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Private Banking in Asia – New Strategies and New Technologies Required

The wealth management industry in Asia appears to be at a crossroads. While the expansion of private wealth remains prodigious, private banks and other wealth management firms are analysing how to boost their recurrent revenues and add further value to the wealthy clients, including through the efficient use of digital technologies. Hubbis and co-host Allfunds Singapore organised a roundtable discussion to consider the role of technology in boosting these initiatives.

Executive summary

The world of private banking and wealth management in Asia is undergoing a period of intense introspection as the industry determines the best business models for the future. Will providers be able to boost recurring revenues through winning discretionary and advisory mandates, rather than relying on transaction-based fees? Will digital technologies enable existing providers to maximise efficiencies and improve client satisfaction? Hubbis and co-host Allfunds Singapore organised a roundtable discussion to mull over these questions.

The wide-ranging, extensive discussion, which was both private and off-the-record, was centred around the headline topic of the impact of technology on private banking and wealth management offerings in Asia. Subjects covered included the role of technology and digitisation and the upgrading of investment platforms set within the context of the expansion and evolution of the wealth management industry in the region. Other associated areas covered included outsourcing, cost efficiencies, as well as the optimisation of distribution techniques and proprieties amidst global regulatory proliferation.

The conclusion was that private banks drive to boost recurrent revenues through advisory and discretionary mandates continues to be largely thwarted, due to the continuing preference of Asia s wealthy clients for more control of their investment portfolios. However, there is also considerable optimism that the banks will find the right formula, enabled by redefined strategies and by technology, and that the younger generations of Asia s wealth management market will more enthusiastically embrace these new models and offerings.

THE DISCUSSION CAME AS co-host Allfunds officially opened its new Singapore office space, having obtained the requisite licenses in 2016 and having already built a team comprises of 16 people, focussed on sales, clients services, operations, finance, technology, compliance, legal, funds group and investment advisory and potfolio solutions.

Allfunds was represented by Alexis Fosler, CEO for Asia Pacific, Borja Largo, Head of the banks funds groups business and one of the founding partners of Allfunds Bank, and David Perez, Global Head of Strategic Accounts.

Newer money in Asia

The discussion began in earnest with one guest explaining that wealth in the UK and Europe is largely represented by 'older' money and is often being passed from one wealth management provider to the next. "But here in Asia," he observed, "it is a newer market and there is enormous growth. My firm brought me in some two years ago to help build our business as rapidly and sustainably as possible. We operate a fully open architecture and while we would like to see more of our in-house funds in portfolios it is what is best for the client that counts, so like many of our competitors these days we are receptive to offerings that bring us best-of-breed."

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"The Government Investment Corporation of Singapore bought 36% of the company back in November 2017 and that has been a major impetus to our business penetration here in Singapore," Perez told the assembled wealth management experts, mostly from private banks. "They have helped open many doors and that has provided the platform for our further expansion in the region. We will be continuing this expansion in the region in 2019. We are here to stay in the region because we are building out our capabilities to represent a truly global platform and to service customers across the globe."

Another private banker provided a word of caution against which to set the discussion. "As regulators roll out their sandboxes, I think our wealth management industry, and the private banking sector, in particular, is in deep trouble with fees and margins. The glory days for traditional banking are over and people are either going to become dinosaurs or they are going to really have to reinvent themselves in a way that they use technology and manage costs, which are very high relative to the value provided."

The glory days – are they over?

Accordingly, for the time being, he sees versions of discretionary and wrap accounts are likely to be the way forward, whereas over the next five to 15 years digital will completely take over. "This," he said, "means commissions are going low to zero and the banks will need to prove the value of their advice, which will be tough for them. We are like the newspapers, we are struggling in all honesty; the papers, for example, have lost about two-thirds of their revenues as the digital revolution has taken grip."

Another banker agreed, adding that as fees for transactions are being eroded, the banks must work harder to convince clients to pay fees for genuine advisory work. "You can do that most easily with existing clients, without necessarily changing or enhancing your service offering," he remarked. "Then it is essential to keep those steady reference points in mind in every discussion subsequently. The winning of discretionary management mandates are perhaps more challenged because of the difficulty of extracting and maintaining performance, but I definitely see evolution on the advisory side, with more clients willing to accept the concept of the advice and the associated fees."

EAMs picking up the pieces...

He also observed that external asset managers (EAMs) are harvesting more and more client assets from the private banks by pitching clients with stories of the

excessive bank fees and charges and underlining their EAM-style, more transparent approach. "This in fact actually helps the clients understand the concept of paying for advice in a transparent fashion," he reported.

Another guest noted that the elimination of conflicts of interest is also vital to the regulators and with DPM, it is relatively easy to show that there are no retrocessions and to highlight performance. However, he concurred with the general view around the table that the DPM business is registering very low growth in the region, as clients clearly resist the pressure from the wealth management firms to migrate their relationship to DPM mandates.

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Holding on to control

"Is it that people do not want to give up on ownership of their asset allocation?", asked one attendee. "What is the industry missing? How can this tide be turned?"

"We have looked at this in terms of client risk profiling," answered one expert. "Looking at this from a multi-dimensional way we note that the acceptance of delegation amongst HNWIs in Asia seems to be lower than the rest of the world. Perhaps this is because wealth is generally new or newer here, so it is not so mature."

He indicated that there might also be a general belief in the region that these HNWIs can 'win' on their own terms, but if they lose then the growth has been so stellar for decades that they might then make double or win it all back again. Maybe, he said, they like to be less measured, more aggressive.

Is Asia ready for discipline?

"Perhaps the DPM portfolio with its parameters like diversification, efficient frontiers, optimisation and so forth is not necessarily what the region's HNWI clients want to have," the same expert continued. "Whereas some of the older money is more conservative, more offshore and more focused on preservation, so DPM is easier to embed and maintain."

"Control is certainly a key point that has been raised today," remarked another guest. "This is highly relevant because we have observed that when the client makes a decision from our input on the advisory side, they are working with us in doing so, so there is that joint ownership of the decision. Accordingly, the likelihood of even a negative outcome leading to disappointment with the service, or advice, is diminished. On the other hand, the reality is that when a client has a disappointing experience with a DPM mandate, the blame is very clearly shifted to the portfolio manager. We have seen DPM mandates moving across to advisory because of these issues."

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Managing expectations

One guest commented that for the private banking industry to win through in the years ahead, they must be agnostic in their approach and also manage client expectations. "As we evidently

seem to struggle with selling a DPM mandate, I think one of the things we are trying to work on is to first educate clients on the asset allocation parameters and on the timeframe that we and they will need in order to generate returns that they want, I think that is where we can manage expectations a bit better. We need to refocus on the expected outcome over perhaps the next two to five years. It honestly has not yet really worked for us yet, but it is something that we are now trying to spend a bit more time talking to clients about."

The same banker further boiled the issue down to cost. "Frankly," he said, "we have struggled to convert people to DPM mandates because they are reluctant to pay the associated fees. Obviously, the first thing is the client relationship with the RM, which is vital to helping communicate and manage people's expectations. The RM is essential to the initiative of encouraging the client to look out over a longer period, during which hopefully the anticipated returns can be achieved."

Another guest concurred, noting that he has been surprised and impressed by clients' resilience of sticking with his bank when they see weak performance such as has been evident this year. "Our [DPM] performance has not been disastrous, but the market in Asia has not been very good; people always expect positive performance and you cannot always give it, so yes, it is indeed essential to communicate and manage expectations."

Communication with the client is essential

A fellow panellist remarked that most of their client discussions begin by talking about return expectations. "We see our job as advising them on the level of risk they need to take to meet those expectations and then we must obviously minimise those risks to achieve those expectations. During the investment mandate, we can also communicate that we might then need to let go off some of those risk goals just to deliver the performance. Moreover, that is essential because that is where the fees are coming from and this is recognised in appropriate fee models when we create our fee models."

Another guest struck a rather more positive note and commented that although his bank struggles with discretionary currently, it is because the older generations of between 50 and 80 years old are still in control of most of the wealth and they do not tend to believe in discretionary management. "They want full control of everything," he observed, "but we hope that perhaps when we get to that generational change to the younger generations, you might well see the changes coming through and greater success in this area."

And one banker claimed that his bank was already bucking the trend and achieving a discretionary penetration level of over 40%, which he maintained is one of the highest in the market.

"We play it well," he claimed, "by presenting ourselves as a smaller firm but with a global bank parent company behind us. We are quite happy to work below the ultra-wealthy levels and we are very hands-on in the relationships. We have assembled a team of more mature, experienced RMs who really play these relationship cards. It is a combination of elements that work well for us."

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Growth and the RM

This comment led the discussion towards personnel and whether to achieve growth the banks need to poach RMs from their competitors.

"The growth in this region is so rapid and there is a shortage of time to capture that in Asia," commented one expert. "Wealth management is still a relationship business. On the product side, I think honestly it is becoming more and more commoditised honestly. For many years we as an industry put the resources upfront with the products, but the focus now needs to be at the back end on advisory. Even tailor-made products and private placement deals are becoming commoditised, so the relationship element is ever more important."

"We have some 900 client advisors, some of whom have had

relationships going back 20 or 30 years," said one senior banker from a global bank. "That is of course very hard to replicate and is the foundation of our success."

But another guest questioned whether the RMs and the bank genuinely have the experience, expertise and conviction to deliver advice. "Can we consistently add any value that ultimately the client is prepared to pay for?"

Digital enhancements

Replying to this, one expert commented that digital technologies should enhance the abilities of bankers and thereby boost the migration of clients to advisory. "Clients," he said, "can more readily move to advisory while technology can boost their access to investment ideas, products and the efficacy of the advisor to accurately tailor their needs and preferences."

"There are not that many competitive advantages in banking," he added. "Good relationships are one, your technology as made available to the client is another one. We are in a very tough business that will get tougher and there are no easy solutions. Technology is one way forward, eliminating the laborious work of RMs looking through portfolios one by one and trying to come up with solutions. With a strong tech platform and applied with intelligence we can actually increase the number of clients a banker can effectively service."

"We are digitising the onboarding process and the annual review process" noted another guest. "This will enhance the time and efficiency of the RMs and take a lot of pain out of these processes for the clients. We have conducted extensive research and we believe we can free up the RM's time, for example, but we also need to make sure the RMs are fully on board with this."

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The digital release valve

"We will certainly focus more of the digital evolution on the RM," added this expert, "to make their lives easier. It is the onboarding, the annual reviews, releasing his time so we can take care of clients more efficiently and build more clients at the same time. So, how can we reduce their admin by maybe 50% or more, so that much more of their time is spent productively. Our priority is certainly new technology. For example, as our CEO has said, we actually look at mobile not only as a way to serve the customers but as a way for customer acquisition."

"Let's be very open here," remarked another banker. "About 80% of our revenue is made up from 20% of the clients and the RMs spend 80% of their time with this 20%. The rest of the clients can be serviced with the help of digital technologies. There is also still a vast amount of cash just sitting around in bank accounts in Asia, so I am positive about us being able to achieve growth, providing we maintain and build credibility."

Realising technology's limitations

But technology, another attendee remarked, has its limitations. Accordingly, the banks need to figure out a hybrid approach of creating and using technology that makes the relationship manager more efficient. "There is no way that artificial intelligence is going to be able to create a workable, robust wealth management structure for an Asian family with complex family and asset issues to consider."

A different perspective was provided by a banker who questioned whether the wealth management industry was even heading in the right direction. "One of the things that we have focused on is scaling our salespeople, our RMs, to actually find out what is of value to a client. We all seem to assume that discretionary is valuable, but we don't really know enough about the clients."

"If your client tells you exactly what they need, that might only be half of the real story," he continued. "Private banks are not very good at actually asking their clients what they want and why they want it. I don't think they often ask really how they compare against the other private banks. For example, do they really care about digital solutions?"

An attendee took up this point and said that technology will certainly help the banks contextualize ideas for clients. "Digital will enable predictive

models," he said, "so we can profile and focus on what the clients may be interested in and therefore breaking the old link between the RM as a gatekeeper of these ideas and delivering those directly to the client. It will be a little bit like the Big Tech type approach, so whatever you have been clicking on such as a certain type of product means you will then receive relevant, related ideas to your inbox."

Quality, not quantity

The discussion closed with one senior wealth manager re-directing the conversation to the daily realities of products and solutions. "We have talked a lot about technology," he said, "and a lot about disruption. But at the end of the day, the most critical thing is how do we deliver value to clients? Over the last two years of managing money, I think some of the most critical elements to delivering value, especially in the Singapore context, is to determine what people want, how they perceive the value of what we offer. Do they want low costs, do they want transparency and if so we must tailor products and solutions to their demands, for example by increasing the investment of ETFs in this market; even in weaker markets they can provide solid yield and capital appreciation in better markets. The level of acceptance for ETFs here is still very low so there is great potential."

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The final word went to a senior banker who said the industry should focus on relevance and on quality over quantity. "Our growth will be determined by how we can actually differentiate ourselves rather than by how we can simply compete directly against everyone else." ■