

Size and scale to prove vital in a consolidating market

More private banks could divest their Asia operations or wealth planning departments as they struggle to make money in wealth management. Christopher Marquis explains how HSBC Private Bank aims to be one of the industry's winners.

High operating costs, disappointing levels of AUM and increasingly onerous compliance requirements are likely to force more private banks operating in Asia to retrench or consolidate.

Institutions wishing to continue offering wealth planning capabilities require economies of scale, client knowledge and a genuine service advantage, believes Christopher Marquis, the global head of private wealth solutions at HSBC Private Bank.

"To succeed in wealth planning today you increasingly need a critical mass, because the cost of doing business has risen in the past few years," he says.

HSBC Private Bank's private wealth solutions business certainly possesses this attribute. "Globally, we have over 500 people dedicated to this business and ensuring we are up to speed with [industry regulatory] changes," notes Marquis. "In terms of private wealth

solutions, we are the oldest and largest business in Asia."

COMPETITIVE ADVANTAGE

He says HSBC as a whole benefits from the longstanding relationships it has with business leaders and companies in Hong Kong and beyond.

"Many of our private clients are also corporate clients, and as a result we understand a lot about how they created their wealth, what businesses they are invested in and what these do," says Marquis.

This is important because Asia's rich people are often business owners. McKinsey's *Global Wealth Management Survey 2014* says over 40% of China's HNW individuals are entrepreneurs.

This client understanding has enabled HSBC's wealth succession and planning business to avoid discounting its services, unlike many of its rivals.



CHRISTOPHER MARQUIS
HSBC Private Bank

"We operate as a profit centre and as such we have to meet all [the bank's operating] metrics in terms of revenue growth and profitability, whereas some

of our rivals have tended to run their trust divisions as a loss leader in an attempt to attract assets and to charge on the discretionary and advisory [investment] side,” says Marquis.

He argues that HSBC Private Bank can offer in-depth and technical advice when it comes to effectively transitioning their wealth. “Several clients have come back to us and told us they appreciate the level of support we offer, after having experienced the service offered by other institutions.”

For example, HSBC Private Bank’s private wealth solutions business offers some HNW clients consolidated reporting of their wealth positions in structures, which can be analysed across industries, jurisdictions, geographies, asset types and other metrics.

It also offers analytics on the investments that a client’s trust has with different private banks or independent asset managers, allowing them to consider which institutions are performing well and their risk exposure.

“Each bank operating in the wealth planning business needs to discover and then focus on what it is best at,” Marquis says. “We are all under margin pressure, so banks that do not do particularly well in one area should divest it if they want to maintain a healthy business.”

CLIENT EDUCATION

Another issue common to all private banks is the need to become more transparent. Governments across the world are seeking more information about their citizens’ wealth to reduce tax evasion and money laundering.

HSBC found itself at the sharp end of these efforts in February 2015, when

news emerged that its Swiss private banking division was being investigated for helping clients evade taxes eight years earlier.

Stuart Gulliver, the bank’s chief executive, said at the time such behaviour was “unacceptable” and that HSBC had put its entire private banking customer base through “enhanced due diligence and tax transparency filters”, as well as aiming to implement Common Reporting Standards (CRS) and other measures.

Marquis underlines that all banks and fiduciary service providers must fully live up to their information disclosure responsibilities and explain the ramifications to clients.

“Significantly more client information will be shared with governments through CRS and other initiatives,” he says. “It’s our role to ensure that our clients both understand and are fully compliant with these requirements.”

HSBC’s private wealth solutions division has taken a two-pronged approach.

“We have a dedicated legal team looking after all the issues surrounding regulations, which is vital because we are the legal owner of trust’s assets,” says Marquis. “Additionally, we have dedicated project teams working on all regulatory initiatives, to understand the effect of these changes on all aspects of the business.”

After researching new regulations, the bank reaches out to its clients to discuss the impact on their confidentiality and service needs.

“Complying with the new rules might be more costly, but it will help create a more responsible industry.” ■

Succession concerns

Christopher Marquis of HSBC Private Bank says transitioning wealth from one generation to the next is one of the primary concerns of HNW clients in Asia.

“Patriarchs work hard to create and manage this wealth, but they wonder who will oversee it in the future, and how they manage potentially diverse family branches that have different perspectives [on this issue],” he notes.

HSBC Private Bank attempts to address such concerns by offering expert forums.

“We offer family enterprise events that bring commercial bank and private bank clients together to talk about these issues,” says Marquis. “It offers them a chance to understand the experiences of those who have been through the process, to help them see the value of proper succession planning.”

Failing to prepare for the inheritance of family wealth can be damaging. At best it can fracture a family’s wealth. At worst it can lead to expensive and damaging inter-family feuding. It can be difficult and costly to repair the problems raised by insufficient succession planning.

“Families passing wealth to the second generation without a plan can see it fragment,” says Marquis. “Nobody is in control, which stifles decision-making and can lead to loss of control premium. Some clients ask ‘how can we put this back together?’, but rarely can it be repaired. Inevitably some of the second generation want to monetise their inheritance.”