# Positioning the Wealth Management Machinery and Investment Engines for the Future

*A wide-ranging discussion took place during the second panel of the Hubbis Investment Solutions Forum, with an eclectic group of experts offering different opinions on the future of wealth management in terms of its future products, services, business model and profitability, including assessing the impact of the ongoing battle between active and passive strategies, and the role of digital in promoting potentially improved investment opportunities, strategies and enhanced user interface.*

***These were the topics discussed:***

- *The revenue squeeze is on. Where will revenue come from in the future?*
- *Who will thrive in the future? Who will be disintermediated?*
- *Will traditional PBs be squeezed in terms of managing liquid (global equity and bond) portfolios due to technology-driven developments?*
- *Can PBs remain relevant by focusing on areas that aren't easily replaced by technology—illiquid and privates, cheap leverage, better portfolio advice?*
- *Do we need to engage more passive products & ETFs?*
- *What's the role of technology and digital evolving?*
- *How do you prove you are delivering performance?*
- *How should you balance revenue with suitability and the client's best interest?*
- *Can digital add greater value to traditional advisory?*

## PANEL SPEAKERS

- **John Robson**, Chief Commercial Officer, Quantifeed
- **Harold Kim**, Founder and Chief Executive Officer, Neo Risk Investment Advisors
- **Tony Wong**, Head of Intermediary Sales, CSOP Asset Management
- **Tobias Bland**, Chief Executive Officer, Enhanced Investment Products
- **Terence Goh**, Co-Founder & Chief Executive Officer, Bam Fintech
- **Simon Ree**, Founder, Options Club

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## THE KEY TAKEAWAYS

### ETF expansion lags in Asia, more targeted products required

Although Asia is experiencing robust growth in ETF activity and diversity, penetration is not as advanced as in the US or Europe. Globally, ETFs plus other passive instruments have recently surpassed active management funds, but in Asia, there needs to be more of the right products and in the right niches.

### Structured products maintain their popularity, but smart investors required

The structured note market continues to be a very active area for private banks, offering as it does a lot of opportunities for investors to take exposures that they might otherwise be unable to get. However, SPs are best suited to the portfolios of more sophisticated HNW investors who more fully understand the complexities and risks of the products, especially in more difficult market conditions, as now.

### Can digital platforms and robo-advisory deliver what on the promises?

A FinTech expert stated that the wealth management industry in Asia is still at the very beginning of the journey towards digital wealth management, with proof of concept coming gradually as some of the region's leading banks invest in and begin delivering superior customer experience.

### Here come the robo-analysts

While the robo-advisor is aiming to enhance portfolio allocation and wealth management democratisation, the robo-analyst is a newer offering, using machines to generate research, but smarter, faster and cheaper than any of its human counterparts.

### So, what happens to the private banks, are they digitally disintermediated?

The question extended naturally to the role of the private banks amidst digital disintermediation and falling fees. First, they must become more sophisticated in terms of digital delivery and also internal efficiencies. Second, they must improve their active management and product/portfolio advisory expertise. Third, they must work out how to offer optimal hybrid solutions, combining the best that digital and human skills can bring to the table for HNWIs.

### Still room for hands-on advice - hiring your personal investment "trainer"

Self-directed investment, the capability of which is clearly being enhanced by digitalisation, is not the be-all and end-all for HNWIs, as, during times of market stress, those largely self-directed investors often let their emotions get the better of their strategies, with the advisers operating effectively as a personal financial trainer, their subjects getting or remaining fitter than they would, if left on their own.

### Tangible solutions and valuable advice mean real fees

An expert observed that private banks can continue to levy fees and clients will pay up for genuinely good and valuable advice, both on products and solutions, and also on asset and estate planning.

### Will the e-banks win through in Asia?

There was some divergence of opinion on whether the new digital banks, such as those Hong Kong has opened the doors to, will pull customers away from their favoured brand name local banks. Some felt that it will be a long time before customers trust them sufficiently. Others felt that they will win through in the region, but it will take time, partly because regulators will also control their pace of development.

### Traditions are valuable but don't rest on your laurels

Traditional private banks will clearly be squeezed in terms of managing liquid portfolios due to technology-driven developments, so they will need to be smart and nifty to remain relevant by focusing on areas that aren't easily replaced by technology - for example illiquid and private assets, leverage, better portfolio advice, optimised estate planning and so forth. Otherwise, they will be rowing against the current and at serious risk of going backwards.

HAROLD KIM
Neo Risk Investment Advisors

**STARTING WITH A FOCUS ON ETFS**, a guest remarked how it is nowadays very difficult to sell ETFs in Hong Kong under the present regime. "The overall ETF growth rate is still around 30% a year, yet in Hong Kong, we have declining assets," he reported. Another expert agreed, voicing concerns that the key is the right product for the right markets, in which case investors are far less concerned about fees.

Another expert reported that ETFs unquestionably are growing exponentially not just in Asia, but globally. "ETFs plus other passive instruments have recently surpassed active management funds," he explained, "and the onus is on active managers to show that they are really better than ETFs, but most academic research has shown that ETFs benchmarks outperform the majority of active managers. But I agree you need the right products and in the right niches, and we do see that in Hong Kong from certain ETF providers. We think ETFs are going to continue to grow and that will put pressure on the private bank revenue model, but as to the providers, only the smarter ones can go up against the big guys, and they need a pretty unique proposition."

## Structured solutions still enjoy robust demand

Another guest turned to the structured note market, noting that this continues to be a very active area for private banks, offering as it does a lot of opportunities for investors to

JOHN ROBSON
Quantifeed

SIMON REE
Options Club

take on exposures that they might otherwise be unable to get. "Structured notes are not for everyone," he commented, "but have a key place in the portfolios of people who understand the complexities of the product."

A panel member agreed that since around the early 2000s when they first appeared, private banks saw revenue opportunity, as selling SPs is more profitable than many other plain vanilla products, and the design of products can include some very marketing friendly features. "The early years were easy and almost everyone made money from them, but structured products are like medicines," he said, "and you really need sound advice to know what risks you are buying. In the right markets, with the right features and design, they can be a very reasonable risk alternative."

A panel member migrated the discussion towards digital platforms, noting how advanced, for example, the Charles Schwab offering is today, and questioning whether the competition in Asia is developing along the right lines to cope with this and other types of challenges.

TONY WONG
CSOP Asset Management

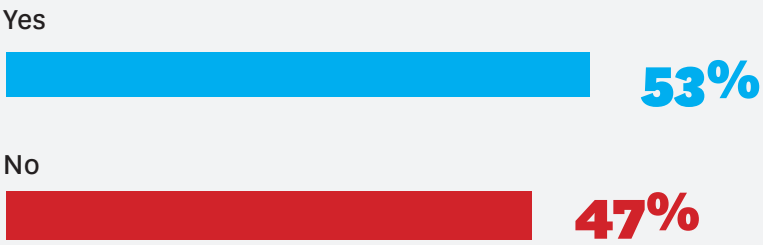
## Rising to the challenges?

"We are at the very beginning for the whole journey towards digital wealth management in Asia," came the reply from another guest, "and with regard to the digital offering and robo-advisory, we are now starting to see Asian banks investing in delivering dramatically superior customer experiences. Yes, there are also laggards, but I think we will see quite a substantial blossoming of the digital offerings in all markets of Asia and you will see a strong take-up of those offerings."

Another guest highlighted how the robo-advisor covers portfolio allocation, while a robo-analyst, on the other hand, is a newer offering, using machines to generate research. "Robo-analysis," he said, "is much like what an equity or FX analyst does, only that it is smarter, faster and cheaper than any of its human counterparts."

He explained further that for private banks dealing with the self-directed clients, most of the current solutions in terms of advisory are still very

DO YOU USE A DIGITAL WEALTH PLATFORM?

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much human-driven, still very much led by RMs in terms of trying to tell them what to buy and sell. "What we are doing is really digitise the financial advisory process on the self-directed investment side, so by using machines to generate research we can now enable clients to receive advice across the products, be those equities, indices, FX or whatever. This is the next frontier, the robo-analyst rather than the robo-advisor."

"Can digital add greater value to traditional advisory?" he pondered. "Yes, in a B2B2C model, the market analytics platform can become the engine or brains behind a Virtual Assistant, making it capable of providing multi-asset class advisory across 50,000 trading instruments, whereas a human could at best advise on perhaps 50 instruments. And for example, the Structured Products segment can help private bank RMs drive more Structured Products rollovers, select optimum strikes and knock-out levels leading to more revenue and more satisfied customers."

The question extended naturally to the role of the private banks amidst digital disintermediation. "15 to 20 years ago," said an expert, "there were nice 1% or more commission to trade liquid financial assets, and still today they are trying to charge quite a large brokerage commissions, for example I met with a family office recently and they were getting charged 50 basis points for plain vanilla equity trades and said they were being offered a discount by the bank. They were shocked when I told them you could trade for literally 1 basis point on an online platform."

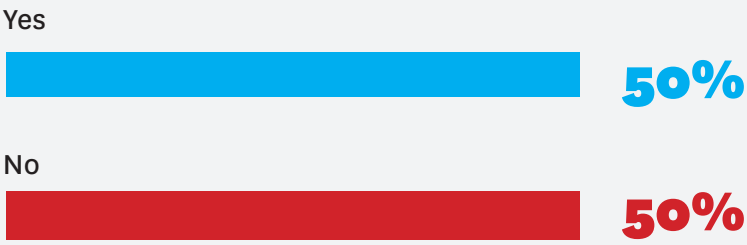
TERENCE GOH
Bam Fintech

## Watch out...

"So," he continued, "the challenge to the private banker then is either they are going to have to charge 20-40 times the brokerage commission of an online broker, in which case the advice must really be outstanding, truly worth it in terms of returns, or if the advice is not so good, those assets will move to more efficient trading systems."

In that scenario, he extrapolated that the private banks will then have to decide if they invest more in terms of capability to improve advisory and delivery to retain those liquid assets. "Not surprisingly therefore," he explained, "you find

### WOULD YOU USE A ROBO ADVISER?

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that most private banks focus on selling high margin private products and rather neglecting quality advisory advice on the liquid portfolio, which risks them losing those assets, especially as clients see that with ETFs, passive strategies and technology they could probably do it all themselves and save quite a lot in terms of fees."

"Yes," another guest noted, "for a large-cap US equity play you might pay 50 basis points for an active manager, or you pay about 4 basis points for the S&P Tracker. So the private banks risk losing assets to online platforms, or to robo-advisories. There are 4000 plus ETFs out there now, so pretty much any asset class that you want to buy you can slice and dice and find an ETF for it, and if it is a common exposure like US large-cap, you should pay almost nothing for the management fee. Perhaps for other assets or strategies like emerging market bonds, emerging market equities, then you will start to see ETF fees that are higher, but that will be 30-50 basis points, not 1% or 2%."

## Self-investing can lead investors in the wrong directions

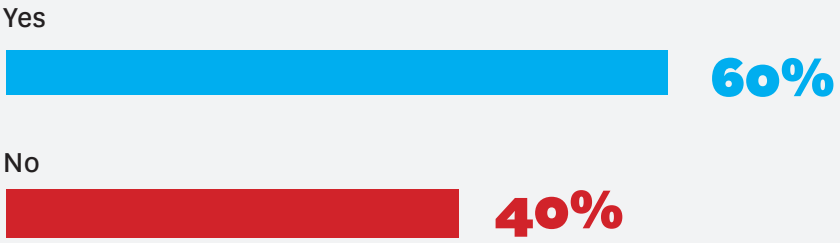
A different perspective came from another guest who cautioned that self-directed can lead investors to difficulties if, during times of market stress, those largely self-directed investors let their emotions get the better of their strategy.

"When the emotional part of the brain takes control," he warned, "you tend to make poor decisions and anybody who has been in the financial crisis during the bear market knows that a good adviser is part grief counsellor, part investment expert, basically spending a lot of time talking to people out of doing dumb things. We all know what it takes for us to live a healthy life, but very few of us do that consistently. However, add in a personal trainer or a coach to the mix, and you get much better results. I think investing is very similar."

TOBIAS BLAND
Enhanced Investment Products

He added that a lot of what the private banks offer is commoditised, but they still have a role for the ultra-HNWIs in providing access and helping with real solutions that add true value, perhaps a structured credit solution, some lending work,

GIVEN YOUR RELATIONSHIP WITH YOUR EXISTING BANK IN HONG KONG? WILL YOU START A NEW VIRTUAL BANK ACCOUNT WITHIN THE NEXT YEAR?

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estate planning work. "Clients will pay if you can really help them out with something that is technical or difficult."

A guest summed up the discussion by commenting: "The reality is that robo-advisory is here to stay, ETFs are here to stay, the top-down approach is reasonably diverse today, fees are going to come down even further, and a lot of banks are going to go out of business, especially your big commercial banks, so I will be very surprised if some of the lesser global bank names are going to be around in 10 years' time at all. The virtual banks popping up in Asia and across Europe are more nails in the coffins for the existing legacy banks, along with the fact that the robo-advisor, speed to market, cost of doing business is going to come down, so unless you have technology, you are suffering."

## Asia's banks hold firm...for the time being

The discussion drew towards a close with another technology expert who felt that in the Asia region itself, brand name local and regional banks can retain their clients but must invest in technology to do so. "It will be tougher out here for the B2C companies to survive as we start to see the major banking corporations lift their offerings, so for example here in Singapore, customers have their brand name bank accounts and the idea of taking your money out of one of these trusted organisations, moving to some upstart is a big challenge, and honestly I don't foresee that happening."

The virtual banks, for example, are only just stepping out and will not engage with wealth management and some other areas for some time, partly because of capabilities and also due to satisfying the regulators, step by step, which will take time.

The typical big online brokerage platforms are more of appeal to a certain class of investors who are already highly familiar with financial markets, but the average bank customer is not yet moving from his brand name bank, especially as they improve their digital offerings, he added. Another way to see robo-advice is as digital wealth management technology, he continued, and there are hybrid models emerging, and banks are increasingly focusing on using technology to offer a wealth advisory service that was previously only for the very wealthy clients. "There are huge advice and service gaps out there to be filled," he concluded.

## Rowing against the tide?

The final word went to a guest who pondered who will thrive in the future, and who will be disintermediated. "The commission-free brokerage model pioneered by some firms will thrive in the future, as they are transforming brokerage into a subscription model," he said. "Traditional private banks will be squeezed in terms of managing liquid (global equity and bond) portfolios due to technology-driven developments. They will need to remain relevant by focusing on areas that aren't easily replaced by technology - illiquid and private assets, cheap leverage, and better (if that is indeed possible) portfolio advice. Otherwise, they will risk being disintermediated. ■