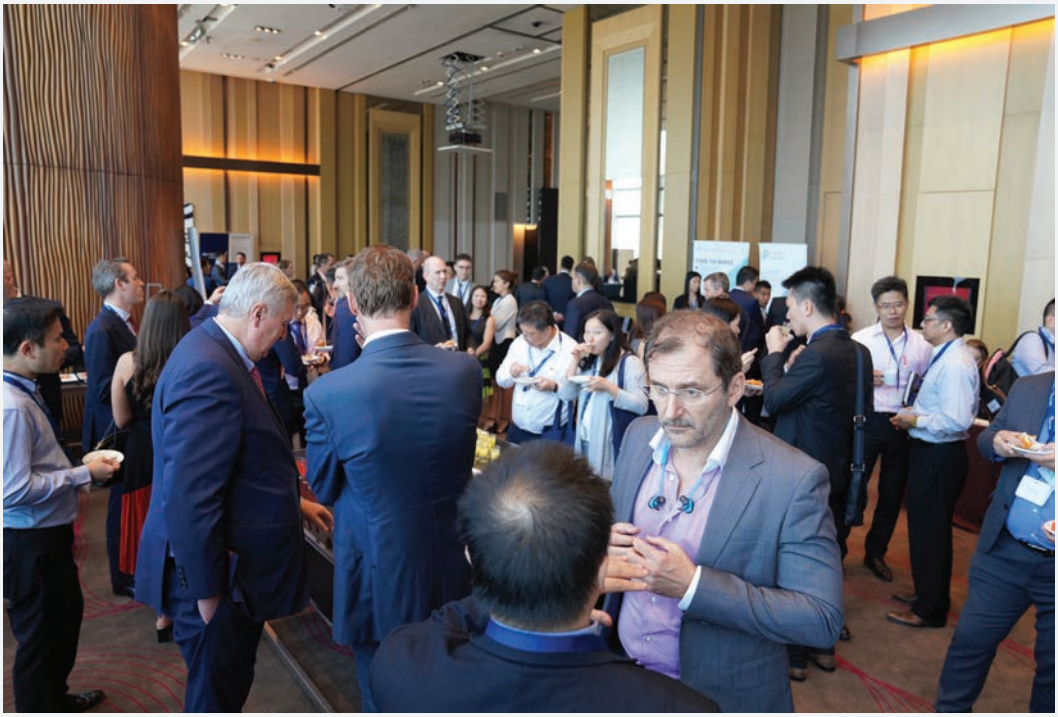
An expert noted that as more and more of the 2nd and 3rd generations control the wealth of Asia, these younger and often formally educated people are more focused on professionalisation of their wealth, and therefore more accepting of the value of fee-based advisory that frees them up from day to day decisions.

Make the unpredictable predictable

A core challenge today compared to some years ago is to convert revenues from ad hoc, execution or product-driven revenues to advisory and discretionary income, which is both more enduring and predictable.

Delivery is another key to success

Clients used to value seamless execution when it first emerged, but today price sensitivity rules because execution is commoditised. Accordingly, firms must focus on great products, good ideas, but the real challenge today is how to convey these products and these ideas to the clients in a way that they want.



Creating the right environment for success

Some of the biggest banks have the scale to weather the storms and to endure lower fees by retaining high volume, but others have to seek and express their propositions, for example by being highly entrepreneurial, and allowing their advisers to engage rapidly and proactively with their clients.

Lower returns mean more advice required

As equity market returns drop, and risk-free debt yields disintegrate, there is a greater need for advice and ideas. But those ideas are best distinguished by tailored delivery.

Keeping it personal

There was a general feeling amongst panellists that robo-advisory can serve a key purpose to expand delivery to a wider mass affluent market and also to lower wealth HNWIs, where costs for delivery of personalised solutions are too high. However, there was also a widespread view that clients in Asia will continue to want human interaction with advisers.

Regulators in Asia take a pragmatic view

Regulators in Asia are tending still to take a pragmatic view of the need to help develop their wealth management industries, and therefore show no immediate signs of forcing banks to end up-front or even trailer fees. Nevertheless, banks should take a proactive approach to migrate revenues from such a reliance on transactions.

Hong Kong will continue to thrive

Although Singapore is grabbing more headlines for its appeal as a wealth management centre, especially their family office incentives, Hong Kong has remained at the cutting edge of the industry, and enjoy smart, forward-thinking regulators.

STEWART ALDCROFT
CitiTrust

AN EXPERT BEGAN BY EXPLAINING THAT A KEY CHALLENGE FOR the wealth management sector is the monetisation of opportunities. Costs, he said, must be kept under control, but revenues must also be enhanced, and firms must react to the wave of competitors coming into the market.

"These new entrants," he remarked, "might grab market share, they might change the overall perception of the customers, especially the younger generations who are inheriting or making the wealth of tomorrow. The needs of the millennials certainly need addressing."

Another guest reported that the big challenge today compared to some years ago is to convert revenues from ad hoc, execution or product-driven revenues to advisory and discretionary income, which is both more enduring and predictable.

"Clients used to value seamless execution," he noted, "but are more likely to challenge the price today. And plenty of people can come up with great products, good ideas, but the real challenge today is how to convey these products and these ideas to the clients in a way that they want. It is a challenge and great opportunity for private banks today. Digital channels for the creation of a positive experience of clients are of increasing value and translate to client loyalty."

Another attendee highlighted how, although his firm is relatively small in Asia, the organisation thrives because it is highly entrepreneurial, and

MICHAEL BENZ
Synpulse

RICHARD STRAUS
EFG Bank

enjoys a flat structure that allows the RMs to act rapidly and proactively for their clients.

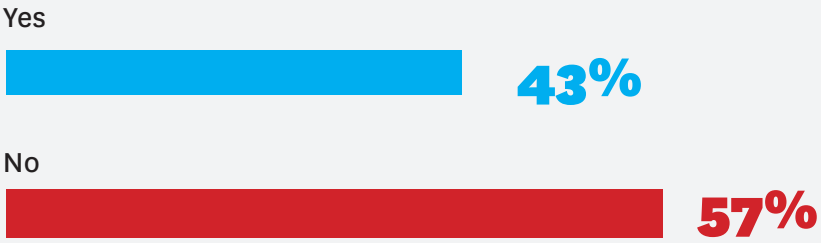
"I think the challenges are not fundamentally different from private banks," came another opinion. "There is more intense pressure on costs and pricing and the proof of value-added to your clients." He advised that quality, dispassionate, emotion-free advice is essential for clients, and the ability to stop clients taking certain actions, or to encourage them to make certain changes are both core to the value proposition. He said that clients must eliminate the 'noise, and see the complete picture, and then take a disciplined approach, rather than simply reacting to each and every global or local event.

A panel member cast his experienced eye back over three decades of wealth management in Hong Kong. "First, we know most people have a lot more wealth now than they used to have," he observed. "So, they need advice, and as interest rates have come down from double-digit to nearly nothing and even currency trading is less appealing than before, people need more and more quality advice."

"Are fees for products still too high?" a panel member asked. "In Asia, our clients have always been much more price-sensitive and much closer to investments than probably in other countries," came a reply. "But I think the key to winning here for wealth management firms in the future will be delivering positive investment ideas. But these ideas must be extremely personalised, because each investor wants to relate to them emotionally. To achieve this personalisation, banks must tap into the gigantic pool of data they have in-house on clients, then use this data and personalise the investment ideas to make them appear truly relevant for the individual investor. Secondly, they must deliver them through channels of choice for the customer."

SILVIO STRUEBI
Simon-Kucher & Partners

CAN WEALTH MANAGERS PROVE THAT THEY CAN DELIVER PERFORMANCE?



Source: Investment Solutions Forum 2019 - Hong Kong

A guest opined that wealth management firms should not feat robo-advisory. " Robo-advisers are not providing the level of information and advice that the client wants," he commented.

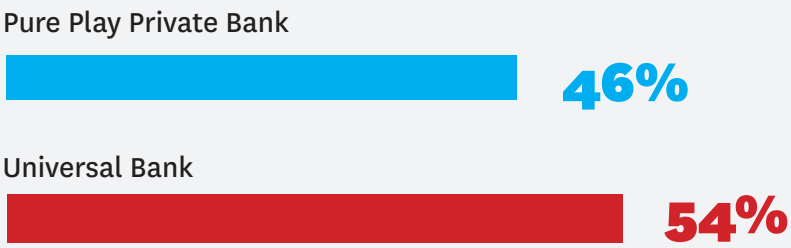
"Most people in the Asian region want to have some individual response, they want to have face to face meetings. Robo-advice only truly works where the whole investment business is treated as a commodity. In Asia, it is not commodity yet and I think there is too much time and energy spent worrying about how robo-advisory businesses will compete against the existing business model. It is a waste of time because the robo business is a failure in this part of the world."

A slightly different perspective came from an expert who noted that there are many more clients holding less than USD3 million of assets than more than USD3 million. "I think here we can serve these clients in a very efficient way, so actually robo-advisory solutions can be a good idea. The very high-value services are being provided to all clients at the moment, but this will have to change due to costs and economics, so for me, robo-advisory will soon be part of the value chain of a wealth manager here. We need to find ways to package this into the overall value proposition in a smart way because then you can add value. Remember, not every client wants to pay high fees, so we have to have a very positive solution."

A banker reviewed some of the key changes they are making to their business model, highlighting how they have been revamping the investment advisory business towards portfolio advisory, at the same time upgrading the talent on that front substantially. Another key area has been tailored credit solutions for UHNWIs that has been rolled out globally and to good effective for these types of clients. And the bank has been developing its asset management model in Asia, leveraging its model and success in Europe and elsewhere.

JEAN-LOUIS NAKAMURA
Lombard Odier

WHICH MODEL IS MORE ATTRACTIVE TO HNW CLIENTS?



Source: Investment Solutions Forum 2019 - Hong Kong

"In all these areas," he noted, "you can see we are moving away from the transactional business, which is increasingly price sensitive and therefore it is ever tougher for the smaller to medium sized players to compete with the global majors and their vast platforms. So, in short, we focus more on the value-added services, the personal service, the solutions that are designed and tailored around the client situations."

A guest offered another viewpoint. "Many of the large private banks have rolled out fantastic technology-supported, fee-based advisory solutions, but let's think about how successful they are. Well, they are not, because the investment experience delivered through such fee-based advisory solutions is not perceived as value-added by clients, so they don't want to pay the price for that. I believe the private banks will be forced to massively improve the client investment experience and will have to start to clearly differentiate the true execution business from the advisory business and price accurately. If not, revenues will be badly challenged."

Another expert said he totally disagreed with this view. "Only when regulators enforce no frontend loads on funds, no trail commissions on funds, will the industry change. We are not going to see banks change their revenue models, the drug of commissions unless forced to do so. Then there will be a period of maybe two or three years of adjustment and the market will then probably get back to probably a normal level where clients will accept that they need to pay a fee to get advice. Now, that's of course going to impact directly on the bank's bottom-line, but the whole industry has argued against a commission ban within the Asia region and the SFC in Hong Kong, for example, has accepted that, and in Singapore the Monetary Authority has accepted that on the basis we are still in a very early stage of development for the type of services that wealth management provides. Of course, there is a lot of competition against that."

An expert agreed that in Asia, transaction revenues still represent at least 50% of revenues for the private banks but said the model can change to one such as his bank has achieved, whereby advisory and discretionary fees represent the majority of revenues.

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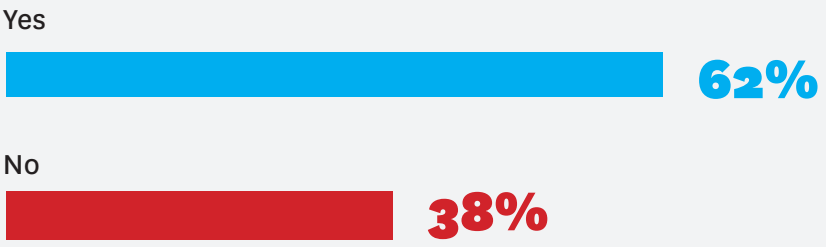
"I have been in the region for more than 23 years," said one guest, "and when I first started in Singapore in the mid-1990s there was no way anyone would pay a fee. And fast forwarding to

DO YOU THINK HONG KONG IS AT SERIOUS RISK OF LOSING ALL MOMENTUM AS A CREDIBLE INTERNATIONAL WEALTH MANAGEMENT CENTRE?



Source: Investment Solutions Forum 2019 - Hong Kong

today, many clients are now actually asking about these advisory and other solutions. Most of the clients that we have dealt with in Asia are first generation entrepreneurs, the ones that made the money, they made the decisions, they are very hands-on. But there are more and more large families that are now in their second or third generation, the generation now who have their own business, their own lifestyles, the families are maybe not as close as they were, they want a solution that frees them up from every single decision. Moreover, a lot of the second and third generation has been educated around the world, so they have seen these models work elsewhere. Accordingly, we actually have clients asking us about what other types of fee structures we offer."

The discussion shifted to the roles of Hong Kong and Singapore, with one panel member offering a persuasive view that Hong Kong has led the way in terms of financial sector regulation and continues to do so. Hong Kong, he said, is diverse in terms of its financial markets and entirely global in terms of clientele, as well as enjoying 1.2 billion Chines on its borders. "Hong Kong has a very valid part to play and will continue to lead the region, not be a follower in the region," he concluded. "It will lead the region in terms of how wealth management, private banking and investment management is delivered to the customer." ■

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