Steady growth with an eye to the millennials

Vincent Chui of Morgan Stanley sees the challenges facing private banking as an opportunity to selectively acquire talent and grow the platform to give it the right scale and positioning – especially with the next crop of Asian's wealthy in mind.

Perhaps one of the more prudent ways to approach the current private banking environment is to view 2016 as a transitional year for industry players to develop a rational view about sizing and aspirations.

Being realistic is certainly a take-away for Vincent Chui, managing director and head of Asia institutional equity distribution and private wealth management at Morgan Stanley.

"Private banking, notwithstanding its secular growth, has been affected by the very challenging investment and low/negative interest rate environment," he says.

It impacts both the flow and fees business, hence it is unrealistic for banks to manage their business using 2015 revenues as a baseline.

Whereas a few banks continue to seek to add headcount, "patience is probably likely to pay off given that cyclical headwinds will stay strong for a while," adds Chui.

At the same time, it is hard to deny the importance of scale. But it needs to come via growth in the right way. Just bringing in additional clients isn't necessarily going to be most effective, certainly in comparison with additional revenue. "You can sign up as many clients as you want, but ultimately in this environment, most of them will probably be cautious," explains Chui.

Where there is a big opportunity – and one of the drivers for him to positioning the private wealth proposition in this direction – is to put in place the people, processes and infrastructure to attract and service the region's wealthiest millennials.

VINCENT CHUI
Morgan Stanley

TRADITIONAL STRENGTHS

With AUM of around USD2 trillion, Morgan Stanley is the biggest US wealth manager. In Asia, its wealth management business adopts a very differentiated approach, leveraging on its synergy with the firm's top-ranked institutional securities and investment banking franchise and connectivity.

"Private clients benefit from that significantly in terms of investment ideas, research and products," he adds.

On the flipside, the bank has deliberately chosen not to be aggressive in terms of lending on a stand-alone basis. Saying that, it does use lending as a tool to try to help its clients achieve their goals in terms of hedging or investment, as part of a more holistic approach.

As with its peers, the bank has found the investment conversation with clients to be a more challenging one over the past 12 months, and especially in 2016.

"The risk-reward is different this year versus the last two years, so any product that gives you low volatility and reasonable risk-adjusted returns is worth looking at," explains Chui.

As a result, cross-asset product which generates a reasonable yield, such as 4% to 5%, is in demand, as long as there is a demonstrable track record and limited drawdown. Cash-equivalent products like money market funds and certificates of deposit are also highly-sought after.

This is where it is essential to take a longer term view, he adds. "These types of products are not very profitable for either the asset management company or distributor, but to me it's part of the service, and at a time when clients need advisers to help them take care of the problem of having too much cash."

AN EYE ON WHAT'S NEXT

Where Chui does believe the bank can also make a mark, is in advising the next generation of Asia's HNW and UHNW investors. And he knows that wooing these individuals requires the firm to adapt its approach.

More specifically, this involves bringing on board relationship managers (RMs) who are more aligned in their thinking.

Plus, they need to talk to these clients about a wider set of solutions to meet a broader variety of needs and goals.

"The reality is, this next generation of potential clients is not going to spend all their time thinking about investments," explains Chui.

"Instead, they are much more likely to seek investment opportunity in a tech start-up, conscious of their investment's environmental impact, and having more work-life balance. And the mechanisms for delivering advice are different too."

A younger generation of RMs is therefore required to meet these needs, starting with advisers developing the right connectivity and better understand ing of how these clients think.

"Then, when this new generation takes over or starts to share responsibility with the first generation, we are already speaking their language," adds Chui.

This is a challenge for the industry as a whole, not just for Morgan Stanley.

The key thing, however, is to make a start along this path by investing in and supporting younger RMs.

Chui believes that the bank has an important advantage in the current set-up in which he operates: with a crop of high-quality and well-experienced RMs who, on average, have 10 years-plus at Morgan Stanley.

This is in line with the strategy that he and his fellow senior management have on productivity.

"Our model focuses on delivering top quartile revenue per head, hence the importance of bringing in and retaining experienced RMs and product talent," he explains.

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Whereas Morgan Stanley's Asia wealth business is estimated to be managing as much as USD60 billion, it is notable that its team of a hundred RMs is small among banks with similar AUM.

"This is a crowded industry but if we segment appropriately and execute well with the right talent, it is a very good business," adds Chui. ■