hubbis

ASIAN WEALTH MANAGEMENT

Issue 2, 2017

Paul Hodes
Citi

How to stay ahead of the pack

EVENT SUMMARIES
From Singapore, Thailand, Philippines, Malaysia

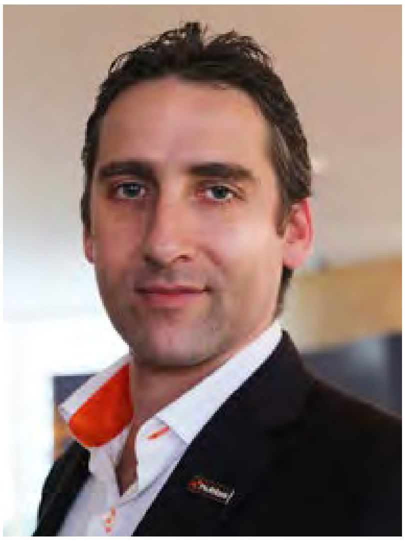
HOW TO BE COMPLIANT
Being proactive with tax transparency

SPY NEXT DOOR
Securing social chat communications

BEING PORTFOLIO-LED
The urgency to deliver portfolio advice

FAMILY GOVERNANCE
Gaining traction In Asian families

Foreword



This is the latest edition of our Quarterly publication covering Asian wealth management.

Despite an overall impressive and positive first halfof 2017 in terms of performance for financial institutions and clients alike, it remains a time of much change and uncertainty for the Asian wealth management and private banking industry.

Wealth managers of all sizes and business models need to pay closer attention to what brings real value to clients.

In particular, the regulatory direction – both globally and in Asia – is likely to create a shift in wealth management models to fee-based solutions from transaction-based sales.

The concept of needs-based conversations is ever-more critical, backed up by the right advice and relevant, contextual, timely information – via a blend of digital and human touch-points.

And with the next generation an increasingly important segment, there is a pressing need to adapt service offerings and solutions, as well as the ways to deliver content and advice.

There also continues to be a significant opportunity to help the region's wealthy families to diversify, protect and pass on their wealth – assuming firms can also tailor solutions to the needs of the next generation of younger clients also.

To cater to this, the publication covers Private Banking, Retail Banking, Independent Wealth Management, Family Offices, Insurance, Asset Management, Technology, and also Professional Services.

Asian Wealth Management is created in conjunction with – and for – senior management, product gatekeepers, business heads across compliance, operations, technology, advisory and sales, and other key stakeholders from the top international, regional and domestic organisations across the community with which Hubbis has worked hard over the past six years to build relationships and enhance connectivity.

ANDREW CROOKE
EDITORIAL AND CONTENT DIRECTOR
HUBBIS

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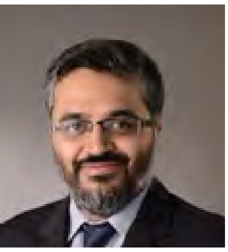



Cover Story

Business Strategy

Asset Management & Product Gatekeepers








Family Wealth

Digital Wealth

Compliance






Event Summaries

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74%

74% of delegates said they consider private banks to be 'product pushers' - at our 8th annual event in Singapore.
Page 11

USD18 bn

IIFL Investment Managers has grown in nine years to USD18 billion in AUM from 230 front-end advisers across 22 locations.
Page 32

95%

95% of delegates at our event in Malaysia agreed that the competency framework in the country needs to be significantly increased.
Page 35

USD1 bn

Over two dozen fintech start-ups are expected to become 'unicorns' – private tech firms valued at over USD1 billion.
Page 64

95%

95% of poll respondents at our event in Manila said they see Wealth Solutions as increasingly important in driving more revenue going forward in the Philippines.
Page 29

850 million

Nearly 850 million people now use WeChat on a daily basis.
Page 72

Content colour coding - for Hubbis articles

- REGULATION & COMPLIANCE
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- STRATEGY & BUSINESS
- FAMILY WEALTH
- TECHNOLOGY

How Citi is staying ahead of the wealth management pack

Paul Hodes explains how Citi looks to position itself as an industry leader in Asia – which includes enhancing its digital proposition and, critically, being transparent with clients and treating them fairly.

The focus for Citi's wealth management business across Asia – and especially within the Citigold and Citigold Private Client segments – is on meeting clients' financial goals and helping them through the various stages of their lives, explains Paul Hodes, head of wealth management for Citi in Asia Pacific and EMEA.

This has helped it become the largest consumer banking wealth management player in the region, within 12 countries in Asia Pacific and five markets across EMEA.

To help achieve this, Citi has also focused on driving thought leadership and innovation, explains Hodes, as well as delivering to clients both face-to-face and digitally.

ENSURING TRANSPARENCY

According to Hodes, clients need to understand the potential risks and returns of their investment products, as well as the costs. The net performance is what matters ultimately, he explains.

In line with this, the more transparent a bank is on these areas, it will help to set the client's expectations of what the performance is potentially likely to be, he says.

Any instances of mis-pricing to clients will negatively impact a firm's objective of deepening and growing relationships with clients across the business, adds Hodes.

As a result, treating clients fairly is something that must be institutionalised, plus it should be measurable across all relationship managers.

PAUL HODES
Citi

CREATING SUITABLE INVESTMENT PORTFOLIOS

In line with these goals, and as part of the focus across both the Citigold and Citigold Private Client segments on selecting the right products for clients, there is are benefits from the bank's open architecture approach.

This, explains Hodes, requires it to find best-in-class managers. And the upshot is relationships with hundreds of asset managers – ranging from global to regional to local houses.

Yet these managers are not only approved for the broader platform, but also categorised according to their specific expertise in individual asset classes and sub-asset classes, he says.

For Citi, consistency in performance and regular out-performance against expectations are important criteria when selecting product providers.

mutual-asset mutual fund as a packaged solution.

By contrast, a HNW client might have a portfolio which needs more active management, and funds can help create more diversification over a certain timeframe.

He says Citi is able to show clients that if they follow one of the bank's model portfolios, they can see over a specific timeframe the expected positive outcome compared with the benchmark, or with investing in one of the more popular mutual funds.

forms has been a key area of focus for Citi's wealth management business for more than two years.

It has heled to support the bank's relationship managers (RMs) as well as give clients more direct access to their portfolios, for instance via mobile phones.

A key initiative has been the development of an interactive tool called Total Wealth Advisor (TWA), which is based on the Citi Model Portfolio developed by the US firm's investment experts. TWA now covers more than eight markets, helping RMs develop needs-based solutions to a client's most important financial objectives.

Specifically, it provides a real-time picture of a client's financial situation, portfolio and goals. It then analyses how the portfolio value changes over time, plus the likelihood of the client achieving stated goals, and options for any rebalancing.

"Treating clients fairly is something that must be institutionalised, plus it should be measurable across all relationship managers."

Indeed, adds Hodes, analysing portfolios under stressful market conditions can enable clients to make better investment decisions via an improved understanding of the potential risks of an event – not just the upside potential.

SEEKING OUT-PERFORMANCE

According to Hodes, wealth managers need to be cognisant that clients and many managers are momentum-focused.

Yet with the potential for ramifications from political changes around the world, investors and advisers should be thinking about the (negative) impact on markets going forward.

In delivering advice and product solutions, Hodes says the individual client segment is an important consideration to determine objectives and level of risk they are willing to take.

The needs of affluent clients, for example, might be met by a single,

And consistent out-performance has shown the success of the bank's advice over recent years, adds Hodes.

ENHANCING THE PROPOSITION

Similar to a lot of wealth and asset management firms at the moment, he also says that digitisation is a key priority for Citi.

This is not only for the front-office to facilitate interactions with clients, but also in the middle and back offices.

Indeed, adds Hodes, the drive to digitisation is fundamental as a way to enhance client relationships, increase productivity and lower cost. For example, enhancing the client adviser experience with digital plat-

DIGITAL BENCHMARK

Another sign of the importance to Citi of digital tools is that the bank incorporates, in its own reference for its wealth management success, the extent to which they drive client relationships.

For example, Citi assesses in each of its markets the likelihood of clients recommending the bank to friends and family. Hodes says it is important for it to have a number-one ranking as the most likely firm that clients would recommend, compared with their other wealth managers. ■


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Bringing a more global offering to Malaysia's HNW

A desire for more diversified portfolios, partly driven by the need for transparency, is enabling leading wealth managers in the country like CIMB Private Banking to bring its proposition more in line with global best practices, says Carolyn Leng.

The line between onshore and offshore private banking is starting to blur in Malaysia as banks rethink their proposition to meet the demands of a more global generation – driven also by the new era of cross-border tax transparency.

One of the goals for CIMB Private Banking, for example, which is one of the country's leading private banks, is meeting the demands of the second and third generations of HNW clients.

They want a more diversified portfolio to hedge their lifestyle, in tandem with their global mobility. "There is a global transitioning happening within the families of the HNW and UHNW, and this is creating the need to split the pot," says Carolyn Leng, head of CIMB Private Banking in Malaysia.

DIVERSIFICATION THE WAY FORWARD

The bank's product platform reflects its new approach. Not only is the range of offerings much wider today than it has been previously, but Leng says it is getting to be on a par with what is available at private banks in offshore jurisdictions.

"We offer currencies, listed stocks, currency bonds, FX hedging, overseas mortgages [and more]," she explains.

"As many of our clients are sophisticated investors, we need to match this with diverse offerings - both onshore and offshore - to fulfil their risk profile, as well as business and investment objectives."

So for example, CIMB Private Banking's clients can also use their local account to take out a FX credit limit, an overseas mortgage in GBP, pledge Malaysian securities, and draw down on any of the G7 currencies.

Foreign mutual funds are on offer, too, through a feeder fund structure. "One needs to create a wholesale fund that specifically feeds into the fund," explains Leng.

CAROLYN LENG
CIMB Private Banking

STAYING FOCUSED

Yet offering everything possible to its clients is not what Leng is aiming to do.

Instead, at the heart of the bank's customer value proposition, is a desire to construct a portfolio that will be able to weather volatility from a risk-return perspective.

"At the end of the day, what clients want is to sleep at night. So with that in mind, typically we don't go by product, we build a balanced portfolio," explains Leng. "Ultimately, it is all about presenting a risk-return profile that will fulfil the client's investment objectives."

Key to achieving this strategy is driving the concept of goals-based investing.

At the same time, however, this requires a need to invest in training and educating relationship managers (RMs), to ensure they shift their mind-set from pushing products to focusing on the needs of clients.

CIMB Private Banking is not there yet, but Leng is confident that in three years' time, it will have a large enough pool of trained RMs to support its endeavour to deliver better value by really understanding the clients' needs first.

FINDING NEW OPPORTUNITIES IN CRS

Moving the capability and capacity of her team in this direction will also enable the bank to take advantage in the coming years of the need to guide clients through the uncertainty of regulatory obligations stemming from initiatives like the Common Reporting Standard (CRS).

In line with this, Malaysia's central bank, Bank Negara Malaysia, has in recent months put the risk management practices of all banks under greater scrutiny. "[BNM] wants to see how we are on-boarding clients," says Leng.

As a result, compliance has had to step up. "A lot of monitoring is in place and we need to retrain our RMs to also have the compliance mind-set," she adds.

In order to build lasting relationships, Leng says they will need to start asking questions such as: how can they add value to building or increasing their existing wealth? How can they get closer to the next generation? And how can they stand a better change at managing clients' wealth than off-shore bankers?

"What clients want is to sleep at night. So with that in mind, typically we don't go by product, we build a balanced portfolio. It is all about presenting a risk-return profile that will fulfil the client's investment objectives."

More broadly, Leng believes that the move towards tax transparency will be a catalyst for the CIMB Private Banking business.

"Today, institutions are starting to look more at onshore because with the implementation of CRS, clients see no difference in putting money offshore versus onshore," she explains.

As and when this gathers steam, the ability to generate returns for clients via an enhanced and more diversified product platform will be crucial to tapping this opportunity.

"If I can generate decent returns [for clients] with the right amount of volatility, a lot of clients will start to consolidate onshore rather than having to move the pot," explains Leng.

RMs will have a vital role, too, in engaging clients and constantly looking at ways to add value to them.

COLLABORATIVE EFFORT

To reap the benefits, however, CIMB Private Banking will have to ensure it can find ways to overcome the challenges that the private banking industry faces – such as rising costs brought on by regulatory changes. There are also hurdles on the product front.

In Leng's view, for wealth management in Malaysia to be "unshackled" and truly flourish, the different forces within the industry need to join forces.

As things stand today, the individual associations of bankers, financial planners and asset managers don't have a uniform approach to address the industry's problems.

"We don't have unity because everyone is too busy trying to fight their own battles," she says. "We need to agree on one approach and then go forward and engage BNM and the Securities Commission." ■

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Reinventing advice and value in Asian wealth management

Our 8th annual event in Singapore for the region's most senior individuals in the private banking and wealth management community saw practitioners discuss how the industry can refine its value proposition and capitalise on the growing need for sound advice.

Despite an impressive and positive first few months of 2017 in terms of performance for financial institutions and clients alike, it remains a time of much change and uncertainty for the Asian wealth management and private banking industry.

Only a small number of players are profitable, and the broader wealth management industry is increasingly polarising – those firms making headway seem to either be the largest institutions with scale, or those that are more focused and niche in their strategy.

As a result, wealth managers of all sizes and business models need to pay closer attention to what brings real value to clients.

In particular, the regulatory direction – both globally and in Asia – is likely to create a shift in wealth management models to fee-based solutions from transaction-based sales.

As long as the incentive structures at most banks don't change, the style and substance of advice given to clients will be questionable.

Increasing compliance, risk and administrative costs will simply further erode profit margins and speed up the consolidation wave within private banking, as has already been seen in Hong Kong and Singapore.

The concept of needs-based conversations is ever-more critical, backed up by the right advice and relevant, contextual, timely information – via a blend of digital and human touch-points.

Yet for many institutions, this seems harder to achieve than they think it will be.

Delegate, speaker and sponsor summary

- *40 speakers*
- *350+ senior individuals attended - delegates included CEOs, senior management, product gatekeepers and business unit heads in technology, compliance, operations, risk and advisory – from the leading international and local Private Banks, Retail Banks, IFAs, Family Offices, Insurance Companies, and other Independent Wealth Management Firms*
- *Sponsors: FactSet, Global Precious Metals, Henley & Partners, Matthews Asia, Old Mutual International, Pershing, Assentis, CFA Institute, Equiom, ERI Banking Software, Globacom Technolgies, IRESS, Commerzbank, Friends Provident International, IPG, Leonteq, Mercer, Orbium, RBC Investment Management, Rosemont, Swiss Asia, Swiss Life, SEI, and Synpulse*

And with the next generation an increasingly important segment, there is a pressing need to adapt service offerings and solutions, as well as the ways to deliver content and advice.

There also continues to be a significant opportunity to help the region's wealthy families to diversify, protect and pass on their wealth – assuming firms can also tailor solutions to the needs of the next generation of younger clients also.

For all players, it seems that differentiation in strategies and value propositions is key to survival and success.

KEY EVENT TAKE-AWAYS

- Half of all poll respondents said they don't think private banks operate in a transparent way
- Meanwhile, 74% of delegates said they consider private banks to be 'product pushers'
- 80% of poll respondents said that local banks will be more successful in Singapore than their international counterparts in growing their business over the next 10 years
- Wealth solutions offer by far the most potential for wealth managers to make the most profit over the next decade, according to 39% of poll respondents – ahead of the other options: discretionary mandates (27%), insurance (21%) and investment products (14%)
- Within the insurance space, VUL will see the biggest percentage growth in Asia over the next five years among HNW clients, said 46% of respondents. Medical / critical illness was next at 22%, followed by UL at 20%, PPLI at 10% and whole-of-life at 2%
- Realistic investor expectations for 2H 2017 returns should be between 0% and 10%, according to 88% of poll respondents
- Fixed income will see the biggest allocation between now and the end of 2017,, believe 46% of poll respondents – followed by equities at 41%, gold at 7%, private equity at 4% and then hedge funds at 2%

Trading places

Former Standard Chartered veteran David Koay is now exploring new horizons on his old stomping ground with BNP Paribas Wealth Management.

People say that a change is as good as a rest. In the case of veteran private banker David Koay, this certainly seems to be the case.

Koay was recently appointed head of wealth management, Singapore and Malaysia markets with BNP Paribas, after spending 15 years in senior roles – and one very similar to his current post – with Standard Chartered Bank.

In 2012, took on the role as market head for the bank's ASEAN international team covering Malaysia, Thailand, Vietnam, global expats, NRI, the financial intermediaries desk and the Singapore booking centre.

David brings to bear a wealth of experience across markets and segments which is ideal for a large commercial bank such as BNP Paribas.

DAVID KOAY
BNP Paribas Wealth Management

"One of the most common questions for candidates who look at BNP Paribas is, what's the real aspiration of growth?"

There he was responsible for driving investment banking opportunities and solutions for key clients as head of the UHNW relationship management team.

But Koay is very circumspect. "I was pleasantly surprised in the sense that when I walked in to this office on February 1, BNP Paribas had won several awards that I was not aware of, including the Best Global Bank Award by EuroMoney and several significant private banking awards in Asia. I think

that starts to show the testimony of the journey that BNP Paribas embarked upon three to five years ago. They are now starting to see the fruits of the labour and it is now a continuation that, hopefully, I will be part of for the second leg of the journey."

A NEW START

Koay's decision to 'jump ship' also sparked an impressive reaction from some current and former colleagues, which have him a surprising welcome to his new post.

"Immediately after word got out in the market that I had decided to leave StanChart, several CVs arrived from people that I knew who were with me in StanChart and had moved on, and from people who were disgruntled with their existing firms," he explains.

That was a great recruitment opportunity, as there is a shortage of quality and qualified private bankers practising in Singapore.

BNP Paribas was a good choice for Koay. "One of the most common questions for candidates who look at BNP Paribas is, what's the real aspiration of growth?"

The answer, he says, is the long term. "We want to grow where people are willing to come on a journey with us."

In addition to having staff on tap that he wants, both now and in the future, Koay is also looking to forage into the variety of clients, old and new, to spread the gospel of BNP Paribas.

"Clients are now hesitant to want to go through the notion of opening an account from a KYC perspective, especially the prominent ones who say 'why do I have to go through KYC again'. Having said that, I think clients will only moved for two reasons or maybe three reasons. One, if they really trust that RM and if the RM moves, there is a chance – a higher probability – that the RM will move with the client. Secondly, from a client's perspective, concerns where is the RM moving to? This therefore begs the question, does the client trust us, and, from a client's perspective, do they trust the platform, the integrity and the stability of that house?"

Adds Koay: "Thirdly, is there any value-add between the former and the new house?"

Only when they feel that it is a simple 'tick' on all three counts, then there is the end-game of the client moving and opening up a new account, and perhaps moving some AUM, whether it is 50% or 60%, over to the new house.

"It is only a matter of two or three years until the new client gets comfortable, and that's where you start to see further AUM migration," explains Koay.

"Clients are spoilt for choice, but I think it boils down to the three categories: do they trust the RM? What's their view of the bank? And what's the value add?"

"Clients are spoilt for choice, but I think it boils down to the three categories: do they trust the RM? What's their view of the bank? And what's the value add?"

OPTIMISTIC VISION

He is also confident that the roadmap set out by his new bank several years ago is on course to be a runaway success going forward.

"If you look at the track record over the past three to five years of wealth management at BNP Paribas, you can see the progress," he says.

"From what I have seen so far, the commitment is definitely there and in meetings it is drilled down what more is going to added in terms of digitisation, hiring there is no freeze at this point in time, I can't commit in one year's time it is going to be the same thing, but my vision that I have seen in the next 12 to 18 months is very clear," he adds.

Having a corporate and investment banking presence, not only in Asia but in Europe, also gives the group great opportunities in things like commercial real estate, where a lot of Asian entrepreneurs like to have interest. "This is where we can provide opportunities without again bridging the Chinese wall," says Koay. ■

Breaking through the bank barrier

A diversity of offerings based on a leaner and more focused foundation will increasingly challenge traditional banking platforms in the Asian UHNW space, says Kenneth Ho of Carret Private Investments in Asia.

Kenneth Ho believes the multi-family office value proposition will go a long way to breaking the monopoly that major private banks have enjoyed over managing the assets of China's growing number of super-wealthy.

A combination of tougher regulations and a diversity of offerings today – from firms such as how own Carret Private Investments (Asia) Limited – will be pivotal in luring clients away from their traditional banking mentors.

And as growth in wealth in mainland China continues almost unabated, the fact that UHNW customers are increasingly mobile, are on the hunt for international investment options, plus are demanding superior service from their financial providers, all bodes well for a more personalised form of advice, explains Ho.

KENNETH HO
Carret Private Investments

"In Asia, the client service at most private banks has been inconsistent, particularly regarding UHNW individuals."

OFFERING MORE WITH LESS

While banks can also adapt to this changing world, the greater numbers of senior practitioners now embracing a new advisory model will lead to the type of shift in client loyalties that Ho expects.

"In Asia, the client service at most private banks has been inconsistent, particularly regarding UHNW individuals," explains the former head of investment solutions for Bank Julius Baer in Asia Pacific, as well as deputy global head of the investment solutions group. "Many banks roll out ineffective, one-size-fits-all strategies."

Instead, Ho, who within Bank Julius Baer was part of core team that built the franchise from essentially zero to over USD60 billion by the time he left in late 2015, explains that Carret was founded on the principal belief that fundamental value investing will always prevail over the long term.

"We have Carret to Asia, and in particular Hong Kong, to work with family offices and clients, especially mainland Chinese clients," he adds.

"We firmly believe that UHNW clients deserve a differentiated and focused investment strategy. And we will be rolling out innovative and sophisticated services to our high-end clientele."

Ho also believes that the changing rules of the game will play into Carret's hands.

"The regulatory and operating environment lends itself towards a fewer number of private banks which will grow much bigger," he explains.

"We have already seen a fantastic shakeout of banks, and there are going to be very few of the Bank Julius Baer-type players going forward."

As those banks which remain increasingly beef up their risk management controls and other checks-and-balances, Ho predicts that many senior practitioners will want to look at other opportunities, perhaps in a more entrepreneurial environment.

"This is what happened in the US and Europe," says Ho, "and it is exactly what is going to happen here."

It has started to happen slowly already, although Hong Kong is a bit later to the game than Singapore. But Ho says the trend is clear nonetheless.

BEING FOCUSED

Ho's focus with Carret is to intelligently grow the company's AUM, with a particular bent on the China market.

"We target clients in the USD50 million to USD500 million space, who deserve a tailored solution, but don't want to hire a dedicated family office team," he explains.

At the product level, the firm also targets some of Asia's largest family offices, although with some specific solutions rather than their broader investment needs.

A great deal of emphasis goes into developing strategies for investing in alternative assets, he adds. "It is impossible for smaller shops to begin accessing this space at a meaningful level. Many banks have stopped selling alternatives since the 2008 financial crisis, mainly because of the conservatism of head offices and the pressure from regulators."

Carret, meanwhile, has developed a staple of core investments in the alternative space that Ho is excited about – and will be taking to China too. "Frankly, as the wealth in mainland China continues to grow exponentially, there is plenty of room for banks and independent firms to co-exist," he adds.

"Frankly, as the wealth in mainland China continues to grow exponentially, there is plenty of room for banks and independent firms to co-exist."

Yet it is easier said than done, and Ho recognises that the influence and brand appeal of international private banks remain.

So he knows he still need to do a lot of work and education to convince potential clients of the advantages of an independent firm. "It is always a challenge at first," he explains, "because people think they are going to lose out if they to put their money with a smaller firm. Once they understand that the custodianship is still with the big banks and that we are offering a better overall cost structure, along with rationalisation with better efficiencies and opportunities through working with us, [the benefits] become quite clear." ■

Re-calibrating the wealth management market in Thailand

Our 6th annual event for the community in Thailand explored how to capitalise on the ever-wider opening of the market and opportunities to service the investment, family and protection needs of domestic Thai affluent and HNW clients.

Now seems to be the best time in the history of Thai wealth management for the industry to grow – both in terms of size and capability.

Regulators have created channels for domestic investors to access a greater variety of offshore investments. This has created greater awareness – and appetite – of opportunities to diversify portfolios. For example, the recently issued regulation in early 2017, the Ultra-Accredited Investor Mutual Fund, shows the regulators are keen to allow asset managers to offer more investment alternatives to local investors.

Combined with a more realistic client mind-set in terms of investment returns and a hunger by local and foreign players alike to participate in the growth of the Thai market, the potential finally matches the optimism.

At the same time, much more has to be done to enhance standards and training – both for advisers and clients alike. Further, with efforts via platforms like FundConnext to facilitate mutual fund distribution in a meaningful way, advisory capability and process are under the spotlight.

These were among some of the key-take-aways from the 6th annual Hubbis event for the leading practitioners across local and international institutions operating in wealth and asset management, as well as insurance.

A CLEAR FOCUS

So what are the ways forward for wealth management firms of all types to maximise this opportunity?

The Thai wealth management market is certainly now big enough for everyone to participate; it depends on which segment a firm focuses on.

Delegate, speaker and sponsor summary

- *More than 35 speakers*
- *220 senior individuals attended - CEOs, senior management, product gatekeepers and business unit heads from Universal Banks, Private Banks, Local Retail Banks, Insurance Companies and Asset Management Firms*
- *Sponsors: Comarch, Credit Suisse, Appway, State Street, Global Precious Metals, Henley & Partners, Intellect Design Arena, Citi, Equiom, ERI Banking Software, IRESS, Numerix, Avaloq, additiv, Asiaciti Trust, Phatra, Manulife Asset Management, Commerzbank, Enhanced Investment Products, Firstmac, J.O. Hambro Capital Management, Leonteq, Mercer, Rosemont, Swiss Asia, Swiss Life, Allfunds Bank, Iyer Practice Advisers, ASK Group, Assentis, and Bordier.*

For some banks which operate across the wealth spectrum, top-tier HNW clients tend to generate less profit than the mass and emerging affluent segments. Across the board, most Thais investors still put more money into deposits and low-risk products.

What each banks needs to do, according to market players, is identify which segment and sub-segment they want to grow. This will then drive their strategy and customer value proposition to match clients' needs.

One option from this is to focus on investment advice – something that every wealth manager claims to offer. Yet the conflict here between adviser and client is rooted in the fact that many Thai clients look for short-term returns while the right type of advice requires an approach that focuses on planning and long-term goals.

In most cases, a client's preference wins out; they lead advisers to take a product-specific view. As a result, industry leaders say that they need to train their front-line staff to be able to focus on goals and long-term client needs while also responding to the need for market views that satisfy an appetite for information about the short-term.

Overall, the local retail banks in Thailand seem best-placed to be more successful and profitable in wealth management over the next 5 years than any other type of organisation, according to the results of a poll.

FORGING A NEW PATH

To move faster, while many players are likely to want to eventually develop their own in-house capabilities, in the interim it might be a more effective strategy to leverage off partners who have an established platform offshore.

This might be for the provision of products and also for the exchange of information and expertise to help the onshore business grow and local players become more competitive.

One of the earliest examples of this approach, in late 2014, was the strategic agreement that Lombard Odier signed with Kasikornbank. At the same time as expanding its footprint in Asia, it leverages on the skill-set, client network and knowledge of the Thai bank's private clients to give them access to global investment solutions and wealth management expertise.

More recently, Phatra Securities inked a path-breaking agreement with the part of Credit Suisse's business which covers external asset managers (EAMs). It essentially provides onshore clients with access to the suite of investment products available on the Swiss bank's platform. This was driven by the changes in regulations to give Thai investors much greater international access.

For Thai banks, they also realise the importance of aligning with global partners which can help them to meet the needs of their mainly entrepreneurial client base, especially in terms of addressing issues relating to business and family wealth.

Clients' expectations are also moderating. Whereas in the past they looked for double-digit returns, today they realise that 6% to 8% is more realistic, according to practitioners.

At the same time, and in line with the growth of the industry as a whole, a growing number of forward-thinking financial institutions are shifting their focus in this way – from single transactions towards solutions.

A SHIFT IN THE OFFSHORE-ONSHORE BALANCE

For the universal banks, the more domestic open regime means they can finally now deliver in Thailand a similar value proposition they promise around the world, in terms of products and services.

It is about time, judging by the significant interest among Thai clients – not only in accessing offshore products from an onshore platform, but also in a buying a greater variety of product.

The potential to do more onshore is highlighted by the results of a poll – with 44% of respondents expecting Thai HNW wealth to stay onshore over the next 5 years. Indeed, more business will be created onshore. Further, the regulatory liberalisation efforts reduce the need to go offshore.

Of the remaining 56% – those respondents who believe wealth will go offshore – the growing view among senior market practitioners is that it will head to other locations like Singapore based on concerns over issues such as political stability or domestic debt levels.

At the same time, there is a growing awareness among Thai investors of their need to be more globally diversified. For the many existing HNW clients who have wealth located offshore, meanwhile, some practitioners said that although they may well keep assets in locations such as Singapore, they are likely to keep more of any additional wealth they create onshore.

In response, however, the advisory capability of most front-line staff needs to be improved to manage the wealth onshore, said practitioners.

MEETING THE NEEDS OF WEALTHY BUSINESS FAMILIES

A growing opportunity in Thailand also lies in servicing the need for wealth solutions and other family-focused advice for business-owning families.

In fact, for most wealthy Thais, 70%-plus of whom are self-made, their major concern is continuity of the family business. This is based on the fact that the next generation either doesn't want to carry on running it, or might lack the skills-set to do so.

Speakers also urged domestic institutions competing for market share to avoid offering perks to clients – and instead provide relevant information and drive conversations aligned with their real needs and goals. Indeed, finding a new or different way to service Millennials extends to protection, too.

Innovation is key in Thailand to be able to sell traditional insurance to this demographic, which means a greater role for digital to make buying convenient and transparent, said senior practitioners. The sector more broadly, however, needs to address issues over competency of agents, to overcome some of the reputational issues it faces due to question-marks over the quality of advice.

KEEPING A STRONG MOMENTUM

Keeping the momentum going in Thailand will depend on the ability of firms to not get carried away with new-found freedoms and fall into the trap of chasing excesses, according to senior practitioners.

If they can learn these lessons from other, more developed markets, they can make the most of the more open and sophisticated environment to ensure the market is attractive, to foster innovation and generate much more competition.

Collaboration by engaging with regulators is also essential say industry leaders, to ensure there is mutual understanding about what framework and policies will best enhance the Thai market. At the same time, standards among advisers are also in need of improvement to help drive growth in Thailand.

There is clear consensus on this, it seems – 100% of delegates who responded to an online poll at the event, said a minimum standard of certification should be mandatory for all local wealth managers – amid efforts to enhance the industry. ■

Living by a needs-based philosophy

By focusing on customers' needs and aspirations rather than selling products, HSBC is taking a different approach to wealth management and financial planning. It is one that builds trust and long-term client engagements, and positions the business to meet future needs and achieve sustainable growth, says Mark Glover.

Where is the dividing line between being a financial adviser and a private wealth management professional?

Some would say it is at the USD1 million mark in terms of a client's net worth – the traditional industry-wide definition. But when does the role of a financial planner really blur into what a private wealth manager is supposed to do for the client?

Clearly, the associated tasks for any adviser as they move further up the wealth chain begin to change, as does the technical competency required to deal with clients' needs.

Yet what is key to all roles, regardless of definitions which might change from the perspective of one practitioner or institution to the next, is the need to give relevant advice.

"I focus on the advice business, as opposed to the execution-only business, and that's where we see the most exciting developments in our business in terms of how it will revolve and evolve in the future," explains Mark Glover, global head of financial planning with the wealth management arm of HSBC.

DELIVERING ON THE PROMISE OF 'ADVICE'

From his standpoint, 'advice' means being able to understand the parameters and the constraints of the client, plus their ability and willingness to take risks – and then matching these to a solution.

Along these lines, Glover says he is satisfied that HSBC has mapped out a strategy for clients across the Premier and recently-launched Jade segments that covers what he describes as the five 'universal' needs: wealth protection, education, retirement, managing and growing wealth, and legacy.

This all comes down to adopting a genuine needs-based approach to providing solutions for these clients. "That means how we capture our clients' needs, and this is by understanding who they are and what they require."

MARK GLOVER
HSBC

The bank then aims to quantify those needs in a way that is meaningful to the client.

For example, this focuses on how much they're going to spend to send their kids to school with the context of an investment solution that will provide an expected return to meet that eventual financing need sometime in the future.

Glover is responsible for HSBC's proposition in relation to how it does this and also how it promotes it to the wider market, including working with colleagues in the countries to ensure the proposition is relevant to local market needs.

GETTING CLARITY

Glover also sees the need for a larger dose of realism and practicality from clients themselves.

Yet this is harder to do than it might seem. "So many clients might not know what their investment objective is, over and above making money," he explains. "So what we try and do [at HSBC] is categorise our clients' needs in a relatively simple and industrialised way, bearing in mind that we have millions of clients in many different countries undergoing this."

Elements of this need to be done via a bespoke process, but that is essential. "Once we identify the need, then we try and quantify it and find a solution to fit that need," adds Glover.

He sees the irony of the industry as being that everyone needs to save more, but generally, as individuals, people are reluctant to save. "We have immediate consumption preferences, wanting to rather buy something today as opposed to saving for tomorrow," he says. "By understanding clients, and then delivering a solution that meets their needs, this is beneficial to society."

In his view, the regulatory direction is ultimately an effort to try to ensure things move in the right direction.

"We need to broaden the product range or make better selections for our clients."

NEED FOR PROTECTION

Meanwhile, the latest HSBC protection survey of its customer base, released in mid-2016 – the Power of Protection – highlights a significant protection gap generally.

Glover points to the insurance market in Hong Kong as a clear example of this. "[The population in] Hong Kong is one of the highest per capita insurance buyers in the world, but most of that spend is not actually on what you might call 'risk-based insurance' such as pure protection," he explains. "It is more focused on investment insurance, particularly the par products that you see in this market."

In fact the protection report showed that 69% of Hong Kong residents worry most about their health, with healthcare costs posing the biggest health-related concern.

As such, besides life protection products, HSBC Insurance has been addressing this concern through launching new health products in the local market, such as critical illness insurance plans.

"As long-term partners to our clients, HSBC's responsibility and also biggest opportunity, is to help clients identify a range of needs across their life stages and consider these from the prism of a holistic financial or wealth management plan," says Glover.

These conversations are important to truly assess not just clients' needs today, he explains, but their future aspirations and ensure HSBC is a key part of their individual and families' financial journeys.

"We need to broaden the product range or make better selections for our clients," he adds, but also stressed that data and technology will help provide more personalised propositions but also ensure the bank engages customers and delivers these solutions in a more relevant way.

"As our customers' needs and behaviours change to embrace digital and innovation, we need to factor this into wealth planning, advice and execution to ensure that the next generation of clients is engaging with us in a way that's appropriate for them."

This is where his biggest challenge begins. ■

A new chapter for wealth management in the Philippines

Our 3rd annual event for the local community discussed and debated how to build sufficient capacity and capability to service the evolving investment, family and protection needs of domestic affluent and HNW clients.

Several drivers of growth are leading to optimism for the outlook for the wealth and wholesale asset management industries in the Philippines.

A combination of liquidity, low rates, repatriation of funds from foreign investments, better economic fundamentals for the country and the relaxation of foreign exchange rules, all provide a solid foundation for growth.

At the same time, growing client maturity is evident, with individuals having easier and faster access to information about all aspects of finance and investing – at home and overseas.

To move faster, however, there are still gaps and areas in need of attention. These include more investor-friendly regulation, education of customers and advisers alike, and a greater take-up and acceptance of technology.

At the same time, all industry players vying for their share of the growing wealth pie acknowledge they need to respond to the evolving needs of customers. These range from information and advice, to products that address their needs, to greater depth in capital markets.

This needs to be done also in conjunction with further developing the advisory proposition. After all, the market is still largely driven by products, and few clients want to pay for advisory.

These were among some of the key-take-aways from the 3rd annual Hubbis event in Manila for the leading local practitioners across local and international institutions operating in wealth and asset management, as well as insurance.

Delegate, speaker and sponsor summary

- *More than 35 speakers*
- *200+ senior individuals attended - delegates included CEOs, senior management, product gatekeepers and business unit heads from the leading local Retail Banks, Trust Banks, Securities Firms, Insurance Companies and local Asset Management Firms*
- *Sponsors: Amicorp, BlackRock, Global Precious Metals, Henley & Partners, Miles Software Solutions, Old Mutual Global Investors, Asiaciti Trust, Asian Plantation Capital, Citi, Equiom, Sun Life Financial, Ultravault, Bordier & Cie, BVI House Asia, Firstmac, J.O. Hambro Capital Management, Mercer, Swiss Asia, and Swiss Life*

hubbis

MOVING FASTER

To develop the wealth management landscape more quickly, changes in the regulatory environment are front-of-mind for all practitioners.

For example, for relatively simple investments such as equities, opening an account needs to be made easier and more hassle-free.

When it comes to mutual funds, unit investment trust funds (UITFs) and variable universal life insurance policies (VULs), meanwhile, the conversation about the need for these to be governed by a single regulator – rather than three different ones – is ongoing.

At the same time, the majority of Filipinos still lack financial knowledge and literacy.

Practitioners recognise the need to make it easy and convenient for them to access ways and means to learn about investing – such as what it means, how they can start, what the advantages are, the pros and cons, what they need to be careful about or watch out for, etc.

The need for more regulatory structure along the lines of PERA (Personal Equity and Retirement Account) is also pressing – requiring an administrator to inform participants about all available products and let them choose according to their risk profile, investment time horizon and goals.

Yet a lot of proposed initiatives also rely on more people becoming 'banked'.

BUILDING CAPABILITY

Senior practitioners from across the industry are aware of the need for higher professional standards.

This can only come from a greater focus on – and commitment by all stakeholders to – a more comprehensive, structured and consistent training and competency framework.

To be relevant and effective in plugging the gaps, this needs to, for example make investments, insurance, trust and other tools in estate planning understandable to the laymen, as well as ensure more knowledge and awareness about the importance of key concepts such as portfolio construction and asset allocation.

Ultimately, industry leaders say wealth advisers must be familiar with the stages of a client's life-cycle, and be able to address the needs of each one.

Even if this doesn't mean the wealth manager being a specialist, they need more training to have the right types of discussions with clients that draw out

Key take-aways

Some of the key take-aways from polling the audience of 200-plus senior industry practitioners –

- *Clients in the Philippines need objective advice without product pushing – yet 70%+ of poll respondents said product pushing is commonplace.*
- *The regulator(s) in the Philippines need to do a better job in developing the local market, according to two-thirds of poll respondents.*
- *Protecting the next generation is the big wealth solutions priority in the Philippines – not minimising tax or keeping assets onshore.*
- *95% of poll respondents see Wealth Solutions as increasingly important in driving more revenue going forward in the Philippines.*
- *Investment-linked offerings present by far the biggest opportunity for life insurers in the Philippines.*
- *Investor and adviser education is by far the most likely way to increase mutual funds penetration in the Philippines.*
- *In 5 years' time, the majority of funds will be sold to Philippines retail investors directly via online channels.*
- *Equities will see the biggest allocation in the Philippines for the rest of 2017, said 70%+ of poll respondents.*

their needs and identifies which specialists to bring to be able to service them.

SOLUTIONS-FOCUSED ADVICE

More competency and experience is certainly needed in the Philippines given the inevitability of dealing with a more complex and transparent regulatory and tax environment in the near future.

Increasingly, clients need advice which is not only focused on minimising tax, but also helps them address concerns about control over their assets and how to maintain family relationships – especially as wealth transfers to the next generation.

Being able to provide more integrated solutions are therefore a key part of taking wealth management forward in the Philippines, say practitioners.

Indeed, protecting the next generation is the big wealth solutions priority in the Philippines.

A DIGITAL AGENDA

Digital will also play a key role in helping the wealth and asset management industries in the Philippines evolve to the next level.

Whether targeting the older, middle-aged and younger generation, especially the Millennials, digital is the way to go, believe most industry players.

Especially in a country like the Philippines, everyone nowadays is mobile and online. Living up to expectations by delivering on these requirements is also a way for firms to forge a more cost-effective way of promoting their brand.

More specifically, senior market players believe that the wider acceptance and adoption of online platforms go a long way to enhancing investor education as well as the penetration of mutual funds.

Creating a customer experience which is quick and efficient – as well as simple – is essential. But if this is achieved, it can play its role in the much-needed goal of converting 'depositors' to 'investors'.

While a the human touch will certainly not become redundant, going forward, digital will become more important for a range of activities, said practitioners – from onboarding to transaction processing. ■

How India's largest wealth manager stays sharp

Innovation and a can-do, entrepreneurial spirit are evident at IIFL Investment Managers, in its continued pursuit of growth, says Karan Bhagat – who is also the latest winner of our award 'Indian Wealth Management - Award for Excellence'.

As someone who enjoys playing poker in his spare time, Karan Bhagat is certainly 'all in' when it comes to the wealth management game.

He has clearly taken a calculated approach so far. This has seen Bhagat, who at 40 is the founder, managing director and chief executive officer of IIFL Investment Managers, spearhead the firm's growth from a standing start to a business nine years later with USD18 billion in AUM from 230 front-end advisers across 22 locations.

In working with his fellow senior executives to create what is understood to be India's largest wealth management firm, innovation has been a key card that Bhagat and IIFL Investment Managers have played to date.

A case in point is the pre-IPO fund that IIFL Investment Managers' asset management arm launched early this year. The USD500 million IIFL Special Opportunities Fund has a mandate to predominantly invest before and during the IPOs of private companies. The aim is to give the firm's HNI clients the opportunity to participate in IPOs as anchor investors through the Qualified Institutional Buyers route.

"Could somebody else have done this?" asks Bhagat. "The answer is yes, but it's different... we did it first."

THE RIGHT CULTURE

The new fund highlights what IIFL Investment Managers can bring to the table for its clients – and therefore justify the fee it charges them for a unique offering.

"You can't just get up in the morning and decide to innovate today; that's not going to happen," he adds. "It's got to be [part of the] culture." This also stems from a mind-set of being willing to try new things – and also not being afraid to fail. For example, when he was only 17, Bhagat, hailing from a 'Marwari'

KARAN BHAGAT
IIFL Investment Managers

family in India (hailing from the Marwar region in the northern Indian state of Rajasthan and known for business acumen and work ethic), founded a travel agency that didn't go so well.

Rather than taking a back seat after investment by General Atlantic, however, there was no talk of a sunset stage. "We are far away from that," he says. "It is just the start. The sun is shining on us."

"You can't just get up in the morning and decide to innovate today; that's not going to happen. It's got to be [part of the] culture."

Unperturbed by the outcome of his maiden venture, Bhagat went on to do a Master's programme in Business Administration, Finance & Strategy at the renowned Indian Institute of Management in Bangalore.

Post-IIM in 2001, he joined Kotak Mahindra Bank, becoming the Mumbai head of the bank's wealth management division.

ALL OR NOTHING

But being his own boss at 17 was infectious. In December 2007, at 28 years old, Bhagat resigned from Kotak to join the office of IIFL (previously India Infoline), to ask the chairman, Nirmal Jain, to back the idea for his own wealth management practice.

Jain bought into the pitch and Bhagat, along with Yatin Shah and Amit Shah, founded IIFL Investment Managers (then known as IIFL Private Wealth Management). In October 2015, IIFL Investment Managers sold a 21.6% stake in the wealth unit to General Atlantic for INR1.2 billion (USD173 million).

"There has never really been a dull day," reminisces Bhagat, "and as we [develop] different things keep coming along."

SIFTING CLIENTS

IIFL Investment Managers also has a very clear view on the types of clients it feels it can add most value to; it doesn't want to go below the equivalent of USD3 million in financial assets invested with the firm. Effectively, this means a client will need to have a total net worth of at least USD5 million to USD10 million across their various providers.

Some exceptions exist, says Bhagat, where, for instance, a client is 40 or under, since this gives the firm a longer timeframe and more of the individual's lifecycle to participate in their wealth accumulation and management.

While this approach to segmentation leaves large under-penetrated groups of India's wealthy – including salaried individuals – it also offers an opportunity for the group's asset management offering to leverage distributors such as commercial banks, including the likes of ICICI Bank, Axis Bank, and HDFC Bank.

But Bhagat also sees a large amount of money moving from non-financial / unsecured forms of savings to financial assets. Plus, a greater number of people are falling within the tax net. In all cases, there are compelling reasons for them to look to save and invest money in a more constructive manner.

Lower fixed income returns might also force some individuals to look at optimum methods of investing, he adds. Such strong tailwinds in the wealth management business are likely to continue to play out over the next 10 years, he predicts.

This also bodes well for the leadership transition that he and his fellow management team have earmarked for a few years down the line, when they will look to take on a lighter role and hand over the reins. ■

Fresh blood

As part of this next phase of the evolution, IIFL Investment Managers plans to add a large number of new relationships, with a particular emphasis on new-to-bank relationships, to benefit from the tailwinds of growth in the country.

The firm is also realistic about the need to be patient, especially since customers typically don't buy advice on day one. It might take until the 12th month, or even longer, before that happens.

"Our effort in launching new products is to ensure that we get as many new-to-bank clients as possible," explains Bhagat.

"The moment we lose sight of that, it will become a stagnant franchise and we will only be able to add assets from existing families, which is something that happened to a lot of [wealth management] organisations from 2007 to 2012/13."

Building capacity and capability in Malaysia

Perhaps most pressing in the country is the continued need to overhaul the business model across the wealth management industry, while creating the right type of (long term) revenue – which will help to boost penetration of funds and retain more assets onshore.

The wealth management industry in Malaysia must evolve and mature in several key ways, if it wants to make the most of the expected trend towards more assets staying onshore amid greater transparency globally.

In particular, the paradigm of trying to generate more and more revenue from product sales is changing as margins continue to compress. As a result, institutions and individual advisers are waking up to the realisation that they need to find new ways to create value – which means provide real advice.

In short, this involves putting themselves in the shoes of their clients first, and understanding their needs. This is particularly important given that the investment, regulatory and tax landscapes are more complex than ever before. This demands a more personalised and tailor-made approach to individuals and families.

Deepening relationships in this way is also a key part of working more closely with the next generation of investors – whose requirements and needs are clearly different. Inevitably, making more use of fintech solutions and new online platforms is a key part of this. Essentially, a hybrid model seems to be a likely way for the industry to move forward in Malaysia.

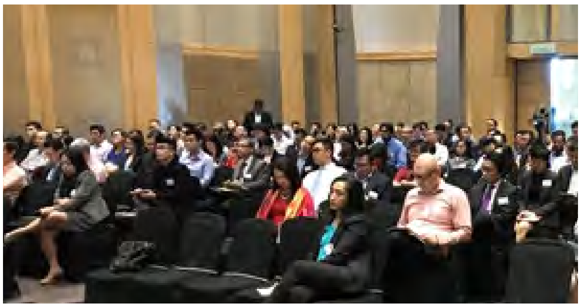
Being successful, therefore – whether as a wealth manager, fund house or professional services firm, relies on adapting product offerings, marketing strategies and delivery channels to a new mentality.

At the same time, succession and governance remain big issues for business families in Malaysia.

A key hurdle for the domestic industry, however, is that many consumers still do not see sufficient value in the role of advisory services general, so tend to avoid

Delegate, speaker and sponsor summary

- *More than 30 speakers*
- *Over 260 CEOs, senior management, product gatekeepers and business unit heads from the leading local Retail Banks, Universal Banks, Private Banks, IFAs, Independent Advisers, Insurance Companies and local Asset Management Firms*
- *Sponsors: Standard Chartered Bank, Franklin Templeton, Legg Mason, Sun Life Financial, Affin Hwang Capital, State Street, J O Hambro Capital Management, Global Precious Metals, Henley & Partners, Appway, IRESS, ERI, Equiom, Asia Plantation Capital, FactSet, Alpadis, BVI House Asia, Swiss Asia, Rosemont, Leonteq, and Mercer*



paying for such services. Yet the optimists in the market believe that as markets mature, coupled with new developments in technology, services will converge to become more personalised and relevant – and thus command a fee.

Finding the right balance, and offering consumers choice in terms of fees and incentive structures to drive this, is a key component.

These were some of the view of practitioners from within Malaysia and across Asia, speaking at the 7th annual Hubbis Malaysian Wealth Management Forum 2017 in Kuala Lumpur in July.

KEY EVENT TAKE-AWAYS

- There finally seems to be a move in Malaysia towards having more of a real advisory conversation, according to 70% of poll respondents
- 95% of delegates agree that the competency framework around wealth management in Malaysia needs to be significantly increased
- The vast majority (86%) of poll respondents believe wealth solutions present the biggest opportunity for wealth managers in Malaysia going forward – compared with investments (14%)
- Just over half of delegates think succession planning is the main priority in terms of wealth solutions needs of client in Malaysia today – ahead of minimising tax (20%) and protecting the next generation via insurance (20%)
- 45% of poll respondents said IFAs are the most capable type of firm to help clients in Malaysia with their wealth planning needs. The next two preferred options are licensed professional services firms (24%) and multi-family offices (18%)
- The biggest challenge for wealthy families is business succession, according to 45% of poll respondents – followed by finding an adviser they can trust (38%) and family governance (15%)
- Investor and adviser education is the most likely way to increase mutual funds penetration in Malaysia, believe 46% of poll respondents. This is more important that changing the compensation structure (35%) and lowering upfront fees (19%)

Why portfolios are paramount for good advice

The big struggle in Asia, even for the most established private banks, is how to give portfolio-led advice rather than just execute single trades. But it is critical to find a way to deliver this consistently, says Marc Van de Walle of Bank of Singapore.

MARC VAN DE WALLE
Bank of Singapore

There is no harm in Asian clients participating in short-term rallies and acting on stock tips; this is an inevitable part of their wealth management strategy given certain behavioural traits.

But wealth managers and investment advisers must not lose sight of investment returns on the portfolio overall.

This is according to Marc Van de Walle, managing director and global head of products of the Bank of Singapore.

He believes that being able to stay focused on client portfolios in this way relies on a combination of two approaches: first, the patience to have multiple conversations with clients; and secondly, an operational capability which is seamless and happens in real-time.

"Clients themselves go back to the product-by-product kind of discussion," says Van de Walle. "To bring them back to a portfolio discussion requires skilled advisers and technology."

This, he explains, is in the form of the ability to measure the risk that is in a portfolio and then to angle the discussion from a risk perspective rather than from an expected return viewpoint.

Plus, he adds, it is about having access to the tools to be able to back-up statements like: "Well, if you put this in your portfolio this is how it is going to alter your risk-return trade-off".

Education like this is a key piece, adds Van de Walle. "Although banks in general have done a lot [in these areas], we as an industry can do probably do a little bit more."

BACK TO BASICS

Van de Walle, who has nearly 20 years' experience under his belt in retail and private banking distribution, asset management and financial markets, views the concept of 'advice' the old-fashioned way – understanding clients' needs, through multiple conversations, and cautioning clients against rash in-

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vestments. "Listening to the needs of the client is the first thing you have to do, to understand what the client wants," he adds.

The second aspect to advice which he is also very aware of is the need to be able to tell clients something they might not want to hear, but to do it in a way that is sensitive and non-confrontational.

"That is real advice," says Van de Walle.

At the same time, it is unrealistic not to expect Asian HNW investors to look to capture opportunities they perceive from market momentum such as the rally in late 2016 immediately after Donald Trump was elected US president.

Indeed, wealth managers need agility to enable their clients to move with the market while still keeping a long-term view of portfolio returns, explains Van de Walle.

SEAMLESS

To give it the capability to deliver the type of portfolio-first advice that it strives for, Bank of Singapore has invested heavily in ensuring its operations are automated and efficient, driven by the desire to keep costs down.

That has also come in addition to the bank making strategic hires to boost its product management team.

This is all easier said than done. "Execution can seem a simple thing to do but when you really want to go 'straight-through', it takes a lot of process design first," explains Van de Walle, "because such manual processes are not designed for automation."

Yet this also has to be managed against a backdrop of an open architecture platform at the bank, in order to allow clients to invest in a range of products and strategies.

"We were the pioneer in Asia in the FX space to have a system open to five counterparties, now we have more than this," adds Van de Walle.

"So the RM can give a quote to a client in real time, and get an executable price, press the button and go straight through," he says.

Funds are another product where it is generally difficult to be able to automate the execution.

"A lot of them are bespoke because there are different share classes, or funds that are acceptable in some jurisdictions and not others," he adds.

Instead, at Bank of Singapore, more time and effort is invested in educating the front line.

"We train them about the product features and also how the product fits in the portfolio of a client," explains Van de Walle.

PLATFORM PRIORITIES

Over the past few years, Bank of Singapore has focused on expanding its product offering to the point where it is confident of competing with any other private bank in this area. "I don't think there is a product that we cannot do," says Van de Walle.

Investment has also gone into what he calls the "thought leadership of our research". This is to make sure that the bank is capable of analysing markets in the right way – and in an independent way, given the absence of an investment banking arm and market activities.

After hours with Marc Van de Walle

- *A proud Belgian citizen, married with one, 19-year old daughter, who is studying at university in London*
- *In addition to running and playing golf, he is passionate about heli-skiing*
- *His favourite place to go up in a helicopter to get off-the-beaten track is the Rocky Mountains in Canada – offering, in his view, the best combination of good snow, elevation and safety*
- *Despite recent knee surgery, he says he is eager to get back into the wilderness*

Going forward, one key strategic goal is to further streamline and automate everything which is operational.

Redesigning and augmenting the bank's advisory process is also high on Van de Walle's to-do list.

This, he explains, involves the discovery of the client proposal, the analysis of a client's portfolio from a risk-return perspective by looking at scenarios, and the design and implementation of digital tools to support this with a more coherent experience.

"The human interface will not disappear but at least we can increase the consistency and quality of advice," he explains.

"It is about how we bundle all these solutions into portfolio advice." ■


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Why structured products demand will stay strong in Asia

New custom indices are boosting demand for structured products, say industry participants at roundtables co-hosted by Morningstar and Hubbis in Singapore and Hong Kong.

Customised equity indices are providing a new lease of life to structured products and that trend is expected for some time to continue, according to product gatekeepers and investment specialists from within Asian wealth and asset management.

Demand for structured products has been relatively robust in the first five months of this year, according to most of the participants.

Falling interest rates had earlier dried up demand for structured products as it became highly expensive to provide a full capital guarantee. According to media reports, structuring remains a challenge as issuers balance with near-zero rates and thin distributor fees.

"Globally, there is a huge shift underway from active to passive investments, partly because of the lower costs of passive investing as well as better performance."

With rising rates in the US, interest in structured products has revived. With financial markets relatively stable, wealth clients are in risk-on mode, driving demand for products that can deliver outperformance.

Of course, this time around there is a lot more caution in the kind of structured products being promoted by wealth managers. Structured products suffered a huge dent in confidence after the global financial crisis; yet confidence has slowly come back and with the innovation in index products, demand has jumped.

INDEX GAINS

Globally, there is a huge shift underway from active to passive investments, partly because of the lower costs of passive investing as well as better performance.

In the US, for instance, nearly 40% of US equity assets under management are in the hands of ETFs and index-tracking funds. Even in the US bond market, index tracking products account for one-fifth of the market.

Passives have gained as active managers have struggled to deliver outperformance, or alpha, in a low-rate environment, making it harder to justify the relatively higher fees for active management.

In such an environment, active managers who are slow to react relative to rivals will lose market share at a faster pace.

Some participants pointed out that within a passives framework, investors continue to harbour a desire to beat the market or lower risk profile.

While traditional beta continues to be relevant and appealing for investors, the biggest gains have been seen with customised indices that offer 'smart' or 'strategic' beta.

As one participant explained, strategic beta offers a different risk-reward profile from the overall market: it is defined as a strategy that is passive in implementation but active in design, as opposed to traditional beta, which is passive both in implementation and design.

A strategic beta index typically is tilted towards one or more factors relative to standard market indices.

One big caveat about such customised indices is that investors need to be aware of what the tilt is. Two low-volatility strategies, for instance, may not behave exactly the same way. One strategy could be sector constrained, while the other might not be, so their performance can be different, even though on paper they focus on the same factor.

There are various strategies in the marketplace today that are entirely rules based, which try to exploit different risk premia or investment factors, and can be applied mechanistically across the market, the participants noted. In the US for instance, low volatility products have been extremely popular with investors, while dividends are another big theme. There is a real hunger for yield too.

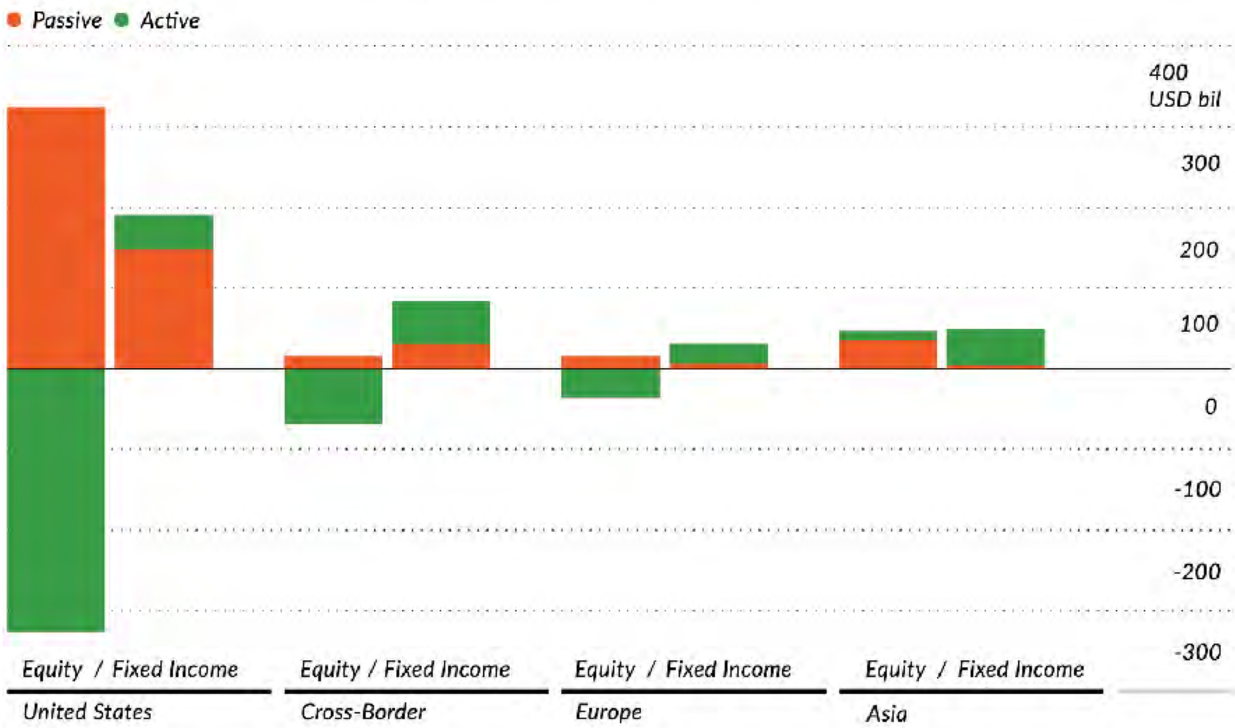
Creating indexes that satisfy different investor needs is an ongoing process with many organisations.

RULES-BASED FRAMEWORKS

Research outfits such as Morningstar, for instance, have a large team of fundamental researchers carrying out company-level analysis in Chicago, Singapore, Hong Kong and Europe.

The fundamental equity ratings are then turned into rules-based passive investment strategies.

ASSET FLOWS - ACTIVE AND PASSIVE FUNDS IN MAJOR REGIONS BY ASSET CLASS



Source: Morningstar

Morningstar also has a proprietary definition of quality, termed economic moat, which is being used to create custom indices. A term that was coined and popularised by legendary investor Warren Buffett, economic moat refers to a company's sustainable competitive advantage that protects its profits from competition and allows it to generate excess returns over a long period of time.

Some of the attributes that make up economic moats are intangible assets such as patents, brands, etc; cost advantages or efficient scale. Morningstar analysts assign moat ratings to stocks and the company builds indices based on these moat ratings. This metric offers a way to define quality not based on backward-looking accounting measures but qualitatively in a rules-based framework.

Increasingly, there is also demand for products not tied to benchmarks, such as outcome oriented strategies, some participants noted. Outcome oriented strategies designed to deliver income or offer downside protection are gaining some ground.

TAKING IDIOSYNCRATIC RISKS

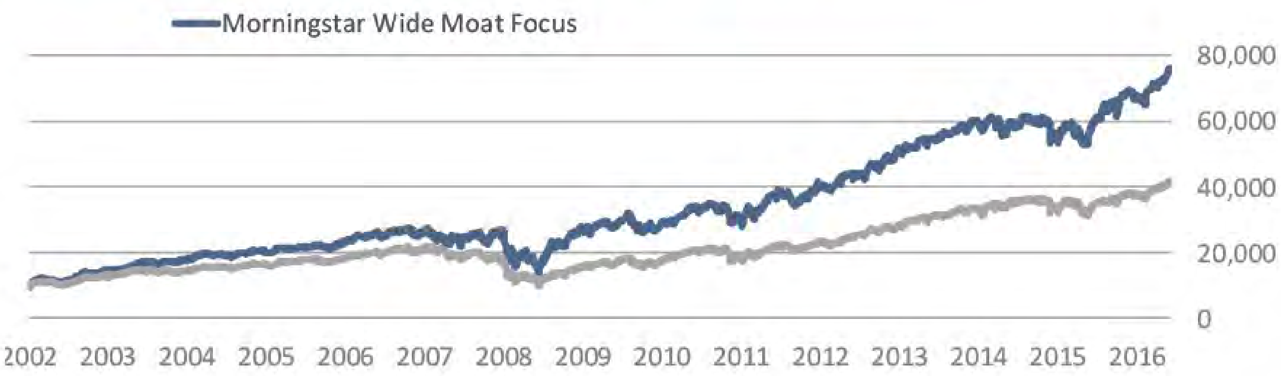
Nevertheless, while index-driven products are becoming highly popular in other parts of the world, Asian clients still tend to take highly idiosyncratic risks by piling into single stocks and bonds. Of course, some of them are more open than others to embracing financial products such as mutual funds and index products.

Education remains key in raising awareness among wealth clients about the role index products play in asset allocation and diversification. Indeed, with the growth of online distribution channels, and passives, the cost of investing in funds has come down significantly – and will continue to drive demand, according to participants.

Recently, for instance, index funds provider Vanguard launched a new investment platform in Europe, which will be marketed directly to consumers, cutting out financial advisers and execution-only brokers. The platform will charge just 0.15% for the first GBP250,000 and there will be no administration charges for investments above that limit. Developments such as these will further add pressure on active managers. ■

MORNINGSTAR WIDE MOAT FOCUS INDEX

Morningstar® Wide Moat Focus Index℠ vs. Morningstar® US Market Index℠



Index	YTD	1-Year	3-Year	5-Year	10-Year	Since (09/30/2002)
	Trailing Annualized Returns (%)					
Morningstar® Wide Moat Focus Index℠	8.0	24.1	10.9	14.4	11.8	15.0
Morningstar® US Market Index℠	5.9	17.8	9.9	13.2	7.7	10.3

Data through March 31 2017. Indexes are unmanaged and not available for direct investment.

Source: Morningstar

Dealing in diversification

A healthy product mix has been instrumental to Union Bancaire Privée's (UBP's) success in Asia to date. It is now looking to direct investments, bespoke offerings and alternatives to make further headway in this crowded market, explains Aman Dhingra.

UBP is further sharpening its focus on its product and service offerings to continue to win in a crowded Asian market, explains Aman Dhingra, the Swiss boutique's head of advisory in Singapore.

UBP has outperformed most of its peers in Asia when it comes to the proportion of client assets in advisory and discretionary portfolios. At more than 30%, this is well-above industry average in the region. However, Dhingra notes that it is important for the bank to forge its own way forward as it continues to grow, and to avoid the path of many industry players that lack focus and simply continue to offer new products.

"We are currently launching a revamped advisory proposition with wider coverage and more enhanced portfolio tools."

AMAN DHINGRA
Union Bancaire Privée

"UBP stands out from other banks because of three core pillars of expertise: direct investments, strength in hedge funds and backward integration into asset management," he explains.

These pillars have served UBP in the region, as seen in its success in delivering portfolios which are truly diversified.

"The industry is evolving, particularly around the provision of investment advice and services. We must be cognizant of this and respond swiftly, and with appropriate services to stay ahead," shares Dhingra.

"As part of our efforts, we are currently launching a revamped advisory proposition with wider coverage and more enhanced portfolio tools," he adds.

A DIFFERENT PATH TO SUCCESS

For Dhingra, who leads a team of multi-asset advisers providing clients with guidance on their investment portfolios through bespoke advisory mandates, this has led to a number of success stories for clients.

For example, the firm recently spearheaded a US real estate deal involving assets leased to the US government.

"That was an interesting situation because it involved a safe tenant with mature properties.

It was a yield play that was reasonably attractive given the quality of assets clients were accessing," he explains.

In another deal prior, UBP was involved in brokering an aircraft purchase and leasing transaction.

The bank's clients collectively bought a commercial aircraft, which was leased to an airline.

"These are the type of direct investment deals we can create," says Dhingra.

"In this way, UBP's offering of direct investment is highly differentiated to the [run-of-the-mill] products offered by many banks."

ATTRACTED TO ALTERNATIVES

Dhingra also believes that UBP's legacy in the hedge funds and broader alternatives segments is enabling the bank to further tap into the growing wealth in the region.

"Another segment where we are seeing success, is in insurance-linked securities," he says.

"This market is diversified away from the financial markets, enabling us to offer an alternative source of returns within the clients' portfolios," he adds.

IN-HOUSE ASSET MANAGEMENT BENEFITS

The third key pillar to UBP's diversification strategy is having an in-house asset manager, the availability of which allows the bank to deliver more customised products to its clients.

"If I am sitting on the private bank side of the business and I see my clients need something that the asset management industry isn't offering at that time, I can discuss a customised product solution with our in-house team and plug the 'gap'," explains Dhingra.

"This approach is also in line with UBP's bespoke private banking and advisory mentality and offering," he says.

MORE STRUCTURED

Indeed, Dhingra is keen to see the industry move to a more structured approach to providing advice, including in key areas such as diversification and managing volatility within client portfolios.

There is still too much advice from private bankers that is focused on their clients buying a 'recommended' product, he adds.

"This is largely a product-level discussion, where firms build portfolios in a very ad-hoc way."

UBP's aim is to steer away from this 'ad-hoc' mentality through the use of a more portfolio-focused approach.

This is also part of an enhanced and better-defined advisory proposition that is increasingly available to a wider group of the Swiss bank's clients in Asia.

"We expect more clients to sign up for new advisory mandates even as we look to make continuous improvements to the platform and to ensure our universe covers more stocks and bonds. The process is continuous."

"We expect more clients to sign up for new advisory mandates even as we look to make continuous improvements to the platform and to ensure our universe covers more stocks and bonds," says Dhingra. "The process is continuous," he adds. ■

Evolving investment solutions and portfolio advice in Asia

Providing advice in a more structured and consistent way is essential in preparing investors' portfolios – especially in an environment where the potential for correction, plus disruption from the march towards digital, looms large.

A key goal for wealth managers in Asia should include delivering sustainable performance but in a way that helps position and protect investors' portfolios against the chance of any correction or digital disruption. This is especially important against a backdrop of a successful run in the markets since mid to late-2016, continuing into the first quarter of 2017.

So with most wealth management firms and their clients doing well during this period, where do they go from here?

This is an ever-more pointed question given efforts by robo-advisers and emerging platforms to challenge the traditional investment channels.

It relies, however, on several key areas in which the market needs to evolve. For example, most clients still believe in market timing, agreed speakers, with an estimate that probably only about 20% properly understand asset allocation. Yet at the same time, there are various tactical plays for advisers to discuss with their clients in the coming months, based on market outlook and investment sentiment.

More broadly in providing – and justifying – value to clients, there has to be more of a concerted effort by institutions to help clients tally all the charges they incur to ensure there is no lingering distrust.

The flurry of activity around digital platforms makes this pressing. The inevitability of greater price competition from new entrants will lead to the increasing use of algorithms along with more structured data.

These were among some of the most important conclusions of speakers at the annual flagship Hubbis Investment Solutions Forum in Singapore in early June.

Delegate, speaker and sponsor summary

- *More than 35 speakers*
- *285+ senior product & fund gatekeepers from the top international and local Private Banks, Retail Banks, Multi-Family Offices and IFAs, as well as for RMs and investment advisers from across the industry*
- *Sponsors: BlackRock, PineBridge Investments, RHB Asset Management, Swissquote, Principal Global Investors, Pershing, Numerix, MFEX, MSCI, and Leonteq Securities*

KEY EVENT TAKE-AWAYS

- According to 70% of poll respondents, the fees that private banks charge HNW clients in Asia are not transparent.
- 61% of delegates don't think HNW clients really understand and take seriously enough the risks in their portfolio.
- To give consistent and structured portfolio-led advice – rather than just execute single trades – 49% of poll respondents said more alignment of suitability / risk profiles is required. This beat client education (33%) and use of data / algorithms in showing benefits (11%) as the two closest other options.
- While 49% of poll respondents said a typical Asian HNW client's view of 'long term' is 5 years, 40% said it was only 2 to 3 years. Only 2% said client perception of 'long term' is 10 years.

- 59% of poll respondents said the level of engagement by their clients in DPM is between 0% to 10% – with only 28% opting for 10% to 20%, and a small number saying it is over 20%.
- Bankers, not clients, need the most education to boost DPM in Asia, said two-thirds of delegates. Yet nearly 75% of poll respondents said DPM should be done in-house, not outsourced.
- Collaborating with robos, not buying them or building them in-house is the future in Asian wealth management, according to 52% of poll respondents.
- 55% of poll respondent said user experience far outweighs cost and performance as the key factor when digitising the investment process.
- Yet the majority (37%) of poll respondents to the query over time before robo-advisers make a real impact, opted for 3 years – with 12% saying it will take a decade, and 9% choosing 'never'.

- Compared with structured products activity in the first quarter of 2017, 43% of delegates said they believe volumes will be higher in the second half of the year.
- 96% of poll respondents said Asian clients should look for principal protection, not leverage, for 2H 2017.
- Equities will be the clear favourite asset class as the underlying for structured products for the rest of 2017, said 62% of poll respondents; funds followed at 19%.

Going for growth

Expanding the product team and further cementing Indosuez Wealth Management's wide range of investment offerings in Asia are high on Arjan de Boer's agenda as he settles in to the role he took up in early 2017.

After its global rebranding exercise in 2016, on the back of a five-year strategic transformation, Indosuez Wealth Management has made no secret of its intentions to gear up for robust expansion in its key geographies, including Hong Kong and Singapore. "Globally, we are aiming for high growth in markets such as Asia," says Arjan de Boer, head of markets and investment solutions for Asia at Indosuez Wealth Management.

Joining this revamped firm in February 2017 was a breath of fresh air for de Boer. While he has been a product specialist for most of his career, more recent roles included running the North Asian business at ABN AMRO Private Bank, followed by the same position at ANZ Private Bank, and then heading the integration efforts for ANZ retail and private wealth in the region.

Now, he says he is pleased to be back in a product-focused role, especially with his new employer. And he has a clear mandate.

"As a mid-sized private bank, we are quite unique in what we have to offer to clients. However, I think we need to articulate that more clearly going forward," he explains.

This includes highlighting the breadth of the product suite. For example, there are dedicated private equity solutions, plus a strong discretionary portfolio management offering.

In terms of funds, Amundi, one of the world's largest fund houses, is one of the companies under the Credit Agricole group. In addition, there are the Indosuez funds for in-house clients.

De Boer is quick to add that this doesn't compromise the open architecture product platform, however, since the bank has third-party funds on the shelf as well.

ARJAN DE BOER
Indosuez Wealth Management

Further, because it belongs to a larger financial services group, the private bank is also in a position to offer corporate solutions in collaboration with the investment banking arm. "For smaller corporate transactions, we might also enlist third-party boutiques," adds de Boer.

Structured products are another string to the firm's bow – both in terms of bespoke and over-the-counter structures. Other offerings include FX and precious metals, real estate and insurance. "We have the core suite that most banks have as well as a number of offerings that only very large organisations can provide," adds de Boer.

BUILDING ON SOLID FOUNDATIONS

In delivering all of this to its Asian clients, he oversees a team of 40 product-related specialists – 25 in Singapore and 15 in Hong Kong. Combined, they service roughly 70 private bankers, many of whom have been with the group for over a decade.

Indosuez Wealth Management is looking to grow both its banker and product teams in the region. Indeed, the firm has announced a series of senior appointments in 2017.

At the start of this year, Pierre Masclet was named as CEO for wealth management in Asia and branch manager in Singapore. Following this, Prad Goswami, formerly with UBP, was hired as senior director to handle NRI clients; former Julius Baer wealth manager Lynda Leong was recruited as client adviser and private banker; and in Hong Kong, Stanley Yeo (formerly with ANZ Private Bank) and Radhika Jasuja (previously with BNP Paribas Wealth Management) were appointed as senior directors.

De Boer says he is focused on expanding the product team. "I would like to ensure growth so that we don't face capacity constraints."

This goal also comes on the back of strong returns from many of the product offerings, especially private equity.

For example, its USD2.3 billion-plus in private equity investments globally has seen a consistent track record of double-digit realised returns per annum across private market strategies since 2001.

Not surprisingly, client demand remains robust. "In terms of deals, we have done as much in the first quarter of this year as we did in all of 2016," reveals de Boer.

EVOLVING PREFERENCES

This is in line with the trend seen by many private banks, where there is growing emphasis on thinking more about overall portfolio allocations and less about single product ideas.

With tightening regulations and improved fee transparency, there is also a greater emphasis on moving away from selling products to selling advice.

Education, however, remains key towards greater acceptance of advisory and discretionary mandates by clients – and the bankers themselves. "Ultimately, the bankers themselves need to be comfortable about advising on a product solution, taking the product specialist with them and understanding the product themselves," explains de Boer.

This is the first challenge he pinpoints which needs to be overcome before being able to go to an end-client and convincingly advise and sell these products.

On the client side, de Boer notes, behaviour has certainly been evolving, especially in understanding and accepting the benefits of discretionary mandates. "[Average] DPM penetration in Asia might seem low in absolute terms, but six or seven years ago, this level was about 2%; now it's just shy of 10%. That is a very significant change and I see that trend continuing," he explains.

Advisory is also gaining more acceptance as well in the region, according to de Boer.

To complement this, Indosuez Wealth Management is also moving ahead on the digital front.

In early 2017, for instance, it launched an app, Indosuez Insights, for clients. "This is updated continuously with the latest research and analysis from the group's experts," says de Boer. "It was launched only in February, but has already seen good traction." ■

After hours with Arjan de Boer

- *Enjoys spending time with his three children – one boy (13) and twin girls (11)*
- *Is a big advocate of hiking with the family as "a phenomenal way to spend quality time with the family – and so much better than sitting around and playing computer games"*
- *Is a huge Formula One fan – and enjoys watching with his son. His favourite track is the Spa-Francorchamps Circuit in Belgium*

Driving more of a savings culture in Singapore

A new product from Friends Provident International (FPI) aims to help those locals and expats who are not natural 'savers' to meet short-term goals – and at the same time overcome biases and irrationality in their investment decisions.

While everyone has a short-term savings need, most people cannot fulfill it, even if they want to and have the opportunity to do so.

Various behavioural biases can help explain this, as can demographic dynamics, such as the growth of the population of Millennials, many of whom are 'spenders' and not 'savers'.

Breaking the cycle is important, though, given the obvious need for individuals across the wealth spectrum to plan for the future.

With all this in mind, FPI's new contemporary savings plan, Purpose Saver, aims to provide a range of features to provide choice, flexibility and transparency to expats and locals alike in Singapore.

"We see an opportunity to play an active role in helping people to become better savers," explains Andrew Waddell, managing director for FPI.

NEW GROUND

Some of the features that he believes will make a difference for customers include allowing them to choose their frequency of saving, how much they would like to save, as well as increasing or decreasing their savings amount after the first six months.

Further, with the multi-currency options, customers have the flexibility of saving in their preferred currency, to minimise potential future exchange rate risk. At the end of the plan, there is the option to withdraw the savings, continue to save or take on new investment opportunities. And for customers who are able to stick to their plan, there is a savings bonus. "This should suit anyone who has a purpose for saving for a term of five years – or slightly more or less – but who needs a bit of help," adds Waddell.

UNDERSTANDING MIND-SETS

Giving these individuals the structure to save in this way will help address

ANDREW WADDELL
Friends Provident International

common biases around savings patterns – which are typically based on cognitive responses for medium versus long-term gratification.

BRAD COLLINS
Results Business Coaching

It is also important to create a pattern of savings. "This is to ensure that people have a way to save that is enforced," says Brad Collins, a business coach at Results Business Coaching. "They can then save into the future by it being an automated process."

Indeed, the micro-site and white paper that FPI developed on the science of saving in conjunction with the product's launch, confirmed a lot of intuitive thoughts around savings and spending patterns. "The issue is that most people have a desire for immediate gratification; they want to spend to get something now," explains Collins.

To delay this, they have to overcome various psychological biases, he adds, including a desire to seek out pleasure.

The consequences of not saving would be framed within the concerns of one of two different times of individuals: either people have a 'towards' motivation, so would want to move towards 'pleasure'; or they have an 'away from' motivation, so would want to move away from 'pain'. "The product is a bridge between long-term and short-term investing, starting off by helping people to be savers," adds Collins.

SAVING SINGAPORE

Singapore is similar to many other markets Collins has done research into, in terms of attitudes and behaviours in relation to saving versus spending. Yet one point of difference relates to the large proportion of foreign workers – roughly 32% of the workforce.

At the same time, Singapore also has a rising Millennials market. The challenge here, it seems, stems from the fact that this group has a strong propensity to spend rather than save. "There are around 500,000 millennials currently in Singapore who will increasingly contribute to the consumer market over the next 10 to 15 years," adds Collins.

ENGAGEMENT VIA EDUCATION

The integrated campaign involving digital and other resources has also been a way for FPI to help drive the right conversations around the new product. "It isn't just about making a product available. We also want to be effective in partnering with advisers to help them add more value to their customers, as well as engage their customers around why they might want to save for the future," says Waddell.

Supporting advisers is key, especially as he believes that, to date, there haven't been many options to help them explain the theme of savings to clients.

In line with this, adds Collins, creating more awareness about the behaviours of clients is a big step in the right direction. "Advisers can plan more clearly how to help clients be better savers."

Key features of Purpose Saver

- *Transparency, via simple charging that is easy to understand and free from complicated fee structures or hidden fees*
- *Visibility, by being able to track the level of savings at all times*
- *Choice, with options for three or four years, in addition to the standard five-year plan – plus the choice after the target savings period*
- *Savings flexibility, through being able to choose how much to save and then making increases or decreases to this amount after the first six months – as well as being able to choose whether to save on a monthly, quarterly, semi-annually or annual basis*
- *Multi-currency, as a result of the options to save in British pounds, US dollars, Euros, Hong Kong dollars or Singapore dollars*
- *Investment options, due to a range of funds available under the plan*
- *Rewards, with a savings bonus at the end of the target saving period, of between 1% and 3% depending on the length of savings period*

Envisaging' is key to this, he adds, explaining that this means helping people to envisage what they will look like in the future. ■

Creating effective pre-nups for an adviser's tool-kit

Asia's HNW and UHNW populations are taking the impact of divorce on their wealth increasingly seriously by using pre-nuptial agreements more and more frequently, says Marcus Dearle of Berwin Leighton Paisner (BLP).

Pre-nuptial agreements (PNAs) can be an effective way for advisers to help their wealthiest clients navigate a sensitive subject to prepare them more effectively for the potential fall-out of divorce.

Yet these are tricky agreements to put together. In many cases, they are required as both partners do not have equal levels of assets. Plus, since PNAs typically get drafted during happy times, lawyers or advisers might be tempted to simplify them, which can lead to important clauses being omitted.

To do this well demands meticulous attention to detail as well as forward thinking. After all, a marital split can have a serious dent on an individual's wealth.

As a result, the agreements require advisers to think carefully about how they create them and handle or guide the discussions.

"I am there to save money by protecting the family from a huge potential hit on divorce."

"I have got to be hugely diplomatic, but at the same time keep my financial hat on, because I am there to save money by protecting the family from a huge potential hit on divorce, even losing half their wealth," says Marcus Dearle, a partner in BLP's Hong Kong office who heads the law firm's innovative Family|AssetProtect team in both

MARCUS DEARLE
Berwin Leighton Paisner

London and Hong Kong. He is also an expert in multi-jurisdictional PNAs and cross-border matrimonial litigation.

DIGGING DEEPER

It's not just the wording of the PNA that matters. "I'm just as concerned about the conversations going on in the background and whether the financially-weaker party is genuinely content to sign up," says Dearle.

"I actually ask for the email, Facebook and WhatsApp messages between the parties where there is any mention of the PNA or the discussions surrounding it. I want to know exactly what messages are going backwards and forwards," he adds.

"Sometimes, seemingly innocuous messages like 'I'm actually only signing because your father wants me to/told me to', are deliberately planted so that they can be deployed at a later date, long after the excitement of the wedding has died down and the relationship has broken down – consequently making the agreement far more difficult to enforce," adds Dearle.

He says this is because this is potential evidence of duress.

"An arguable case of duress can make a PNA worthless.

Much of the English case law on the enforceability of PNAs concerns these sorts of issues and also over issues of financial disclosure and legal representation - or rather lack thereof."

> **"I actually ask for the email, Facebook and WhatsApp messages between the parties where there is any mention of the PNA."**

The detail matters and the risks are of serious concern. HNW and UHNW PNAs shouldn't be done on the cheap or on the back of an envelope.

Failing to spot and deal with a message from a financially-weaker party, for instance, indicating that he or she is actually not happy to sign when this contradicts the more positive position being officially communicated through the lawyers, is a danger signal – and could cost millions if not handled swiftly and effectively, he explains.

FORUM SHOPPING

Another important issue that Dearle says should be covered in a PNA, in order to protect a client, is on the question of jurisdiction; this means where a divorce case will take place in case the marriage comes to an end.

"If you are acting for the financially-stronger party who is based in Hong Kong, or outside Hong Kong with a substantial connection to Hong Kong, it is worth considering, if the circumstances allow, including an exclusive jurisdiction clause in the PNA in a jurisdiction where the divorce courts are less generous than Hong Kong for the financially weaker party," says Dearle.

"And you should also warn your client to seek advice the moment there is a problem in the marriage," he advises,

"It may be necessary to file for divorce in the more beneficial jurisdiction for your client's circumstances – and to move fast." This is known as 'forum shopping'.

"But", Dearle continues, "even if the wealthier party is a Hong Konger based,

Across generations and genders

Pre-nups have become more and more popular with clients of all ages; they are also surprisingly common in cases of millennials tying the knot.

This is due to these individuals not only looking to protect their real estate assets, but also any creative ideas they may get during marriage, according to a Bloomberg report in November 2016.

Further, millennial women are driving the push for pre-nups, despite it being a contract that the groom traditionally laid out when men were the primary breadwinners.

say, in the US, that client needs to be warned that the financially-weaker party might also be wanting to indulge in some long distance forum shopping, too, and file a divorce petition in Hong Kong whilst still living in the US."

"An unexpected request from the other Hong Kong spouse to move temporarily back to Hong Kong from the US with the children just might be an early clandestine forum-shopping move – cloaked in the guise of the spouse needing to spend more time with elderly parents."

Yet a mere 4 months of 'integration' of the children at school in Hong Kong could be enough to switch the children's habitual residence to Hong Kong and strengthen the chances of the divorce proceeding in Hong Kong.

in Hong Kong will make the decision as to whether the PNA is enforced or not – even if the PNA has been prepared and executed outside Hong Kong," he explains.

On this question, recent English case law – which Hong Kong is likely to follow – brings some potentially good news for the wealthier party.

'Reasonable needs' does not automatically mean there will be an award of very substantial capital outright in Hong Kong following the English cases of MacLeod and Radmacher (as endorsed by the Hong Kong Court of Final Appeal case of SPH), where funds are made available for housing for the children on trust during their minorities only. "Watch this space," says Dearle.

"You should also warn your client to seek advice the moment there is a problem in the marriage. It may be necessary to file for divorce in the more beneficial jurisdiction for your client's circumstances."

To protect against this scenario, the financially-stronger party should, as a precautionary measure – just in case the other party might be allowed to continue to proceed with the divorce in Hong Kong – responsibly ensure that the financial provision in the PNA at least covers the 'reasonable needs' of the other party, adds Dearle.

"Don't forget, if the divorce does proceed in Hong Kong the family court

Hong Kong is still considered the divorce capital of Asia.

Its laws place a relatively large amount of power in the hands of the financially-weaker partner in a marriage.

It has seen some high profile – and expensive – divorce settlements, such as the case of property scion's ex-wife Florence Tsang Chiu-wing, for whom Dearle acted. ■

A clear and technical head

Advisers should not be wary of complicated and complex PNAs just because they are drafted in good times when a couple are getting along. A family lawyer cannot act for both parties. However, says Dearle, it is not obligatory for both partners each to have a separate set of professionals to do their drafting; "but," he continues, "from the financially-stronger party's perspective, in the event that the financially-weaker party takes up this option, which is not uncommon, then the efforts to ensure that that person has had the opportunity to obtain independent advice should be carefully recorded in a waiver clause in the PNA."

Managing clients' expectations can often be a challenge too. What happens if the other party says 'no', refuses to sign and there is a break-up of the relationship? "Managing expectations is all in a day's work for our team," says Dearle. "But sufficient time needs to be devoted to each and every case in order to be able to do so. The answer is you might be in difficulties if you haven't warned the client about all the potential ramifications before he pops the PNA proposal. Failing to prepare for and manage the human aspects of the job could lead to significant embarrassment and even negligence actions."

In a HNW or UHNW case international experience and in-depth expertise is vital, he adds. "When hundreds of millions of (US) dollars are at stake, you need to be able to handle yourself and your client if you have to advise, for asset protection reasons, not to proceed with the marriage if their partner will not sign a PNA."

Turning CRS uncertainty into opportunity

The reality of cross-border tax transparency is set to create daunting new challenges for clients and advisers alike. But, says Peter Triggs of DBS Private Bank, the more proactive wealth managers who can adapt have a real chance to stand out.

As information about offshore investments and structures starts to find its way back to a client's home country, the sweeping impact of the Common Reporting Standard (CRS) will extend well beyond personal taxation; it will shine a spotlight on the practices of wealth managers too.

In particular, CRS will test their approach to advice, and their compliance with cross-border rules, forcing many of them to rethink the way they conduct their business.

So those firms that have not been observing cross-border rules will find themselves in the spotlight and some may face difficult questions.

Yet Peter Triggs, managing director, regional wealth planning, at DBS Private Bank, is excited about what this changing tax landscape means for how his bank can position itself going forward.

"The industry is going to become extremely polarised," he predicts. "And we see a big opportunity."

COMPLIANT CLIENTS

CRS will have far-reaching implications for clients regardless of how honest they have been about their investments.

Amid the growing backlash against offshore assets, those clients impacted by jurisdictions pressed for tax revenue could see their tax liabilities increase.

For example, the number of countries likely to look through and ignore or attack offshore structures (France being one of the first, and the UK being one of the latest in respect of structures holding UK property) is likely to grow.

Authorities across Asia are also likely to start investigating the offshore investments of citizens – not only from the perspective of tax evasion, but also how the sales were made, and possibly

PETER TRIGGS
DBS Private Bank

in some cases issues around foreign exchange regulations. Triggs says questions may include: how long has this money been overseas? Where did it

come from? Who approached you? Where did this happen?

"Just the burden on clients to answer these questions and satisfy the regulator is going to be taxing," he adds.

Investment portfolios and trusts are not going to be the only problem areas, he adds. Certain types of insurance could come under the scanner, too, in certain jurisdictions.

"Once information is disclosed, there may well be questions about why clients chose an offshore policy and not a local one, and where the sale took place," says Triggs.

This could hurt some banks and brokers, he adds – for instance, if regulators turn their focus to stricter implementation of cross-border policies on insurance sales.

The flipside, however, as clients start to question every aspect of their portfolio, is that the demand for good advice will increase.

THE DBS APPROACH TO PLANNING

Against this backdrop, Triggs believes DBS is well-positioned to navigate these challenges.

Indeed, he is banking on the strength of his wealth planning advisory team to stay on top of the game. And foremost, he explains, the focus must be on impartial advice.

"Wealth planners are not the sales force of a trust company; our job is not to sell a trust or to sell insurance," he says. "We are very clear that the role of the wealth planner is to make sure that the private client gets the right advice."

To keep any perceived or potential conflicts of interest at bay, for example, DBS allows its HNW clients to choose from a panel of independent trustees as well as their in-house trust company (although that is often the one which is chosen) if the client wishes to do so.

It is also important for DBS, whose clients often touch five or six different jurisdictions, to be able to help its clients rationalise the use of specialists such as lawyers and tax professionals when dealing with specific issues of each country.

"We try to know a little about a lot, so that we can flag potential problems clients may face relating to conflicts of law, taxation, reporting and so on, and then guide them to specialists, such as an Australian lawyer or a US tax expert," explains Triggs.

"A challenge for many clients dealing with unfamiliar taxes and legal systems, is not that they don't know all the answers, it is more that they don't even know some of the questions. And that is where we can help."

AN INDUSTRY FIX

One of the upshots of CRS, meanwhile, could be a more fundamental review by private banks of their business model.

For instance, the private banking industry, in Triggs' view, must also do some serious thinking about the way it compensates its advisers.

It needs to pivot away from an excessive focus on revenue, or else risk being made obsolete by advisers perceived as having goals more aligned with their clients, or by technology.

"Everyone says they are client-centric, but they do not all 'walk the talk'," he says.

With the introduction of CRS, he believes, clients may start to question why their assets are offshore at all; some banks are anticipating a repatriation of assets to home countries, as has been seen already in Europe.

Many may even take to online platforms that offer low cost (or free) advice and investment solutions, instead of going to a private banker.

"The competitors we fear at DBS are not the other banks, but fintech companies," says Triggs. "Our goal is to digitise a lot of what we do, and become one ourselves."

Recently winning an award as 'The world's best digital bank' was a good start along these lines.

Industry changes are also partly driven by a lack of talent in the form of wealth managers with the required experience, given the growing complexity of the issues they need to advise on today.

"Most banks usually have people who can essentially sell investments and trusts, but people who have been around long enough to really give multi-jurisdictional advice to clients in this new transparent world, and do so objectively, are hard to find," explains Triggs.

"We see CRS as creating a level playing field, distinguishing the good advisers from the bad and the merely ugly, and bringing home to clients the need for expert advice. And that's a good thing," he adds. ■

Why governance is gaining traction in Asian families

Business families in Asia are increasingly looking at governance planning as part of efforts to ensure a smooth transition of the company to the next generation, says Zac Lucas of Gowling WLG.

Governance is a key component of succession planning which is gaining traction in Asia.

This, says Zac Lucas, head of private clients with Gowling WLG in Singapore, is happening as more and more patriarchs get serious about ensuring that the businesses they painstakingly founded and nurtured are governed well by their heirs.

"[They are] taking a deliberate view on separating transfer of ownership of the business and transfer of the governance or decision-making of the business," he adds.

The driving force, explains Lucas, is that this is not only to safeguard the shareholding rights of the next generation, but it is also to manage conflict and disagreements.

ZAC LUCAS
Gowling WLG

> **"For the first time, [Asian] families are looking at creating separate forums to bridge the family and the management team."**

"For the first time, [Asian] families are looking at creating separate forums to bridge the family and the management team," explains Lucas.

In essence, patriarchs want to install a protection mechanism for the sustainable continuity of the business in the absence of the founder.

PRE-EMPTING CONFLICT

Lucas says Asian business founders are waking up to the fact that politics within the family may, after their passing, lead to conflict and, ultimately, wealth destruction.

The decisions around running the business are often the trigger, with the family failing to remain unified.

And without a governance structure, Lucas says there's no framework for them to engage appropriately.

"[The founders] are trying to control the politics of a privately-held family business where, if you give four children equal share ownership in the business, you can end up with uncontrolled swings in the practical administration of that company depending on the dynamics of the siblings' relationships," he explains.

"Legacy is a strong aim for many [Asian patriarchs]," says Lucas.

"They don't see the children as the owners of the business, [but] as stewards for their time. That's a key difference," he adds.

There are of course good reasons for this outlook. Often, the family business is the principal source of wealth for an Asian family, adds Lucas.

GUIDANCE ON GOVERNANCE

One of the challenges in helping these clients address their desire for governance planning, however, is that it requires special expertise, yet it is a relatively recent phenomenon and there is a dearth of experience in this area.

"The average time in terms of the period during which Asian families have been thinking about governance reform is about a decade."

LEGACY PLANNING

Unlike wealthy families in the US and Europe, for instance, Asian families view succession planning from a completely different perspective.

While most business founders in Western countries look at their companies as investments and are more open to cashing out via an IPO or sale, to Asian founders, their business is their legacy.

"The average time in terms of the period during which Asian families have been thinking about governance reform is about a decade," says Lucas.

"The families we see have never really found a complete solution to the governance and succession dilemma – they have considered PTCs, Family Charters and Shareholder Agreements, but without much success; each comes with its own limitations," he adds

"The challenge is to create a legally-enforceable governance mechanism that is perpetual in existence and can actually segregate ownership from the control of the businesses," he says.

Gowling WLG, claims Lucas, is well-placed to offer hybrid legal and business consultancy services.

Consequently, the firm is expanding rapidly in Asia.

It has offices in Guanzhou and Beijing in mainland China, for example, and is expanding in Singapore, with the founding of its affiliated local law firm, JurisAsia LLC.

"We have traditionally had five personnel in Singapore, [but] we're going to be over 30 people within three months," he explains. "That's going to continue to grow and grow."

DEALING WITH TRANSPARENCY

Another issue that he believes Asian families will face going forward is the impact of the Common Reporting Standard (CRS).

With the prevailing ambiguities about how countries in Asia are going to implement CRS, the wealth management sector is likely to struggle with compliance issues, explains Lucas.

"There's a lot of ambiguity in how CRS is being implemented at the moment," he explains.

People are taking different views on this; and in his view, the recent OECD FAQs, particularly the OECD's apparent endorsement of 'double reporting' has not been well received. ■

No place to hide

Savvy HNW clients in Asia are starting to question the advice they have been getting from their wealth managers and other advisers, especially around areas such as tax, compliance and wealth structuring, says Kevin Lee of Zhong Lun Law Firm.

Wealth managers and advisers need to start more effectively balancing what they do and don't tell their clients as part of their efforts to better manage expectations.

This is based on the fact that they are likely to come under come under increasing scrutiny over the quality of advice they may be giving HNW clients in relation to their wealth management needs. Litigation might even be on the horizon, if clients are penalised by authorities after the clients rely on such advice.

This is according to Kevin Lee, a Hong Kong-based partner of Zhong Lun Law Firm, which specialises in advising HNW individuals on diverse matters including succession planning, multi-jurisdictional tax, compliance, asset preservation, family governance and more.

He questions whether some advisers have been over-stepping the mark when it comes to what they are talking to their clients about.

"A banker is not normally supposed to give any tax, legal or even migration advice," he explains. "Whether the wealth planner in the bank gives out this information is up to each

"A banker is not normally supposed to give any tax, legal or even migration advice."

KEVIN LEE
Zhong Lun Law Firm

bank, and the institution has to set its own rules.

The relationship manager (RM) may not have the same analytical training as the wealth planner and therefore there may well be a different line drawn for RMs."

Litigation might not happen just yet with Chinese clients, seeing as this group is not as litigious, preferring to avoid the associated publicity.

"A lot of clients are only just finding out about CRS now, and are desperately asking their bankers what to do," he explains. He is worried that some advisers may be openly proposing solutions that are not based on sound advice, though he emphasises this is not the case with those planners with whom he normally works.

Further, this continues to be an evolving area, where the OECD and local

"If there is too much pressure on fees, we may drive some good advisers out of that market."

Things might change, however, in the not-too-distant future. As the next generation moves offshore, these individuals will grow accustomed to different expectations and standards.

KEEPING THE RIGHT DISTANCE

Ultimately, advisers should be looking to manage their clients' expectations when it comes to any type of deal.

"I don't think the adviser should step into the client's shoes commercially and say something is not worth the investment of time or effort.

That is a commercial decision," says Lee. "A good adviser knows where the line is drawn."

Lee also sees the Common Reporting Standard (CRS) as a major issue. This is a challenge given that client education and adviser knowledge are still very much evolving on this topic.

governments can easily introduce patches to fix any gaps.

The only thing that advisers are seemingly able to do in such a situation, says Lee, is to provide an explanatory and analytical service. But this isn't something that will likely satisfy most clients who hunger for "solutions". Neither will they be willing to pay for it.

KNOWING THE LIMITS

In terms of wealth structuring, Lee advises RMs against trying to steer an outcome for a client. "They should be handing off matters to wealth planners and external advisers, if that is an area in which they are not competent enough," he explains.

Without sufficient experience in a specific situation, a banker or adviser may create risk by trying to merely delay any action until a proper solution is worked out. The right approach, says Lee, is to back-up the initial conversation an RM has internally with a wealth planner who is trained to advise the client.

He believes it to be fair enough and quite common for these practitioners to address some of the 'standard' issues in-house. "If it is tax-related or a technical matter beyond their knowledge, they need to follow the policies and get external advice."

FINDING A BENCHMARK

Where an RM might make a wrong decision about what is appropriate advice to give, meanwhile, can come with clients they have known for 15 or 20 years, for example.

Here, trust has grown to a point where the input from the banker is akin to being personal advice.

Lee says that part of the problem is also based on clients not fully understanding how to make the right choices about which professionals to engage.

Indeed, like-for-like comparisons are key in this regard. "Most clients don't know how to shop around," he says.

"How are they supposed to know the 'going rate' unless their friends have done something similar? But there is also a danger that a friend who has passed on information might have needed help with something that was much simpler."

At the same time, clients will often get what they pay for. "If there is too much pressure on fees, we may drive some good advisers out of that market," adds Lee. "It then opens a door for people trying to break into the market who may not have experience and are learning on the job. It's a balance [for the industry]." ■

Putting the 'fin' back in fintech

These are trying times for fintech investors as they try to capitalise on the size and scale of the opportunity, says Sameer Chishty of Streeton Partners.

On the one hand there is an abundance of opportunity in fintech.

Some of the trends supporting this include: incumbent financial services players still have not been able to develop strong loyalty or advocacy from their customers; there is plentiful private and institutional venture capital seeking yield in a low-return environment; talent continues rushing towards entrepreneurship; there is a lot of availability of advanced technology and bandwidth available at a fraction of what it cost merely a few years ago; technological leaps are being made with distributed ledger technology and artificial intelligence (AI); and there is a secular globalisation of working teams with cheap communications capabilities.

According to Sameer Chishty, founder and chief executive officer of Streeton Partners, several entrepreneurs, backed by venture capital investors, seized the opportunity to develop innovative businesses that quickly shot to fame and fortune. He counts over two dozen fintech start-ups becoming 'unicorns' – private tech companies valued at over USD1 billion. These include: Ant Financial (payments); LuFax (peer-to-peer lending); Stripe (payments); SoFi (student lending);

"Venture-backed fintech investment has been declining for three straight quarters."

SAMEER CHISHTY
Streeton Partners

Oscar (health insurance); TransferWise (international money transfer); and Kabbage (small business lending).

"Even non-unicorn fintech start-ups have brought change to long-established financial services sectors," adds Chishty, "and are highly-valued for disrupting existing value chains while delivering tremendous customer value."

For example, Wealthfront uses AI and robotics for more efficient personal investing; Trov allows consumers to instantly insure their personal belongings using a smartphone's camera; and Zhong An is China's first online-only insurer.

However, venture-backed fintech investment has been fluctuating. It declined for three straight quarters, according to KPMG. In Q3 2016, for instance, it attracted USD2.4 billion, putting it back to the levels of Q4 2015.

fintech, have been the growing disillusionment with the recent batch of fintech investments, as well as investor uncertainty as to what will be successful in the next batches.

"As venture builders and investors, we see many start-ups around the world," says Chishty. "Based on our experience, we are sharing our fintech investment insights. We believe this is a good time to re-visit and challenge what makes for a successful fintech start-up."

First of all, he says the fundamental 'laws of business' have not changed.

According to CB Insights, for instance, the top nine reasons that tech start-ups fail have little or nothing to do with the technology – but are related to people and strategy.

Chishty explains that these consist of: no market need; ran out of cash; not

"We spend a lot of time ensuring our fintech companies are focused on value creation."

And although fintech investment recovered by Q2 2017, it was driven by heavy concentration in a handful of Asian private companies. "China still has 'fintech fever' and corporate venture capital has continuously been putting money in the sector," says Chishty.

GETTING BACK ON TRACK

The main reasons for the overall decline in venture investments to

the right team; got out-competed; pricing or cost issues; poor product delivery; lack of business model; poor marketing; and ignoring the voice of the customer.

According to research by Harvard Business School, meanwhile, the top nine reasons start-ups succeed have everything to with people, strategy and execution. These are: founders driven by

Finding the next fintech opportunity

Chishty believes believing in several macro opportunities in Asia:

- *The strong need for growth capital, especially in Series A and B stages*
- *Chinese fintech companies expanding outside China, and serving the great wealthy Chinese diaspora globally*
- *Solving the many needs of the massive 'sandwich' generation in Asia – the new middle class, often newly urbanised, which is seeking a better life for themselves, building a better future for their children, all the while taking care of their aging parents, especially in Indonesia, India and Pakistan*
- *Customer 'life moments': picking and 'owning' one of the specific moments across a customer's 'circle of life' – which generates economic value and, if done right, leads to lasting loyalty. These include the need to protect, borrow, save, invest for home ownership, education, child(ren)'s marriage(s), and their own retirement*
- *Under-served segments: the rise of women as decision-makers and wealth owners; small business-owners in Asia; and the high-earners-not-rich-yet (aka HENRYs)*
- *B2B start-ups: helping incumbent financial institutions reduce costs and complexity, or increase customer experience and engagement*

impact and passion; founder commitment to stay the course; willingness to adjust while not constantly adjusting; patience and persistence; willingness to observe, listen and learn; developing the right mentoring relationships; leadership with general business and domain/sector knowledge; implementing 'lean start-up' principles; and balance of technical and business know-how.

> **"We believe there will continue to be an abundance of opportunity in Asia fintechs. To succeed as investors, we will need to ask better questions and actively assist entrepreneurs in retooling their business models to achieve their full potential."**

Exacerbating the challenge, Chishty says that in Asia there are very few repeat entrepreneurs.

"We therefore spend a lot of time ensuring our fintech companies are focused on value creation," he explains, "collaboratively solving problems with them, actively mentoring and coaching our (mostly first-time) founders during our involvement with them, which clearly goes far beyond just writing a cheque."

GOT WHAT IT TAKES?

Once he thinks the founding team is high quality, and that the space they are trying to address presents meaningful opportunity, he looks to engage in some of the more non-obvious questions with them.

These include:

1. Is the problem you are trying to solve big enough? Will it remain that way?

2. What's the customer WIIFM ('what's in it for me') in terms of value, convenience, recognition, experience, capability and simplification?

3. What's your Warren Buffett's Moat – how are you creating sustainable competitive advantage? What is your unique position in the fintech ecosystem, and why will that be worth something? With whom will you collaborate to improve your mutual positions?

4. Are you 'better' or 'different' – is it an improvement to something that exists by being better, faster, cheaper and easier, or is it a whole new way of doing something? Why will it work?

5. Borrowing from Peter Thiel, are you going from Zero to One (starting something brand new, for the first time, or going from One to N (taking an existing idea to a new sector or market), and how exactly will you do that in a unique manner?

6. What is your path to sales / how will you get Dollar One in the door? And how will you, in a scalable manner, make customers aware of your product, drive traffic, acquire customers, onboard them, serve them and turn them into loyal advocates of your products and services?

7. What will your unit economics look like, especially customer acquisition costs (CAC) and end-to-end costs as you scale?

8. Most importantly – and this is where Chishty spends a lot of time – through the above discussions he understands the founders, leadership, team and culture. What are the decision-making principles and processes? What is valued / what is rewarded?

9. Do the founders own enough of the company for them to make this their life's work? If not, then leave and go do something else!

10. Finally, how and when do you exit to create attractive investor returns?

These insights take a lot more to generate and apply than just a couple of hurried 'coffee-pitch' meetings or a pre-packaged, rehearsed snapshot at some accelerator's demo day.

"There will continue to be an abundance of opportunity in Asia fintech," adds Chishty. "To succeed as investors, we will need to ask better questions and assist entrepreneurs in retooling their business models to achieve their full potential." ■

Why next-gen digital platforms will revive portfolios

Will Lawton of Eigencat believes that the shortcomings in the Asian private banking and wealth management model call for digital platforms to evolve to create a better way to manage risk and performance parameters.

WILL LAWTON
Eigencat

A former trader-turned-banker, Eigencat chief executive officer Will Lawton saw two fundamental issues in wealth management in Asia that have driven him to develop a digital answer to the industry's big issue around managing investment portfolios.

"The present generation of wealthy investors wants a more digital experience."

On the one hand was a post-2008 business model that says was broken – it was trying to still earn revenue and cut costs despite a heavy compliance and regulatory burden and wary, untrusting clients.

The second problem that Lawton saw was that investment processes using modern portfolio theory weren't working; asset allocation based on the performance of asset classes when they were not performing in a normal manner didn't make sense. In fact, Lawton believes the whole investment process has been flawed for some time, in terms of how products are selected and portfolios are constructed.

As a result, he doesn't think that the end-investor has been at all well looked after – especially since most banks have been more focused on getting documentation right and avoiding risk in order to stay compliant around suitability and other requirements. Investment performance for client portfolios has suffered. The upshot for Lawton was to quit banking and set up Eigencat in Singapore. In short, it is a multi-product robo-advising software which provides automated portfolio management advice without the use of humans.

It combines sophisticated analytics and innovative visualisation to delivers what Lawton calls "an intuitive view of portfolio performance, volatility and risk across all levels".

Wealth managers and individuals can therefore manage the risk and performance parameters of their investments.

GAINING DIGITAL GROUND

Private banks in Asia have generally been cautious in embracing digital advice tools.

Although they have been showing signs of interest via initiatives like setting up incubation centres, launching accelerator programmes and hosting hackathons, a lot of this has been more about generating press and marketing than having any real substance.

In Lawton's view, making real digital progress is not just about automating or improving in-house systems to better inform sales or investment staff. Instead, the focus should be on giving more choice and access to clients.

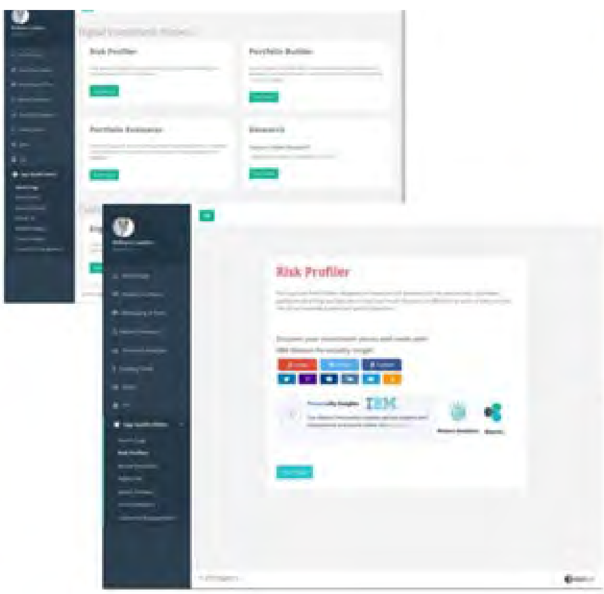
"It is the second and third generations which will have more substance, and therefore get more traction."

"The present generation of wealthy investors wants a more digital experience," he says. "The FX transfer systems such as Revolut and Transferwise are changing the way business is conducted and banks should be aware because it's going to change their world."

For robo-advisers, more specifically, Lawton says the first generation have not taken off as they are overly-focused on ETFs and index products, to offer cheaper and more transparent products. They have also been more about glossy front-ends and less about investment processes.

It is the second and third generations which will have more substance, and therefore get more traction, he predicts.

Using a multi-product approach, it enables users to select the optimal route to market, whether that is a fund, ETF, security or alternative. "It's great to use funds if alpha exceeds costs," he explains.



This also better suits private banks and those advisers serving HNW, which will require a much great product choice and also far more thematic and/or tactical digital portfolios.

As a result, these robos will pose a far greater challenge to the banks.

At the same time, as digital advice becomes more expensive, it will be a fee-based approach.

A NEW WAY OF THINKING

Eigencat aims to be part of the new wave. Rather than being deeply disruptive, it provides a sales enablement and productivity tool that offers a more tangible way for private banks to measure the impact on revenues.

This is, in fact, a key aspect of the firm's value proposition.

The first iteration of the product was based on a proof-of-concept with some private banks and wealth managers in the UK in early 2016. While client feedback was positive, the big questions for the banks was whether it would generate more revenue.

Since then, Eigencat has evolved into a digital investment platform that has proved successful because, believes Lawton, it has been built from the back end with a focus on investing. With this in place, he has then added the user interfaces and other features like digitised research on asset classes globally, in order to evaluate a portfolio.

"It has become a modular digital investment platform," he explains. "Compared with many robo-advisers, we are multi-product and product-agnostic."

The fact that the company's co-founders have strong backgrounds in the financial and technology sectors is another key differentiator, believes Lawton.

In addition, by using Eigencat's digital platform, a client's portfolio is efficiently managed 365 days a year.

"If there any exceptions like bridging of risk levels, high volatility or high correlation in the portfolio, the banker is alerted and action is taken, depending on the issue with the portfolio, to bring it back on track," explains Lawton.

"It has become a modular digital investment platform. Compared with many robo-advisers, we are multi-product and product-agnostic."

By contrast, the approach taken within a more traditional wealth management interaction would be to involve an investment specialist in monitoring a client portfolio a few times a year, at most.

Only the largest and most profitable clients from the bank's perspective would get sufficient attention to warrant a regular conversation on the portfolio.

A WIDER NET

Lawton says he will continue to approach private banks in Singapore with his platform, but he also has plans to start engaging insurance companies and asset managers. He will also broaden his scope to target customers across other Asian markets.

"We have a partner in the US – Vestmo – which supports us in some of our research and portfolio construction, and from the regulatory environment, the US is easier to engage with than some countries in Asia."

In addition, Eigencat migrated its existing systems in November 2016 to IBM Cloud's Platform-as-a-Service, Bluemix, to deliver digital investment solutions for the financial market.The firm also presented at the Singapore Fintech Festival – just after this – its Robo Chatbot capability via IBM Watson on Facebook messenger.

The shift to IBM has instantly resulted in a reduction in lead time for application development – from seven days to two. Plus, Eigencat also reduced system administration effort by nearly 20%.

Further, the fintech start-up is using the IBM Cloud to develop new cognitive-based investment solutions using Watson APIs to broaden its reach in and outside of Singapore. ■

Making digital core to wealth management success

The challenge that private banks and other wealth management institutions in Asia continue to face, is that while they know they need to embrace digital, many of them are still unclear about what to do and how to do it - according to speakers at the annual Hubbis Digital Wealth event in Singapore in June.

Delegate, speaker and sponsor summary

- *More than 35 speakers*
- *Over 300 CEOs, COOs, heads of technology / digital, and other senior practitioners attended – from a mix of local and international Private Banks, Retail Banks, Insurance Companies, Independent Firms & Family Offices, Asset Management Companies, and IFAs*
- *Sponsors: EY, IMTF, Pershing, Quantifeed, SS&C Technologies, additiv, FactSet, IRESS, Liferay, Xignite, Ingenia Consultants, Orbium, Synpulse, State Street, and WeInvest*

One of the most important elements of going digital that firms need to focus on, is ensuring that they are adding value to the bottom line, their clients and internal stakeholders alike. And this is essential, given the amount of money that organisations are committing to digital projects.

Making things simpler, better and faster for customers, needs to be a key driver, given that institutions sometimes forget about the end-user in their path to digitisation, and it becomes just another business process.

Ultimately, in trying to measure digital success, it is important to establish a direct correlation to revenue uplift. This will also contribute towards efforts to drive change in the culture throughout an organisation – a big contributor to buy-in at all levels, especially the front-line.

More communication to bankers is also needed on the benefits and value of digital to augment their role and performance – rather than replace them.

The way some of the more forward-thinking and digitally-minded banks are now spending money on digital is also evolving. For example, they now want to digitise the full value chain – from expanding the client experience to automating processes like client onboarding.

Paying attention to these and other success factors is ever-more pressing in the mission to adopt enterprise-wide digitisation, rather than many banks still looking to fix the basics, or continuing to apply what some practitioners call ‘digital lipstick’.

The end-game, say many practitioners, is an improved multi-channel experience for clients which leads to increased AUM and revenue, and a better understanding of clients’ needs, thanks to the technology.

KEY EVENT TAKE-AWAYS

- Nearly 60% of poll respondents said only a small amount of the talk at their own firms about digital leads to any tangible action. And 74% of poll respondents said that most private banks in Asia are reactive to digital

- Among different types of institutions, local retail banks are making more progress in the digital wealth race in Asia than universal banks, international private banks and insurance companies, said delegates

- Digital is a way to support RMs rather than replace them, according to 87% of poll respondents

- Enabling bankers to spend more time with clients should be the priority for banks to get right with digital, said 50% of poll respondents – with 22% opting for lowering the admin burden for RMs

- 78% of poll respondents think the quality of investment advice from by RMs who actively use digital tools is better than those RMs who don't

- The end-game for digital tools for RMs should be to increase sales / revenue, according to the majority poll respondents – followed by spending more time with clients, and then lowering the admin burden. Only 9% of poll respondents said the digital priority for banks in Asia today should be driving new AUM

- Indeed, 19% of poll respondents said that their firm derives zero revenue from digital channels today; 41% said the revenue from digital was somewhere between 0% and 10%. One-third of respondents said digital-led revenue currently counts for 10% to 20%

- Nearly 90% of poll respondents said banks should invest in partnerships with fintechs – instead of developing their own digital strategy

- Technology budgets should prioritise online capabilities towards interactive engagements with advisers, said 49% of poll respondents. This was followed by technology and process strategies to aid internal innovation (24%) and moving core infrastructures, platforms or software to the cloud (15%)

- 90% of poll respondents think that every robo-adviser should be a regulated entity

- Despite the hype about AI (artificial intelligence), 62% of delegates said they don't really understand what AI is, in the context of wealth management

The spy next door

An industry first between UBS and FinChat aligns the rise of chat apps and compliance monitoring standards. Bill Eng explains the journey of his Asia-based start-up to now provide secured social chat communications to clients and advisers.

It didn't dawn on Bill Eng initially that helping his neighbour to find a way to monitor her child's social messaging habits would trigger a start-up that could attract the attention of the world's largest wealth manager.

But seeing the success of his initial efforts, Eng decided to put to commercial use his Master's in Physics from the University of Cambridge as well as his 18 reclusive years as a boffin in a top secret defense research laboratory. He also roped in a creative IT genius, Arjun Singh, to help develop a fully professional bank-ready product.

He pitched the idea to the Monetary Authority of Singapore (MAS) and SuperCharger, a fintech accelerator in Hong Kong. And just six months later, FinChat Technology is emerging as a name to reckon with in the field of compliance monitoring, analytics and archiving tools for messaging on mobile devices in regulated industries such as financial services.

MEETING A PRESSING NEED

In many ways, FinChat's offering couldn't be timelier. Around 1 billion people now use WhatsApp on a daily basis, with WeChat used by nearly 850 million people, according to industry data. These are also the preferred channels for Millennials.

In private banking and wealth management, in particular, messaging apps such as WhatsApp, WeChat, LINE, FB Messenger, Skype and others, have become the norm for many adviser-client interactions.

Yet regulators across the globe are demanding that financial institutions remain compliant on data retention and archiving – which made adviser-client contact via social communications channels impossible in the past.

A FLYING START

FinChat won over UBS with the fact that the web-based and mobile-based

ARJUN SINGH AND BILL ENG
FinChat Technology

compliance tools capture and monitor business chats – but ensure private chats remain private. When installed on a banker's phone, FinChat's software can capture and secure everything that happens on the device's business chats.

More specifically, it helps reconstruct a specific time in the life of a trader or banker using their social messaging chat history. Eng can demonstrate it by sharing and exchanging video calls, audio, image and text with another phone, and then retrieving them from the compliance officer's dashboard from the private cloud.

"This is a first, and an essential step for the industry," said Dirk Klee, chief operating officer and head of digital strategy at UBS Wealth Management, at the time of the announcement of the collaboration between the two firms in June 2017.

The decision for the 60,000-employee institution to partner with FinChat was based on the importance to the Swiss bank of breaking the impasse between the ever-increasing usage of social media platforms and rise in compliance monitoring standards. "UBS had this pressing problem," recounts Eng, FinChat's co-founder and chief executive officer.

Added Ketan Samani, chief digital officer for UBS Wealth Management in Asia Pacific, also at the time of the announcement: "Our clients have told us repeatedly they want to use chat apps for communication with their client advisers and to receive product and investment recommendations."

The partnership clearly showed the value in the client experience that FinChat can create. It also showed how ready some foresighted banks are willing to collaborate with budding fintechs despite their fledgling size. "This is something that couldn't have been possible just a few years ago," adds Eng.

BORN OUT OF POLICYMAKING

Building on his neighborly spirit, Eng says the wave of regulations around data and record-retention around the world in recent years spurred him to set up the business.

In line with these, Europe is certainly fertile ground for FinChat. MiFID-II (acronym for the second Markets in Financial Instruments Directive) comes into force in January 2018, laying the legislative framework for regulating the operation of financial markets in the EU.

Further, earlier this year, the UK's Financial Conduct Authority (FCA) fined a former Jefferies investment banker GBP37,000 for sharing client information with a friend over WhatsApp – exactly the issues that some of the regulations try to address.

With the MiFID-II deadline looming, Eng says FinChat is in a position to implement solutions within a month for a bank. "That's why UBS and other foresighted banks are asking us to co-develop something quickly with them," he adds.

GETTING IN POLE POSITION

But this is not purely a regulatory-led initiative; it is also driven by competitive pressure, believes Eng. "This space is very nascent," he says, "but I believe more and more players will emerge because when the market starts to find out about [what can be achieved], big players will come knocking.

Already, most of the top global banks, insurers and even some incumbent leaders of the desktop compliance monitoring space have recently approached us for a solution or partnership." The opportunity in the Asian market is appealing, given the habits of consumers.

This is especially the case in China, where it seems that many investors are not prepared to use anything other than social messaging. "Chinese clients do not want to use email, or bespoke banking apps," notes Eng.

Delivering on the business benefits of digitalisation

At Appway Sphere for Banking Singapore on June 28, 2017, over 50 senior private banking practitioners gathered to understand how new digital tools, work automation and cutting-edge technologies can empower stakeholders and shape the future of banking.

Speakers from various industry players, along with senior Appway executives, discussed and debated how digital transformation can enable banks to collaboratively innovate.

Among the key takeaways of the day was the need to always focus on the customer.

This can best be done, according to speakers, by concentrating on the problems and challenges customers face and ensuring there is capability to address these internally.

While this will increasingly–and inevitably–involve the need for digital solutions, a certain amount of physical interaction and personal advice via multiple touchpoints will continue to be an important part of the mix.

At the same time, speakers agreed that despite the burden and complexity that all institutions face in terms of compliance and regulations, technology can and should be used as a way to turn these into a competitive advantage.

Technology is also part of the mission that financial institutions should have for their wealth management business, which is to operationalise the journey.

In short, this means creating seamless collaborations and enabling more effective communication between bank employees and customers.

In order for this to happen, urged speakers, firms should start by empowering their employees.

This will drive productivity and reduce frustrations with any existing processes or systems.

From here, investment in user experience and work automation can take place.

Ultimately, speakers agreed that making digital transformation a personalised engagement with relevant content is key.

While there is a desire to save money and time, there can't be any compromise on the need for broad and engaging customer experience, they added.

And although there might be a lack of conviction and digital culture within some organisations, the goal should be to implement changes across the entire workspace, not just at the front line, and align them with the business model.

HIGHLIGHTS OF AUDIENCE POLLING

In terms of issues and trends relating to balancing customer experience while guaranteeing compliance:

- 97% of respondents said they would be comfortable (as a consumer) with electronically signing contractual documents when opening a bank account.

- When onboarding a new HNW client, 43% of respondents said the key objective of process automation is to improve customer experience. This was followed by 'improving efficiency and shortening time to market' (27%) and 'helping guarantee compliance with regulations' (23%). Freeing up the time of internal staff was a distant fourth at 7%.

- When considering how regulators will likely impact customer experience in the next five years, 68% of respondents said this will be negative– focusing on customer protection rather than customer experience.

- 60% of respondents said that improving customer experience is the priority in their own organisation's budgeting decisions for next year. Regulatory compliance trailed at 24%, with cutting costs now much less important for most firms, getting 16% of the vote.

When it comes to driving the client experience of the future:

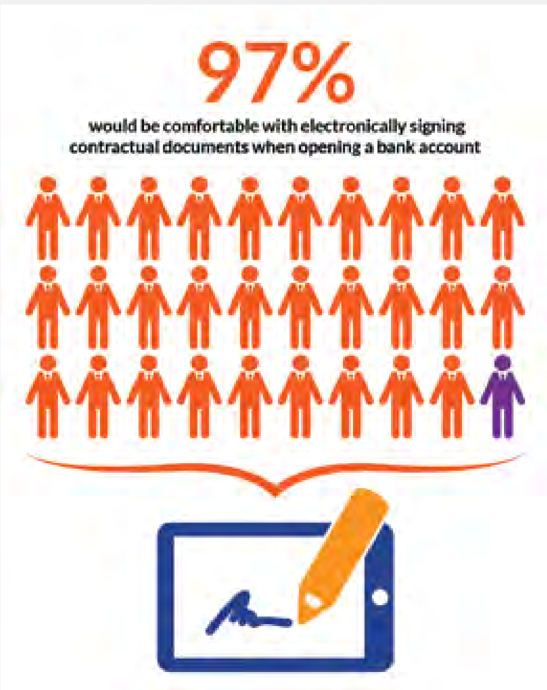
- 45% of respondent said that, as consumers, they would already be happy to use an artificial intelligence (AI) personal assistant to handle their banking matters; 50% said it would take another five years or so for them to have this level of comfort.

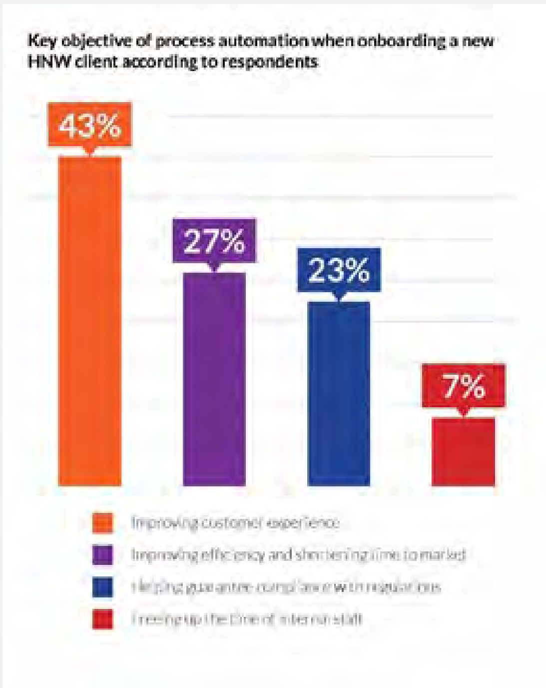
- In terms of chatbots, 73% of respondents said they would open a bank account via this method today.

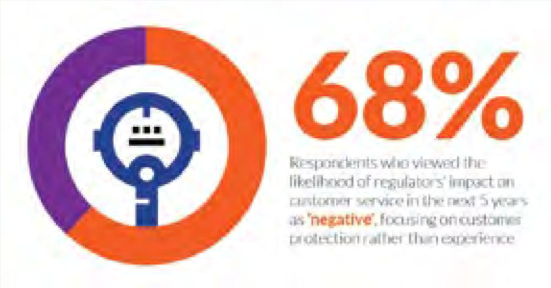
- When it comes to their own financial institution's digitalisation roadmap, however, the majority of poll respondents (44%) said AI personal assistants and chatbots are not yet part of the process. 31% of respondents said they already have a proof-of-concept or a live application. And only a quarter of respondents said their firm has started implementing AI personal assistants and chatbots.

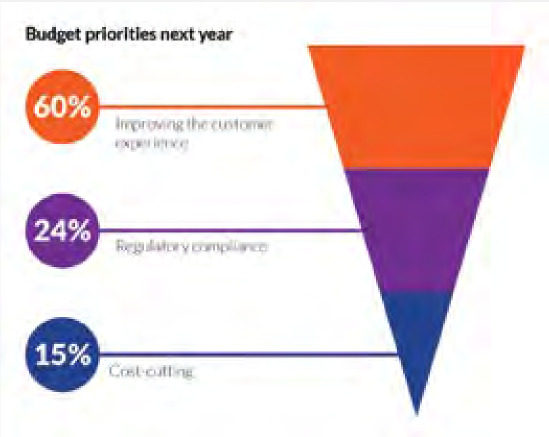
- For two-thirds of respondents, organisational silos are the biggest obstacles to providing a great digital banking customer experience. For the rest, legacy technology is the issue. None of the respondents opted for 'regulations' or 'cybersecurity risks' as the main hurdle.

- In five years' time, 75% of respondents said that the financial services customer experience will be mostly digital, with perhaps one-fifth of the process being handled by a human. The rest of the respondents predicted it will be a 50/50 split, as a hybrid model.





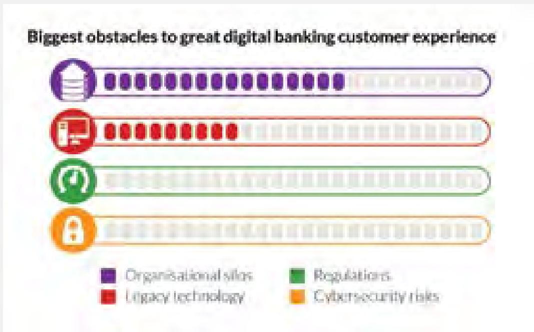

68%
Respondents who viewed the likelihood of regulators' impact on customer service in the next 5 years as 'negative', focusing on customer protection rather than experience


Budget priorities next year
60%
Improving the customer experience
24%
Regulatory compliance
15%
Cost-cutting


73%
Respondents who said they would open a bank account today via chatbots


Readiness to use an AI personal assistant for banking matters
45%
YES
50%
In 5 years' time
5%
NO


75%
Respondents who said that in 5 years' time, financial services customer experience will be mostly digital, with perhaps one-half of the process being manual
The rest predicted it will be a 50/50 split, a hybrid model


Biggest obstacles to great digital banking customer experience
Organisational silos
Regulations
Legacy technology
Cybersecurity risks

How Bento is democratising wealth management

Chandrima Das explains how the firm has developed its platform and overall offering to bring a high-quality investment engine to its clients – which is risk-based, forward-looking and built with the investors' preferences in mind.

After spending several years at private banks, Chandrima Das knew the inner workings well enough to understand that when it comes to wealth management, not everyone is in the same boat.

"Individual investors often pay more fees and are less aware about [their own] performance than institutional investors," explains Das, the chief executive officer and co-founder.

"Even if they have the same amount of wealth, their money might be managed differently."

This disparity got her thinking about ways to use technology and algorithms to democratise – to a degree – the process of investing. Along the way, the goal was to make wealth management less costly and more efficient.

Her vision took shape in the form of a robo-adviser called Bento, which Das, stresses is different from other platforms of its ilk.

Far from being a fully-automated technology solution to replace humans, its intention instead is to work in tandem with client advisers and relationship managers, she explains.

DRIVEN BY ALGO

Bento uses algorithms to test-out strategies for clients. In taking this approach, it first aggregates client data across multiple banks and then offers holistic advice based on real-time data to construct custom-built ETF portfolios that fit their specific needs and objectives.

"Bento brings both strategic and dynamic modelling using technology to the HNW space and B2B at a very low price point," explains Das.

In short, Bento determines the risk profile and investment objectives of

CHANDRIMA DAS
Bento

clients, suggests a model portfolio based on this information and, when market conditions change and the portfolio veers from its goals, it brings it back on track.

Feeding Bento the latest data on market research is Willis Towers Watson. And parent firm Mesitis Capital is looking at a similar partnership with Mercer to input covariance metrics to further strengthen Bento's research.

simple philosophy: a robo-adviser should be a tool that helps construct customised portfolios and not give cookie-cutter advice.

So depending on a client's preference, Bento can delete asset classes or add new ones to reconstruct the portfolio, while keeping the risk profile constant.

"Individual investors often pay more fees and are less aware about [their own] performance than institutional investors. Even if they have the same amount of wealth, their money might be managed differently."

Indeed, market data is crucial to the firm's success. "[Any] model is as good as the inputs that go into it, otherwise it can be garbage in, garbage out," says Das.

CUSTOM-BUILT PORTFOLIOS

What sets Bento apart from other firms like it, she believes, is its ability to customise a portfolio.

"We do not buy model portfolios. We have a set of behavioural finance-related risk questions that try and determine how much loss can a client take, the objective of investors and which biases they may have," says Das.

This makes the outcome customised and iterative.

"Plus, we have tools that aid an adviser to impart institutional-grade, quality advice at the individual level," she adds.

Ultimately, every aspect of the portfolio construction process is guided by a

In striving to match the risk profile of clients with suitable assets, Bento has divided equities in different regions into separate bands, based on their market behaviour.

Within the US, for example, there is US growth, US value, small-cap and large-cap. Similarly, Europe is divided into the UK, Euro zone, Nordics, large-cap and small-cap, because each one of them behaves differently.

And when finally picking stocks, the tolerance band of clients is matched with those sub-asset classes to ensure it is uniquely suited for the individual.

Further, clients can opt to keep custody of their portfolio with any bank of their choosing, in which case Bento manages the money as an external asset manager through a sub account. Or, clients can open an account with Bank of New York-Pershing, which Mestis Capital has tied up with.

STANDING OUT

Essentially, in an increasingly-competitive fintech environment, Bento's proposition is designed to keep costs low, both for clients and for itself.

This means it is focused – specifically, on HNW individuals, family offices and B2B deals.

Das is also hoping for regulatory tailwinds to propel Bento further.

Currently, many institutions in the region rely on transaction fees for up to 90% of their revenue, she explains. But given this is cyclical and regulators have started to turn against fees from selling funds, banks have started to look at 'stickier' revenue options of the kind that Bento's core portfolios can provide.

The firm can also help relationship managers (RMs) to use smart technology to also enhance client relationships and leave them with more time for each client.

"If the bank starts gradually to move towards more of a recurring-revenue model, then there is less reliance on the RM selling a new idea in every conversation," says Das. "So the RM can technically onboard four to six times the number of clients, and have a larger access to funds."

Although still new on the block, she says that some recognition has come Bento's way already. Venture capital data provider CB Insights, for example, recently ranked it among the top 90 global wealth tech firms.

As Bento clicks with advisers and tech enthusiasts alike, Das says the priority now is to further fine-tune the algorithms and build a whole retirement suite. ■

Embracing compliance to bring comfort to clients

In a video interview, Conrad Lim of LGT Bank discusses the critical role and considerations for compliance within private banking today.

Compliance has clearly evolved into a 'valid' profession within private banking. "It is an essential part of doing business today," explains Conrad Lim, managing director and deputy chief executive officer of LGT Bank in Singapore.

Given the complexity of the business, while bankers are the most visible as the client-facing individual, regulators expect a quality of delivery and execution that an individual on their own cannot possibly deliver. The middle and back offices, including settlement and operations, therefore, are all key components of compliance, says Lim.

Compliance represents the safe-keeping of the industry, he adds – the assurance that the organisation is adhering to the minimum standards imposed on it by the jurisdiction within which it operates.

SIZE MATTERS

According to Lim, big doesn't mean better from a compliance or risk management perspective. "The downside of [bigger] size can be complexity [when it comes to compliance]," he explains.

People in bigger banks sometimes get divided into silos, which isn't helpful for the business or for clients. Plus, he adds, operational efficiencies don't stop for any individual client.

By contrast, in smaller organisations, Lim says there is often a lot more attention given to individual clients.

"A client's personal preference can be taken into account more readily."

THE RIGHT BACKGROUND

Lim believes that organisations therefore need individuals working within the compliance function who are from the right background – whether from legal or accounting, or another profession – to interpret regulations and relevant data. "The key foundations for anyone who wants to work in compliance are the ability to emphathise with colleagues, to have an inquisitive mind and to want to problem-solve," he explains. ■

CONRAD LIM
LGT Bank

People and firms who supported this publication

We appreciate the participation and contribution of key individuals and organisations across the wealth management community to the content in this publication.

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