The minnow and the whale – how independents can compete

Andrew Hendry, Managing Director of Westoun Advisors, an independent wealth management company with Asian offices in Singapore and Hong Kong, believes the 'minnows' of the independent wealth management sector can compete effectively with the 'whales' of the private banking industry.

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HENDRY BEGAN HIS TALK at the Hubbis Independent Wealth Management Forum in Hong Kong on November 16, 2017 by discussing the foundations upon which trust is built between the client and their wealth management service. Trust is built upon three main support structures. Clients are looking for wealth managers who are competent, and can reliably deliver a good return on investment, with the integrity to put their client's interests first.

ANDREW HENDRY
Westoun Advisors

Is big really better?

So how do these two wealth management sectors compare with one another? The medium-sized and large private banks have the

numbers. When asked by a client to prove they are investment professionals, a large bank can offer 3,500 mutual funds on their platform. They might also have 1,100 relationship managers across Asia Pacific, speaking many different languages. This broad coverage can easily translate into feelings of confidence in the client.

Conversely, what does the small independent wealth management company have to offer? Hendry suggested three principal areas within the competency umbrella that the smaller players can excel in.

Three core charcteristics

The first core skill is relationship management. Hendry gave an example of a large private bank in Singapore that keeps him updated every couple of years with information regarding his banking relationship manager via text messages. This impersonal service can be improved upon by the smaller IAM.

The second area within competency is wealth planning and here Hendry cited the example of the Asia head of a global private bank who, reprtedly, stated that wealth planning does not his bank money and therefore they are not going to offer it. If wealth planning is not a core deliverable by global majors in private banking, then wealth planning is a target for independent wealth management firms. "It is always best to play to our strengths," Hendry commented.

The third piece of the competency puzzle is investment content and outlook. Hendry began with an example of a meeting with two private banks, and one small IAM.

The two private banks each had around 14 billion Swiss Francs and US$14 billion of AUM. Conversely, the IAM has barely one fifth of that under management, and all in Geneva.

The first private bank has the numbers - a few hundred people. It is long-established and family-owned. Hendry reported to thre audience that he had asked this bank how they conduct fund selection. They replied that one person does it all, part-time. The second private bank admitted to outsourcing their fund selection to another company.

A more level playing field

Hendry noted that, surprisingly for some to learn, the small IAM, with just over a billion dollars in assets, therefore has the same fund selection capability and competency as a far larger private bank because it outsources to the same external firm, and at relatively low cost, Hendry added.

Hendry then moved to the next part of his 'trust formula', a facet he described as 'Leanness'. This he said translates as running a business within your means to avoid an unmanageable cost-income ratio. Hendry gave examples of major global banking names companies that had to exit the market due to this over-reaching, and concluded that running a lean business will ultimately determine business success for many smaller firms.

The second element of reliability is practicality. The example Hendry had raised of the small IAM in Geneva outsourcing their fund research, as it was not worth doing in-house in terms of opportunity and time cost, demonstrates the importance of making decisions based on practicality. In their case outsourcing was a better choice to make them more reliable.

The third element of reliability is collaboration. Hendry maintained that private banks are so often engaging in guerrilla warfare against each other, poaching clients and headhunting each other's best staff. Small IAMs, conversely, can choose to be collaborative and work together using the strengths of each, making them more resilient.

Integrity is the final foundation underpinning trust. Hendry described the decisions made by individuals entering the field of wealth management, and how integrity seems incongruous with personal gain. Most people entering careers in wealth management therefore go to work for the larger private banks.

Motivation to excellence

Hendry suggested that understanding your motivation in wealth management is a major part of knowing where your niche lies. A person working in an independent firm tends to be an entrepreneur, with self-confidence in their own competency. This drive for success allies the interests of the IAM with those of the client and, as he observed, IAMs survive and thrive with their clients. Conversely, large private banks are beholden to the demands of the shareholders. ■

The Trust Formula

WESTOUN ADVISORS

Competency ✕ Reliability ✕ Integrity