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Independent wealth managers have a great opportunity - to succeed in Asia

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What are the opportunities for the Independent wealth management industry in Asia?

There are at least two major opportunities. One is to gain market share from the private banks, and I think that's probably the easier one because private banks are not always doing what's best for the clients. The independents have a chance to gain market share there. And the second one is clearly under serviced clients in Asia who are not even working with a private bank but are looking for independent wealth management and advice for their assets.

Why do you think there is an opportunity to take AUM from private banks?

If I look back to when we started HP Wealth Management in 2009, just at the tail end of the global financial crisis, one reason why we were successful was that the bond between the client and the bank was broken. The trust was broken. And I don't think that was ever really repaired over the last 14 years. I think unfortunately banks continued to be very much product-focused, which helps organisations like ours where we take a different approach. We look at asset allocation rather than trading and timing the market. The banks have revenue pressures; I understand that. They need to generate revenues. But if you can afford to think long-term for the client and have a strategic asset allocation that is right for the client, and then stay the course on that journey, I believe that's a much better model than to try to go to your client all the time, and introduce new structured products, or the new flavor of the month funds.

That's one of the reasons why we will gain market share from the banks. We would not say that we will have a better investment performance. I think that would be big-headed to claim that. But I think one thing for sure is we are more honest than the private banks in the sense that we only get paid by the client. We don't have any conflict of interest when it comes to making investment recommendations.

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What are challenges for the industry?

One of the main challenges is the cost pressure that everybody has. If I look at our own P&L, everything is going up, whether that's electricity, salaries, insurance systems, everything is really going up. For example, I looked at our IT spend, that's gone up tenfold over the last 10 years. I'm not making up the numbers, that's what it is, 10 times. Okay. We have more people now than 10 years ago, but even on a per capita basis, there will probably still be six, seven times increment. It's quite a massive cost pressure. It's very difficult to raise fees for clients, Once you're locked in with your clients it's difficult to change that. Whereas on the other hand, you have all your expenses going up pretty much every year. That's one of the major, major challenges.

And that means as an independent firm, you need scale. You need a certain size to be able to afford what you need to have available to service your clients in a successful way. What clients expect, for example if you want to deal with family offices or family office clients, is a solid and robust consolidation tool that allows you to bring in assets from different custodians, allows you to combine bankable and non-bankable assets, property, etc. And that's very expensive. But it's a ticket to the dance, in my opinion, for the family office space. And again there is a cost associated to that. You need scale going forward - that's probably the most important thing.

Another challenge remains to attract the right type of relationship managers that are senior enough to be able to bring their clients over to the firm.

We've often seen that RMs are happy to talk, but they don't make the final step in getting out of a bank. I think they are comfortable with the compensation, with the support system they have around them and maybe the jump into independence is somewhat daunting for them, and they hold back. I would argue probably 80% of RMs would be quite happy to be independent, but many of them I think don't have the courage to get out of a fairly comfortable environment in a bank where you're well paid and have the support system around you. And I understand that, but cost is one of the big challenges, as well as talent.

What's going to change over the next decade?

The changes we will see over the next few years, maybe up to 10 years, will be consolidation. The smaller players will find it difficult to survive. You need a certain amount of assets to be able to offer your clients what they look for. Clients also have become more sophisticated and think they will be more inclined to give you a discretionary mandate to look after their assets, but they are also more inclined to see through what the private bank's offering is, or any other wealth managers offering, in terms of products.

We will see a trend to even lower margins for the wealth managers in the sense that more and more clients will use ETFs and funds that have low management fees to build, to construct their portfolio. And as a result, you will see the margins further compressed.

You need more scale to run a business successfully with all the necessary tools that you need in today's environment. ■