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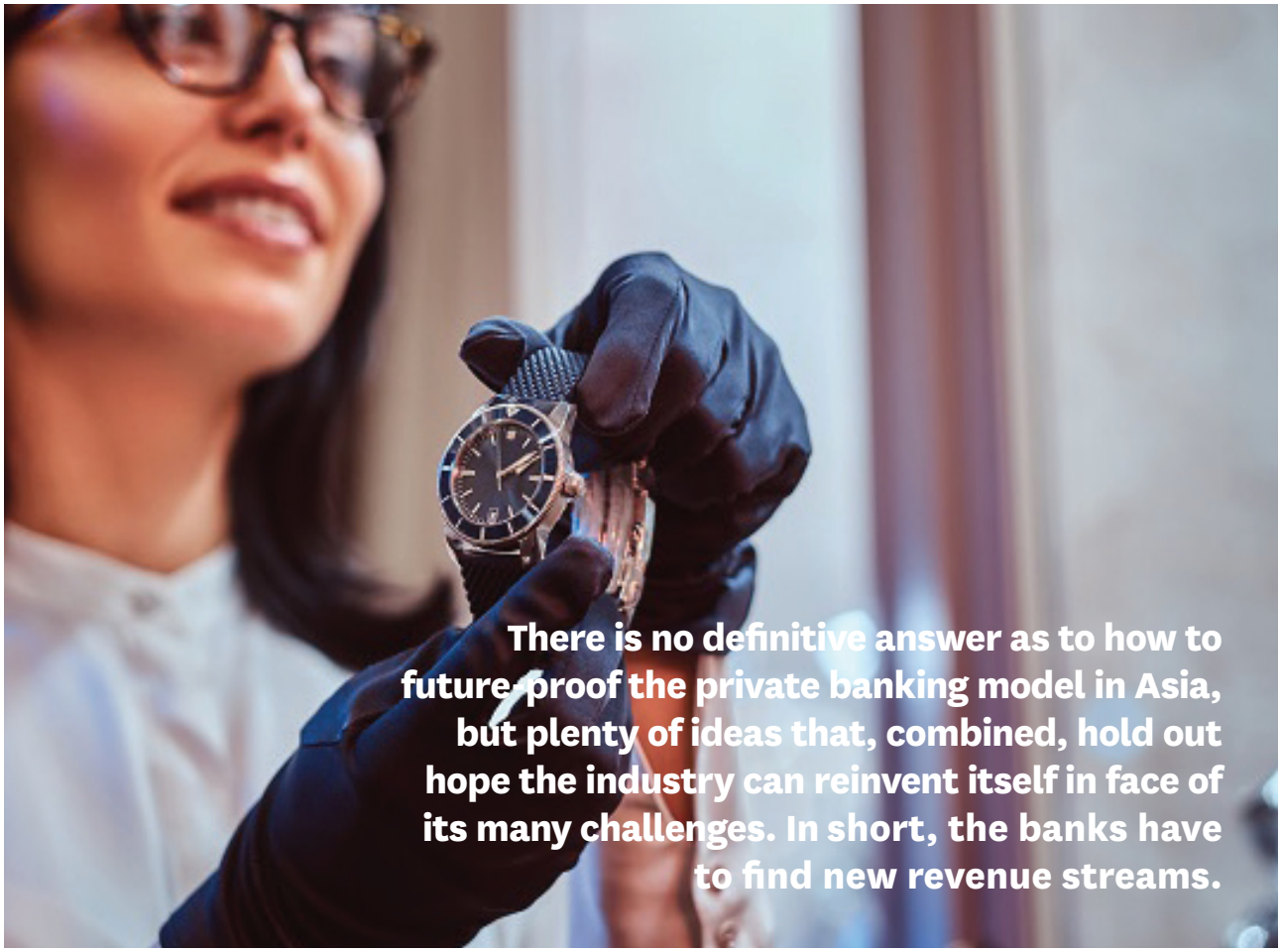
The Wealth Management Industry Challenge: Enhancing the Effectiveness of RMs



There is no definitive answer as to how to future-proof the private banking model in Asia, but plenty of ideas that, combined, hold out hope the industry can reinvent itself in face of its many challenges. In short, the banks have to find new revenue streams.

The key takeaways

Sometimes, change needs a catalyst

A banker with considerable experience in both Asia and Europe observed that there is often the need for a crisis or some other major catalyst for change. There is a lot of complacency and everyone is going to be killed by a thousand tiny cuts, he warned, advising that banks need to take a radical look at their performance and the success or lack of their models and their people and adjust all at one go, not try to solve issues one by one.

Squeezed in the middle

He added that the industry has been definitely under pressure, squeezed as it is increasingly between the EAMs and the fintechs at each end, and by the regulators and additional compliance burdens as well.

But will the market not rescue the banks?

Surely the massive economic and private wealth expansion in the region augurs well for private banking in Asia. Yes, and no, said one expert. The market might be expanding but the industry faces the existential pressures outlined in the discussion, including shrinking fees, competition from more digital entrants, fast-rising costs and compliance burdens, a shortage of genuine talent, and the transfer of wealth to new generations who are less "sticky" than the older generations. And when AUM moves banks, it also moves to achieve lower fees, so even the "winners" are earning lower revenues on the AUM than before.

Weaning out the under-performers

The banks must wean out both the under-performing clients and RMs. There is no point in having clients that produce little revenue serviced by RMs that cannot change that or adapt. It is a tough process to undergo, but a necessary one.

Methodology for linking RMs and clients

A banker strongly advised a much more rigorous and systematic methodology for selecting the right RMs for the right clients.

Top-down support in problem times

And when there are problems in the markets, or with portfolios, the RMs need the support of the bank from the top down, to reassure, educate, and deepen. Call the clients before they call you, be proactive, said one expert, adding that simple measures that can be taken are often not considered.

Retain the best

Whatever the advances in technology and the challenges from the competition, it was widely acknowledged that for the best to survive, they must retain the best people. To do so, this must also come from the top-down, to engender the optimal environments, with the ongoing education, behavioural coaching, psychology, the application of EQ, and other people-sensitive, loyalty-enhancing approaches.

Are RMs resisting change?

Some of the older, more established RMs in the region naturally distrust change and do not want to embrace new ideas, new products, or to move out of their comfort zones. A solution is to empower them with digital support, and support the clients with investment counsellors (ICs), if sufficient of those are available.

The banks must assess their own

But improving the RM skills and productivity cannot be achieved without more sophisticated measurement and monitoring of performance, as well as with clear leadership from the top of the bank, so that the RMs know what is expected of them, especially in challenging market conditions. This helps the retention of the best people.

Sell what is understandable

Too often, the banks are selling products that the clients cannot comprehend easily and that even the RMs do not fully understand. But of course, it takes time to develop the advisory and discretionary model, as this requires a more intimate understanding of the client. The end-game is being paid by the clients not by the products, but for the advice, but to get to that point the RM and the bank has to sacrifice some short-term revenue potential from product-pushing.

Adjusting the revenue mix

Banks are facing the need, due to costs and regulatory pressures as well as fee compression and the removal of trailer fees, to adjust their revenue models. Cost efficiencies must, therefore, be combined with a far more rigorous thrust towards advisory and DPM.

Exciting ideas, please

But again there is this Asian, age-old resistance to advisory to overcome, and also the younger clients want to see more innovative solutions and ideas before they will reach for the cheque book.

Shifting focus from mainstream

Mainstream financial assets have considerable volatility and unpredictability. There is a major shift taking place away from mainstream financial assets towards more illiquid alternative assets such as private equity, real estate, or access to pre-IPO financings and other ideas. This is especially true amongst the younger generations.

Keeping the differentiation

While digital advances can help empower and also industrialise the RMs, the true differentiation will still be that intangible trust that is prevalent in high-touch relationships with the clients, which platforms can help with better ideas, but can never replace.

EAM model shines

Some believe that, as in Europe, the EAM model will win through in Asia, as they argue it is ultimately the best model to deliver advice because the interests of the EAM and the client are aligned.

Know your client

There is little to be gained from bombarding clients with products and ideas that are not relevant to their preferences, or their needs, but private banks do this all too often.

But sometimes the proposition works well

There are however instances when the relationship flows are well managed. One guest cited a managed account he has with a global private bank, and on which he receives both regular updates and sound advice on the adjustment of exposures to market conditions. Moreover, the organisation is supportive, not only the RM.

If you can't beat them, join up with them

As the advisory proposition expands in the region, an alternative to fully adapting the bank to that approach is to acquire businesses with significant advisory success, a solid clientele and substantial AUM. And if not through acquisition, then partnerships also help, for example combining a firm's global expertise and product knowledge with local client connections and understanding of the business culture.

DPM struggles...so far

Discretionary portfolio management mandates are struggling to gain a firm foothold in Asia, perhaps largely because the Asian founder-patriarch mentality is one of control and antipathy to delegating. On the other hand, the generations that are inheriting wealth and businesses, or who will, or who are building new enterprises, are generally acknowledged to be less interested in mainstream financial investments and their day-to-day handling, and more interested in private investments where they can have a closer connection.

THE DISCUSSION OPENED WITH AN ATTENDEE highlighting the story of a major European private bank which in the past four years has hired some 480 bankers, of whom 80 remain at the bank today.

A fund manager who was a former banker with extensive derivatives expertise began with his personal insights. "I find my private bank is always trying to sell me products with little understanding of what interests me. I told the global head this, and he said we will change the RM for you. For the next few weeks, I was then bombarded with more products from someone who understood less about them than me, so that was a pretty unsatisfactory situation. On the other hand, I have a managed account with a global private bank, and that works well, and I have to actually credit them for instance for helping persuade me to have more equity exposure than I would have naturally because I'm a fixed income guy. They are actually highly structured and organised and could survive if my particular RM was not there."

Beware the churners

An expert with a leading boutique but also global wealth management firm spoke up, noting how when he was with a global private bank he felt there was such pressure to boost revenues that the RMs were forced to churn accounts or encourage excessive leverage.

"Our approach," he reported, "is to boost the advisory business in the region and we have chosen the acquisition route to help us advance that. The combination of our global expertise and product knowledge combined with their advisory skills and client base in this region is ideal. And we also have partnerships in the region with some major Asian financial institutions. We have not lost a single RM."

DPM struggles

As to the reasons why DPM is struggling to gain a foothold in Asia, the same banker commented that the psyche of the older, more established very successful Asian client is not to hand over control. "They have forged their own successes, built very successful businesses, they don't really want to hand any of that over to somebody who they perceive as less successful than they are."

But there is light at the end of the tunnel. "As the younger Asians return home from their education and perhaps early careers

Hubbis - roundtable in Singapore

in Europe or the US," this banker continued, "they appear often less interested in running the money on a daily basis; they are more interested, for example, in private equity deals, or tech-related ideas, more interesting things. They are therefore happier to at least consider discretionary."

Challenging the RMs

Are RMs too comfortable to learn new ideas, new products, to move out of their comfort zones, a panellist wondered?

"Most of the platforms I have been involved with," replied a veteran banker, "have struggled to control the flow of ideas and to follow it through to see who is actually capable of selling those ideas and then track effectively. The only way you can do it is through technology and digitalisation but marrying that with real on-the-job training and holistic approaches to portfolios is more complicated.

Collaboration is vital

"Some of the best RMs in my experience do this naturally," he added, "but there remain a large number of old school private bankers who do it their way. In doing so, they tend to scare off the investment counsellor (IC), so in some cases we see the RM taken out of the investment conversation, but then the problem becomes a shortage of ICs with enough weight."

But building a DPM business is a vital mission. "Once a bank gets 40% to 50% of the AUM into that proposition it sells itself," he continued, "so you can then easily have meetings where you can tell the client what is working. However, my own private bank, for example, has not called me once to consider how to shift the portfolio to market conditions, they cannot as they have too many clients to handle. Even when stocks fall sharply that are their recommendations and that they cover, they seem not to react, not to know what to do."

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Know your people

Another expert commented that the assessment of the RMs is vital, with the best operators having sophisticated measurement and monitoring of performance. There

are key measures, he reported, such as activity, client appointments, needs to be identified, as well as outcomes, including net new assets, goals met, financial plans completed. "This can all be quite tangible," he observed, "and some RMs leave when this sort of protocol comes in, but so be it, as many of them stay and then perform well. And it must come from the top, the leadership must be focused, the message coming through must be clear."

Ongoing training essential

"I like all the RMs to be sharing the same message about my products and to ensure consistency, which requires training," said a fixed income products expert at a global private bank. "Training is vital, and we can explain why it might suit the RMs' clients. But you can pull a rope, you cannot push it, so we can provide as much information as possible, but whether that is really understood and then correctly communicated is another matter."

The rise of the EAMs

A senior representative of an external asset management firm added his insights. "Without wanting to discredit any of our fellow lunch partners here, there are many products the banks sell that clients don't understand. If it is too complicated to explain to a reasonably sharp client within a few minutes, then very likely he should not own it. I really think that the private banks should focus on both a little bit more of the advisory as well as the discretionary side, with a more hands-on treatment of their clients. This is certainly a great strength of our EAM business model where we do have the time to take care of our clients, where we are paid by the clients not by the products, where we are paid for the advice or for performance and not for sales."

Making it simple

His colleague added further insights. "We aim to make it as flexible and as easy as possible for bankers to operate on our platform," he explained. "We consolidate quite a few custodians with us and obviously receive all the information including investment advice and advisory services from all the custodians and everybody is free to choose what they want to work with including our own internal solutions."

"For clients," he added, "education is critical as there are so many complex products today, and we certainly find that even in this day and age, the clients are not well informed on what they are actually buying because the bankers selling it are really not up to par, especially I would say in Switzerland, no matter how stupid that sounds. Interestingly, in Switzerland, you find a lot of people that come to the banking scene from engineer-

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ing, from all kinds of walks of life. There are of course many good ones too, but some end up looking after Russian clients simply because they can speak Russian."

Adjusting the revenue mix

Another expert commented that a core issue is the revenue mix. "For example, a private bank might be producing 40% roughly from deposits and lending, 35% trading, maybe 10% to 15% as trailer fees and another mere 10% from recurring fees like DPM, management fees, custody, and so forth. But we all know that trailer fees are on the way out. We also know that each year fees notch down slight on products such as FX or equity, a basis point or two, but always downwards. And the online brokerages and platform providers are much more efficient and comprehensive than the banks, which spells disaster. And the recurring fees are not yet materialising, because the clients are not yet paying for it. Ergo, the revenue per client will go down."

Don't shoot, I am the messenger

On the other hand, he agreed the market is growing, but nevertheless make the logical conclusion that costs have to go down as well, especially on the RM side, where he sees the future of the RM ultimately as an in-between, the messenger in what is a mainly online process. "In short, the banks have to find new revenue streams."

He added that there are of course smart RMs who collaborate internally to extract the best information and ideas for their clients. But the role of ICs is rising and digital is increasingly prevalent.

Diversifying the client-facing delivery

To survive, the banks need to leverage their internal resources for their clients. "Separation of functions is taking place," an expert opined, "and I think that is certainly the future. An issue, of course, is also portfolio aggregation so that the banks can see client portfolio information across the various banks and firms they have assets with. Then you can add analytics, and best of breed allocation and easier benchmarking, and then it becomes easier to get properly paid. Most banks are struggling, but I should say the major two Swiss banks are ahead in this game."

See the light

A wealth and asset management consultant gave his views, beginning with the fundamental message that the business model is changing for the wealth industry. "The newer age clients," he remarked, "are very tech-savvy, and we see that they no longer want to pay a high fee if they do

not see the value. If the banks keep pushing product, if they stick to a stock standard set of products, the clients won't want to pay. Why is there resistance to DPM? Partly, yes, it is the Asian mindset, but partly clients want to see more innovative solutions."

Welcome to the world of private

He also noted that there is a significant shift taking place away from mainstream financial assets towards more illiquid alternative assets such as private equity, real estate, or access to pre-IPO financings and other ideas.

His third point centred on the platforms, noting that providing the client gives consent and data remains confidential the platforms can become more client-specific, and EAMs can become more cross-bank. And Fintechs, he observed, can help RMs become more engaged and accurate.

Keep the faith

"Here I am talking about industrialising the RM, but this does not remove the value of that intangible trust or high touch relationship with clients, which platforms can never touch. So digital and platforms cannot on their own differentiate the RMs, the trust and relationships also need to be in place."

Another banker remarked that the older RMs do not necessarily embrace change as they are looking ahead to retirement. "They wonder why they should bother," he said. "Another issue is that clients do not necessarily often open up with their ideas and requirements, not many actually come into the bank and really engage. Additionally, the banks often lack feedback from the RM on how he, or she, is doing with the clients, so they do not really know whether the RM is actually doing a good job."

"When I wanted to close an account I had," said another guest, "it was immensely hard work and required about seven signatures and so forth, but never once did the RM or anyone else ask me why I was closing it."

The model becomes unglued

The representative of a Fintech that delivers mainly trading and order management platforms explained that in his view, the models of the universal and the private banks are failing.

"Digital is the opportunity," he reported. "We remain in the early days of how to deliver both execution advisory and discretionary advice digitally, especially in the high net worth space, but it is moving at a great speed. I believe the EAM model is ultimately the best model to deliver advice because the interests of the EAM and the client are aligned, but that really is not the case with the

banks. The reality they must face is that revenue flows are lower and becoming lower."

"But on the other hand due to costs," said another expert, "the banks need more revenues per RM, so it used to be maybe USD2 million, and now it is moving towards USD5 million or maybe more."

Swim, don't sink

"It is essential for people in this industry, the banks, the RMs, the clients to realise there is a change taking place," said one guest. "The story is no longer just take the money to the bank, and hopefully at the end of the year, somebody is calling me whether I made money or not. The EAM and IAM segment, however, which has developed so well in Europe in the last 20 plus years, is coming to Asia in a bigger way, and has been making inroads for the past six years or so, particularly out of Singapore and Hong Kong, where dramatic improvements have been made to the onshore and offshore proposition and in bringing this industry closer to bankers, banks and clients alike. But there is still much to work on."

Don't avoid the inevitable

A banker who had worked in Switzerland, heading a team with USD70 billion of AUM, remarked that when he first arrived, the operations were somewhat chaotic. "We had large clients who were over-serviced and under-priced, we had under-serviced clients, and we used a pricing and value advisory consultancy to help roll out a new advisory proposition. I also used that as an excuse to re-price the book in the middle segment and realign all the product specialists to relationships where we actually got paid and to take them off relationships where we didn't really get paid. It was just a catalyst for change. Looking at Asia, there are many firms that need that sort of a catalyst for change. Frankly, there is a lot of complacency, and everyone is going to be killed by a thousand tiny cuts."

Press the red button

His proposition, therefore, was that bank and firms in the industry in Asia should if necessary manufacture some sort of catalyst for change, whether it be a strategic shift, a crisis or whatever. "A lot of the issues, the topics we have covered today can't be solved one by one, they have to be addressed simultaneously, and there is much to be done."

He added that the industry is definitely under pressure. "We talked about the EAMs winning business at one end, the fintechs are coming at another end, the numbers do not really work like they did before, most business is done by a few RMs, with the other perhaps 80% driving costs more than revenues."

Smart strategies for survival

"Agreed," said another banker, "and that is why we acquire these types of EAMs and advisory firms, and also why we have been buying strategic stakes in the Fintech space, so we now have the digital capability and ability to use that platform. And partnerships allow us to move rapidly with the market, to align different strengths, and different organisations."

Another guest asked if the enormous new wealth being created in Asia, people living longer, genera-

tional wealth transfer, and rapid GDP across the region provides a counter-impetus that will boost the wealth industry.

Heads you win, tails I lose

"Yes, but fees are shrinking, costs are rising fast, compliance is expanding, productivity is declining, and the transfer of wealth to new generations is extremely challenging, so clients are being lost. Yes, wealth transfer and estate planning now have decent footholds in Asia as a way of creating stickiness across generations, but the reality is the younger generations are going to be lost, and when the AUM moves it is also for lower fees to the new firm they adopt. In short, Asia's rising tide of wealth is countered by natural fee pressures and also technological advances that are also shrinking the revenue base. The result is that cost and efficiency must be paramount, but private banking is the last industry in the world that has ever done cost effective well."

Take the tough decisions, but analytically

Another guest took up the reins by remarking that banks need to go through the complicated process of weaning out the under-performers, bot the RMs and the clients. "We conduct a cost allocation exercise, estimating the variable costs and then comparing with revenues, and we typically find that 30% of the clients are loss-making. That is a horrible exercise, but valuable as you must make sure the bank is earning enough money."

And he also advised a much more systematic methodology for selecting the right RMs for the right clients. "This is also somewhat unstructured and random to date, but it needs to be much more organised."

Do the basics, and with empathy

A guest picked up on this comment by adding that both the institution and the individual can redress problems. In the case of a significant problem in the financial markets, for example, the head of the bank or the business can direct matters, can help the RMs reassure, educate, and deepen. Call the clients before they call you, be proactive. The leaders can help by institutionally emphasising time in the market, not timing the market, for the RMs to relay. "This is often amazingly basic stuff that does not get done," he noted.

He added that the retention of the best people is also invaluable. From the top down the banks, the advisory firms need to have the right environments, the continuing education, behavioural coaching, psychology, EQ, and so forth. All this, he said, helps with loyalty and performance.

The digital watch, or the hand-made Swiss

The discussion did not, in the end, provide any definitive answers, after all, it could not do so - history has shown time and again that the future is somewhat unpredictable. At one point in the 1970s and 1980s, digital and battery-operated watches were conquering the world, but today the hand-made, bespoke watch is again the object of desire and the diversity of models and styles is truly remarkable.

Perhaps private banking will be like the hand-made watch industry, once apparently on its way to obsolescence but then reinventing itself by returning to its roots, doing what it does best. But most probably to do so, the industry will also need to absorb the best that technology can offer, as well as the best business skills gleaned from the finest of today's global enterprises. We live in interesting times... ■