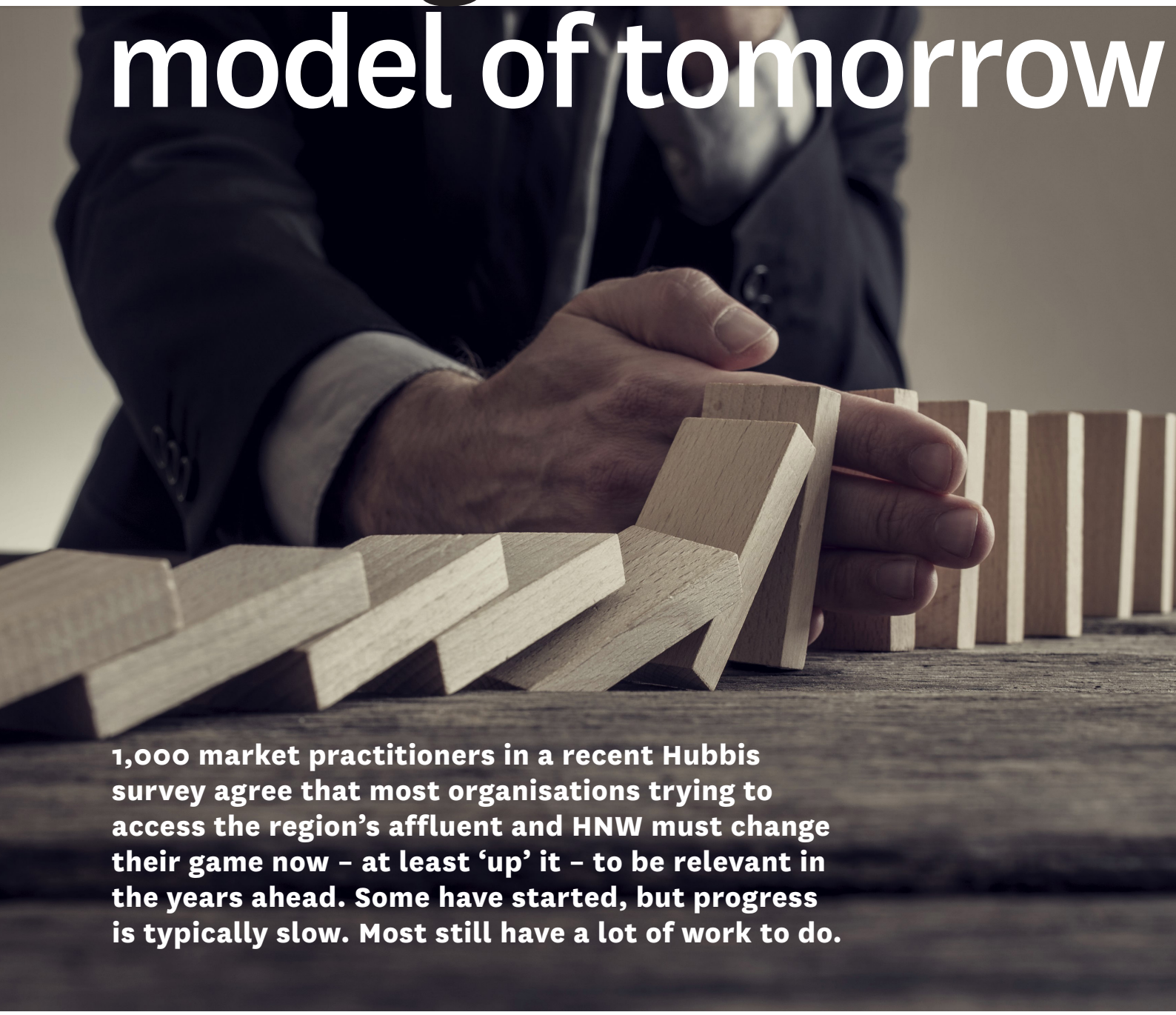
Rethinking the wealth management model of tomorrow



1,000 market practitioners in a recent Hubbis survey agree that most organisations trying to access the region's affluent and HNW must change their game now – at least 'up' it – to be relevant in the years ahead. Some have started, but progress is typically slow. Most still have a lot of work to do.

THE WAVE OF CONSOLIDATION in private banking in Asia among some leading international players is a clear sign that many institutions haven't done a good job of making the most of the opportunity.

Even the majority of those firms still operating in the region have generally under-performed and suffered from reduced net inflows and revenues.

This has motivated local players, independent models and non-financial market entrants to try to plant their own flags in this marketplace. And this new competition is coming at the same time as services get commoditised and the average client across the wealth spectrum grows in sophistication, with expectations that are more clearly formulated.

The landscape has changed in many other aspects, with the challenges well-known - from regulatory tightening in the form of suitability, account-opening and culture reform; to tax transparency issues; to the use of technology such as front-to-back platform automation, artificial intelligence (AI) and robo-advisory.

Are most wealth managers really adding value anymore to clients? Especially when it comes to products and advice, this is very much under the spotlight.

Evolving and increasing demands from clients, coupled with greater choice via new types of offerings, call for traditional wealth management players across the industry to make strategic changes - in how they deliver their services, how they charge for them, and how they pay their front-line staff.

The critical question, is which institution has the gumption to move ahead? The rest will have to play catch-up. Ultimately, the way that different firms tackle the various hurdles they face will inevitably create a divide - and the more successful firms will be those that are able to move quickly in line with current market developments, having already planned and strategised for the future.

deliver goals- and outcome-based solutions. This inevitably calls into question the fee model - which, urge many senior executives, is in need of significant overhaul, too.

From today's largely transaction-oriented mind-set, the private banking and broader wealth management industry has to evolve to where firms are charging for what they do. Indeed, without a model that is sustainable - such as being backed by a healthy chunk of recurring fee income - survival prospects for most players look relatively bleak.

Yet it isn't all about fee-for-advice; but also the ability to price products and services accordingly.

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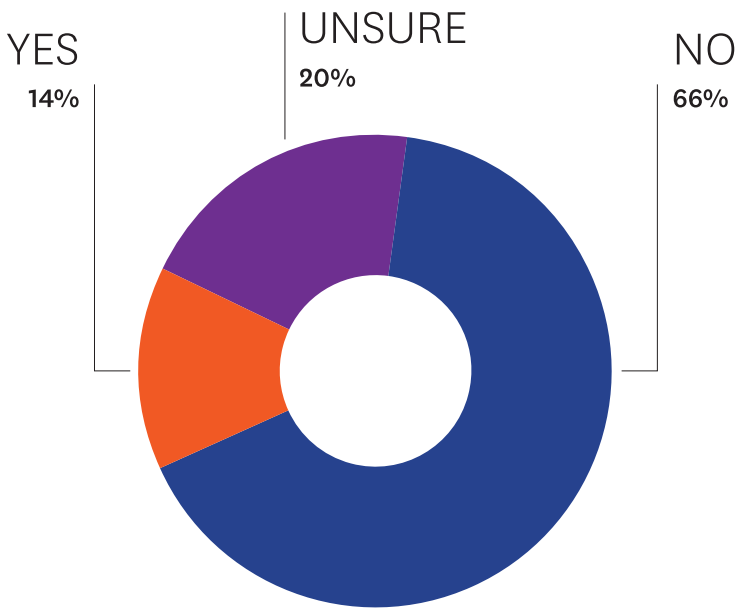
Making a change

To deal with the rapid pace and extent of change, therefore, being well-connected, relevant and up-to-date is of utmost importance.

To achieve this, industry players acknowledge they need to embrace efficiencies from technology in their own investment and/or product process and, on the client side, be able to

GIVEN THE CHALLENGES IN MOVING CLIENTS FROM BANK TO BANK – IS THE ROLE OF THE RM LESS IMPORTANT TODAY?



Key quotes

What did the 1,000 survey respondents say about the future look-and-feel of Asian wealth management and private banking?

- "We can either wait to find out or prepare and lead. I prefer the latter."
- "The question is, does the financial institution have the gumption to be ahead, just keep up, or play catch-up?"
- "We need to think more about the client instead of ourselves."
- "Bringing back more of the human element is necessary to deliver on customers' expectations."
- "Private banks are not prepared enough to serve the needs of the next generation."
- "Legacy models will make it very challenging for most institutions to survive."
- "We need to develop our niche; we cannot sustain ourselves by being generalists."
- "There is a clear and unstoppable trend towards digitisation – and wealth managers need to embrace that new paradigm."
- "The personal touch needs to increase to compete against pure robo-advisory."
- "Clients should move away from paying for turnover to paying for performance and advice."
- "Fee-based advice is the only defensible model."
- "The role of an RM needs to be clarified; are they a salesperson or an adviser? It should be the latter."
- "If RMs act in the best interests of clients, commissions must be stopped as they lead to distortion."
- "Paying commissions kills the wealth management proposition."
- "Commissions are a fine line... you need to dangle carrots in front of the horse to encourage it to move sometimes."
- "Niche players need to up the ante with better engagement, better communication and better performance."
- "We have to continue the effort to increase the share of recurring revenue."
- "The magic lies in personalisation. Pure transactions will dry up, but a customised model allows us to generate additional revenues."

This will, in turn, force there to be a re-positioning towards 'solutions' and away from trading to get a bigger share of a client's wallet.

Although client activity during the bullish first six months of 2017 suggests that few lessons were learnt after 2007/2008, the next-generation does seem to be focused more on value - and less on relationships.

Of course, this all relies on relationship managers (RMs) and other client-facing advisers being trained well and incentivised in a way that ensures they think about what's good for the client, not just for their revenues and bonus.

Although there are already some examples of firms with the right processes, incentive structures and models in place to do this already, they are few and far between.

Cost is another practical driver of change, agree practitioners. The current distribution model is becoming too expensive to be sustainable unless firms are able to reap enormous scale advantages.

If this isn't possible - and this applies to the majority - third-party platforms become increasingly attractive, and necessary, to ensure the availability for clients of a much broader range of offerings outside the bank.

From a digital perspective, meanwhile, despite a general feeling of hype around fintechs and fewer tangible impacts on the day-to-day wealth management landscape than proponents might make out, AI and big data-type investments need to form part of the strategy for most players.

For example, more context is required when giving information to investors about their portfolios and options - and this can be provided through a

CREATING THE RIGHT CULTURE

Against the backdrop of the many challenges and threats to existing players and business models, what if anything has changed in the way that many wealth management organisations – and individual advisers – conduct themselves today?

A lot of policies are in place that make it much more difficult for clients to sue banks. However, admit many industry leaders, not enough has changed fundamentally.

This has led to more attention from the regulators. In March 2017, in Hong Kong, for example, the Hong Kong Monetary Authority (HKMA) sent a notice to the chief executives of all local authorised institutions. It highlighted the pressing need to promote what the watchdog described as: "a sound corporate culture that supports prudent risk management and contributes towards incentivising proper staff behaviour leading to positive customer outcomes and high ethical standards in the banking industry."

This essentially calls for all players to strike the right tone from the top. This is mainly in terms of governance and other practices – including remuneration not being linked solely to revenue. The regulatory aim is to eradicate undesirable behaviour.

Yet this has taken nearly 10 years since the most recent financial crisis – and only since realisation has dawned that prescriptive rules and regulations have not had any influence culturally on many practitioners.

Some organisations have already taken steps in this direction. For instance, they have linked compensations with financial plans and client assets – not just revenue.

But while the trend is heading in the right direction, the HKMA's letter is an example of the fact that much more needs to be done, and by a much larger number of organisations.

better communication strategy. Other ways to use technology more effectively, suggest survey respondents, include the ability to harness apps to notify clients of market insights, enable them to place orders and push portfolio updates to them.

There is also a need for more niche players to up the ante in these ways, to create a closer engagement via better communication and enhanced performance.

Steady as you go

At the same time, some industry practitioners urge senior management to proceed with caution. Changing the entire game might be a step too far; firms might just need to start by learning the new rules and playing by them.

This requires them to maintain a balance - remaining flexible in their approach without going against key values and principles, nor overlooking core capabilities.

After all, frequent change that also doesn't play to internal strengths is counter-productive and likely to result in loss of effectiveness and efficiency. Some firms might, in fact, find that they fail simply because they feel the need to drastically change their proposition or model away from what might already be workable.

Instead, the way forward should be to evolve the delivery of the proposition and use technology to facilitate and complement - not replace - the client experience.

Clients remain critical

This highlights the extent to which customer care and contact on a regular basis is now paramount - for institutions of all types and sizes. And as the needs of clients get broader and more complex, coupled with the evolution of technology, wealth managers need to be innovative in finding and then delivering the right solutions.

This needs to happen right through from ideas to execution - making it necessary to use digital tools and online financial planning models on the one hand, but also seek specialist, third-party technical advice on the other.

In general, clients are increasingly looking beyond the hygiene offerings from their banks and other providers; they now expect access to innovative products and ideas, and a much better user experience in terms of analytics and ease of navigation.

Further, being savvier and better-informed, more clients are capable of conducting self-directed trading and investing. This is especially true when it comes to flow products.

So with the introduction by some private banks of robo-advisory, perhaps some parts of an RM's job can be easily replaced.

Yet as the needs of clients across segments change, institutions must also be more focused than ever before on the right segments that suit their own specific value proposition.

More competition and lower average investment returns also require firms to find other sources of savings and products to maintain

viability and deliver meaningful performance - and therefore value - to clients. This should all lead to the more desirable outcome of a portfolio advisory model rather than continue with the largely single-product focus.

A model portfolio service will also ensure a firm can prove to clients the return history, at a lower cost, with greater transparency, and via the greater convenience and flexibility of digital tools.

Recurring income a priority

The key way that many industry players believe they can earn a premium in terms of fees in today's wealth management landscape, is through the quality of their relationships and customer loyalty. The sustainability of the private banking business in many markets, therefore, is largely dependent on firms being able to improve their ratio of recurring fee income. This is connected to credibility for the industry, since recurring income is a clear sign of client trust.

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Banks that are unable to do this - and grow it to 30% or more - face a big challenge to stay in business, say market leaders.

The focus for the next 12 to 24 months, therefore, needs to be raising the conviction level of bankers, so that they can give more relevant and effective advice to clients to add real value when it comes to managing their assets. And with this comes more confidence and justification to ask clients to pay.

This reinforces the views of a rising number of industry practitioners - that there is no better time than now to push the fee-for-advice agenda.

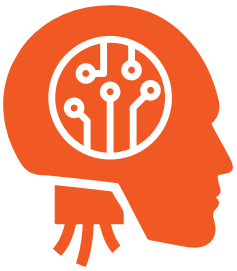
With the regulator pushing for change, continuing to do transactions on a day-to-day basis will lead to a dead-end in terms of recurring revenue and sustainability of the business model. Further, with the volume of paperwork required today, doing a similar number of trades per day as 10 years ago, for example, is no longer viable.

Newer entrants to the private wealth landscape might have an advantage to some extent. Without the transactional legacy, for instance, new clients who are onboarded can get a different proposition. ■

10 ways to thrive in Asian wealth management over the next decade

INCREASE RECURRING FEE INCOME – TO 30%+
Move from a focus on single trades to one on portfolios, to drive annuitised revenue via discretionary mandates and managed advisory services. This involves raising bankers' conviction levels, skills-set and knowledge.

TARGET SPECIFIC CLIENT SEGMENTS
Be more focused on specific and distinct groups of clients where the individual proposition and core capabilities match and can add value.

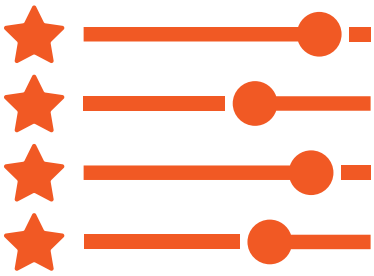


BRING BACK MORE PERSONALISATION
Despite the need to industrialise parts of the business and embrace efficiencies via technology and digital tools – organisations must augment this with a strong human element by personalising the offering.

INVEST CAREFULLY IN AI AND BIG DATA
Provide more relevant, contextual and timely information via artificial intelligence and big data – as part of the need to improve client communication, including apps to deliver updates and enable clients to place orders.

DEVELOP MORE RELEVANT SKILLS FOR RMs / ADVISERS

More focused training for RMs / client advisers to give them the skills and competency to foster more meaningful client relationships – to ultimately deliver solutions that breed intimacy and 'stickiness' to the bank, and therefore more consistent and stable revenue.

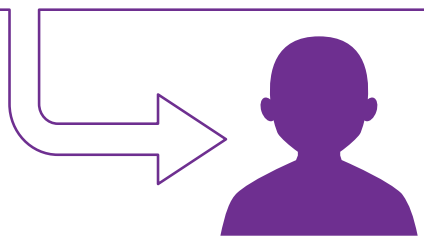


ALWAYS ACT IN THE CLIENT'S BEST INTERESTS

Set the right 'tone from the top' to create a culture and set of ethical values to eradicate undesirable behaviour and incentivise the right conduct that will be more likely to deliver positive customer outcomes.

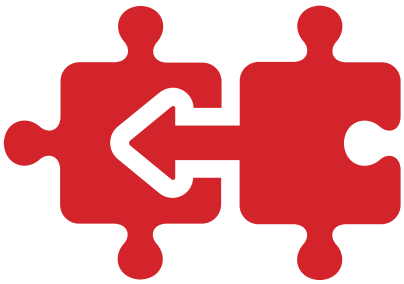
SATISFY THE PREFERENCES OF THE NEXT GENERATION

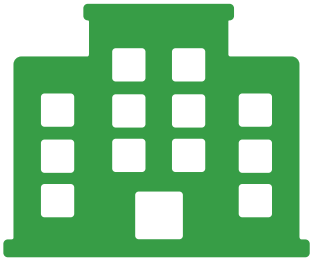
Tailor the service and solutions to the next-generation – who tend to be focused more on value and less on existing relationships.



CREATE CLIENT-CENTRIC KPIs FOR RMs / ADVISERS

Change the remuneration policy to align the interests of clients and front-line staff by paying RMs on productivity that also incentives all-round performance – including client satisfaction, risk control, outcomes and ethics.





GET MORE ACCESS TO LOCAL MARKETS

Develop more onshore business – either by setting up new offices or partnering with local firms – in expectation of more funds being repatriated and a lower incentive for clients to use wealth managers offshore.

SHIFT THE FOCUS TO WEALTH SOLUTIONS

Move away from a reliance on ever-more commoditised investment products to solutions to protect, preserve and pass on wealth between generations. A growing share of wallet will go to bankers who help solve a client's core business- and family-related issues.