Redefining the meaning of 'advice' in Asian private banking

Citi Private Bank is trying to drive a proper asset allocation and risk management mind-set to managing client portfolios. If it can create the kind of success with this approach it expects to, the concept of advice will finally start to have more meaning, says Roger Bacon.

Ridding Asia of the short-term, emotion-driven mentality that tends to fuel investment behaviour and decision-making is critical if private banks and wealth managers are ever going to make in-roads in providing real advice.

In line with this, Citi Private Bank is making a tangible and focused effort to move things in this direction. It wants to help clients take a longer term, more strategic view of their portfolio, via more thoughtful and all-encompassing discussions, explains Roger Bacon, the bank's head of managed investments and advisory in Asia Pacific ex-Japan.

While this involves quite a significant mind-set shift, he is confident that approaching the conversation from the starting point of a big-picture view, followed by risk management and asset allocation, and then doing the implementation as a result, is the right way to go – for clients and the institution's own bankers alike.

A NEW MENTALITY

The way in which most individual investors in Asia at the mass affluent and even HNW levels buy products – and seemingly also prefer to be sold to – in itself breeds short-termism.

It is all-pervasive across the region, and particularly acute in some markets. In Taiwan, for example, the velocity of fund investing is phenomenal – many retail buyers trade mutual funds in the same way as a day-trader in the US buys and sells stocks. "It frustrates me that we still have this supermarket-type mentality in Asia," says Bacon.

An immediate consequence is the frictional cost on portfolios, limiting the long-term benefits investors can reap.

So how, and from where, can clients hope to get any proper advice?

The need for change is an understatement. But Bacon believes it must be driven by the banks and individual client advisers. And part of this is removing weekly or monthly targets that fuel the short-term focus of front-line staff.

ROGER BACON
Citi Private Bank

REAL INSIGHTS

Providing effective advice is only feasible with a deeper understanding of a client's portfolio and objectives.

To do this with the typical ultra-wealthy client in Asia is, however, made more challenging by the fact that they use multiple custodians; often they have between four and eight relationships.

As a result, each banker has to accept a smaller share of wallet, in turn making the market more competitive.

But the bigger concern is that if these clients have to interact with so many different counterparties, they are probably not spending enough of their time getting each investment or portfolio decision right, nor are they likely to be making it quickly and efficiently.

Citi Private Bank wants to break this cycle as much is it can. "We are trying to understand what the client is trying to achieve over the medium and long term so that we can take a more holistic view of their various exposures," explains Bacon.

This doesn't require clients to give the bank 100% of their wealth to manage. Instead, it is about encouraging them to be a bit more open about the content of their existing portfolios with each of their other banks.

If they provide such transparency about the rest of their investments, then Bacon says Citi Private Bank has the tools to help these clients better understand their overall situation, and where any sensitivities might be.

The key to doing this successfully, he explains, is framing discussions in terms of risk management and asset allocation.

"We are having more conversations with clients along these lines," confirms Bacon. "This gives us a better chance of meeting their requirements, even if they don't think this is what they want."

For example, he says, with more knowledge about the rest of a client's portfolio, then the advice from Citi Private Bank can be more relevant, avoid any duplication and move individuals further towards fulfilling their overall asset allocation goals.

At the same time, Bacon is acknowledges the value of the other side of the bank's offering to its UHNW client base – its large and profitable trading arm.

This is also key, he adds, to support specific tactical investment decisions and objectives as part of the bigger portfolio picture.

"We are trying to understand what the client is trying to achieve over the medium and long term so we can take a more holistic view of their various exposures."

MOVING THE NEEDLE

Delivering advice in the way in which Bacon articulates is a long road, but one which Citi Private Bank has embarked upon with the intention of being well-positioned in five to seven years' time, once this style of managing portfolios has more fully percolated into the client mind-set.

"This is the approach we took in Europe and the US around 10 to 15 years ago, so it is a matter of time," says Bacon.

Spurring his optimism of the potential for such an advisory offering are the results of the efforts since 2008 in helping clients realise the value of increasing allocations to fixed income more broadly. "If we look at this only from the framework of a risk perspective, the average client today is a lot more comfortable with a greater proportion of fixed income in their portfolios than in 2007," he explains.

For now, some clients are open to having a more transparent conversation; others aren't. For example, Bacon says that family offices appreciate the value of it, whereas some individuals might be more protective about what information they are happy to share.

The key from an advisers' perspective, is to explain to clients that the objective is to help them create more relevant solutions – not to try to steal assets from other institutions.

Further, the information Bacon says advisers need relates to where a client generically has exposure. "We don't need to know which managers or stocks they have in their portfolio."

This should also give clients greater comfort and trust about being more honest and open.

Ultimately, it then becomes possible for an adviser to assess if a client has, for example, an excessive interest rate risk, and why. “If we only look at the portfolio a client holds with us, they might not see where any potential issues are,” adds Bacon.

For Citi Private Bank to be able to deliver on this proposition, however, it also needs to continually educate its own private bankers and investment advisers to adapt the way they think about their conversations with clients.

This is important, since despite their experience in the industry, they are not from a portfolio management background, so might lack the strategic mind-set required.

“Internal education is as important as the need to change the dialogue with clients,” explains Bacon.

THE RIGHT PRODUCT PARTNERS

An essential ingredient to enable institutions such as Citi Private Bank to give the right strategic advice to its clients, meanwhile, is the support and service it gets from product manufacturers.

Yet many of these providers continue to get it wrong.

This stems from what Bacon calls a “bandwagon mentality”, where they seem to lump together all distributors in one bucket. As a result, the manufacturers are most interested in getting their product out the door.

“However, there are many participants in this industry which do not consider themselves ‘distributors’,” he explains. “We think of ourselves as providing advisory services.”

Rather than simply trying to boost AUM as quickly as possible, an advisory focus means having more considered and strategic discussions with existing clients so that they give the bank more money to manage.

This is the polar opposite of what happens at many of the more mainstream distributors, says Bacon, such as changing the recommended funds on a frequent basis.

“We have good relationships with those manufacturers who understand our goals and why we are different,” he adds.

In practice, this means they come to him with one or two new, well-thought out ideas a year, not one a month.

Plus, they provide access for Citi Private Bank’s clients to their portfolio managers, and they give ongoing support for legacy products.

It is therefore less about viewing the bank as a sales pipeline and more as a partner focused on long-term goals.

MAKING ADVICE COUNT IN 2016

For Bacon, to implement the mind-set shift he envisages, it is fundamentally about starting with a proper understanding of the big picture.

“We need to try to make sense of what is going on in the markets,” he explains.

“This is not about being bottom-up in our investment process, nor being too granular. Instead, we need to frame what is going on so we can discuss it with clients and agree on that framework with them.”

For example, this includes looking at factors like: making a call about developed markets versus emerging markets; understanding which economies and sectors are going to endure through the current maturing bull market; assessing which funds are appealing and that are not levered to the current credit and interest rate cycles; and predicting which companies are genuine game-changers for the future.

Once the macro picture is in place, it is possible to formulate and articulate the bank’s view.

From this point, the conversation with a client can then focus on how the bank will approach risk management and asset allocation for them.

And it is increasingly viable to do this. “Clients are more mindful of risk today than they have ever been,” says Bacon. “This is a good thing because it creates more of an opportunity for us to better understand what is troubling them, and then we can help.”

The alternative, which is the common approach to what many banks refer to misguidedly as ‘advice’, is leading with implementation via individual products.

According to Bacon, however, that misses the bigger picture altogether.

“Many players in the industry have led with implementation for many years, but that is wrong.”

While this might be acceptable or suitable in the context of retail investors, it runs contrary to what an advisory approach is all about. ■