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ASIAN WEALTH MANAGEMENT

Issue 1, 2016

Citi's new approach to retail banking

An exclusive with Gonzalo Luchetti

PLATFORM REFITS
The biggest banks are transforming platforms

WHY FEAR CHINA?
A sound and rational approach, not reactive

SIMPLER SOLUTIONS
Dealing with clients amid volatile markets

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Acting and behaving in the right way

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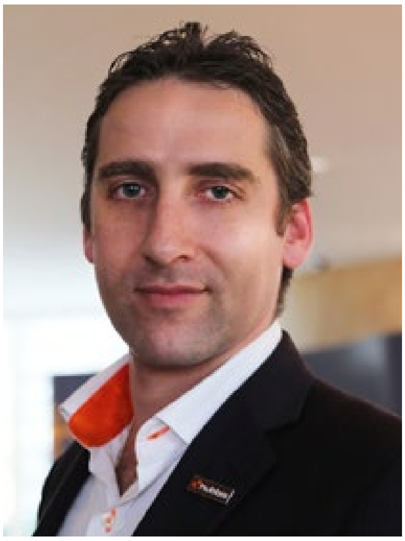
Foreword



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

'Wealth management' has become a very broad concept in this region, and the dynamics of the business are constantly evolving.

This is why this exclusive publication covers Private Banking, Retail Banking, Independent Wealth Management, Family Offices, Insurance, Asset Management, Technology, and also Professional Services.

The blurring of the lines between the various types of organisations operating in this space also brings with it areas of overlap and commonality.

It is increasingly important, therefore, to understand what the issues are and how to develop business models that are rational and sustainable.

We feel much of the existing online and published content in this space is quite superficial – it lacks the substance required to really make industry leaders sit and up and pay attention.

It doesn't quite 'get to the heart' of what really drives the business from a strategic perspective, nor how organisations need to adapt and evolve their platforms, products and people to make the most of the opportunity in Asia.

The frequent surveys and studies about wealth management in this region tend to simply track the rapid growth of wealth and highlight trends about how it is managed. This doesn't uncover the crux of the challenges that wealth management firms of all types and sizes face – perhaps more in Asia than they do in any other region: how to get clients to entrust them with more assets?

Asian Wealth Management is created in conjunction with – and for – senior management, business heads and other key stakeholders from the top international, regional and domestic organisations across the community within 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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REGULATION & COMPLIANCE	SKILLS
INVESTMENTS	STRATEGY & BUSINESS
FAMILY WEALTH	TECHNOLOGY

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1:10

The objective is to hire at least one compliance officer for every 10 additional advisers.
Page 4

29%

Respondents who said the biggest challenge in creating an ethical compliance programme is how to prioritise ethics over compliance.
Page 18

600,000

Citigold Private Client and Citigold together serve more than 600,000 of the region's most affluent consumers.
Page 23

57%

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40,000

Wing Lung Bank is tapping into the domestic China market via access to CMB's... existing base of more than 40,000 private banking clients.
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2%

The penetration of mutual funds in India continues to be extremely low, at roughly 2%, at best.
Page 44

USD2.2 trn

The amount, between shifts from traditional advisers and new investors, which will be managed by digital advice platforms by 2020.
Page 52

45%

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43%

Retail investors responding to a CFA Institute trust study who would leave an investment firm if data security were to be compromised.
Page 77

AAM Advisory's model approach to being compliant

The management of this fast-growing financial advisory firm in Singapore has set a tone of a strong compliance culture. This creates a clear way for all staff to stay focused on doing the right thing for clients, and adds a competitive edge that many firms overlook.

Asian wealth management has become an industry where conversations about compliance are frequent, increasingly complex and time-consuming for everyone, including senior management.

Not everyone embraces this reality.

But putting in place the people and checks-and-balances to turn this from a threat to an opportunity, is critical for a sustainable business.

Yet any initiatives won't be successful unless a firm can instill the right culture and mind-set to drive the behaviour it needs to across the organisation – especially among the front-line.

These individuals are then more likely to accept and understand what is required to stay compliant, and why.

This, in turn, leads to a more cohesive, consistent and coordinated way of interacting with clients, and also internally.

AAM Advisory (AAM) is among what seem to be a handful of firms to have got the formula right.

Directed by its compliance function and supported by senior management, how this 100-person firm operates would make many larger organisations envious.

"We had a great report back from our local regulators in mid-2015, requiring only some minor adjustments, and which have already been put in place," says AAM chief executive officer, Matthew Dabbs.

Ultimately, he adds, it is about making things easier to conduct business in a compliant manner.

COMMITMENT TO THE CULTURE

Not every wealth management firm is as disciplined as AAM.

Even now, with the profiles of the clients being onboarded, and transactions for existing clients, under a regulatory microscope, many firms adopt an approach of 'build a book first, ask questions and try to make it compliant later'.

MATTHEW DABBS
AAM Advisory

ANU PHANSE
AAM Advisory

AAM, though, is different. Key for the firm to act and behave in the most compliant manner has been the commitment of its management.

In 2010, for instance, there was just one person in compliance. But as this individual struggled to keep up with the requirements imposed by the regulatory agenda, and the growth of the front-line, the compliance function received a lot more attention internally. Today, with five compliance professionals and more than 30 advisers, the ratio at AAM is higher than most of its competitors in the financial advisory (FA) space.

According to Anu Phanse, head of compliance, who joined the firm in late 2012, the objective is to hire at least one compliance officer for every 10 additional advisers, thereby maintaining the ratio.

Having several colleagues to cover much of the daily compliance tasks also gives her the chance to focus more on advisory and regulatory compliance.

"The regulatory landscape has changed quite a lot in the last few years and we have to move continuously to keep up with the pace of regulatory changes," says Phanse. "Many financial institutions have been fined for compliance failures and now more emphasis is being placed on compliance functions globally to avoid reputational risks."

Phanse's experience in audit, compliance and business process re-engineering provides a different perspective on processes and controls to create efficiencies. This involves, for example, looking at the current controls which are in place to assess if they are effective, or can be improved. "We prefer to have preventive controls," she explains.

BEING THOROUGH

When it comes to reviewing new business, AAM believes its processes are more rigorous than many of the FA firms in Singapore.

For example, there is a transaction sign-off process for every deal clients undertake, as well as for any top-ups to existing payment plans, insurance schemes or other investments. This is a fact Phanse takes pride in stating.

Despite transactions being in line with a client's risk profile, AAM directors and compliance still perform a review to ensure suitability, as well as protect the interests of the client. Even when the client instruction is to do just a simple fund switch, which doesn't lead to any additional revenue for AAM, the firm does a review to make sure that it's in the interest of the client.

But this is a delicate balancing act.

Compliance checklist

In line with Singapore's balanced scorecard framework, AAM streamlined the way in which it monitors and maintains compliance by following five checklists.

To implement it, Phanse says the checklist is divided up by what she calls 'doers' and 'reviewers'.

The 'doers', she explains, compile the information and documents which the firm requires from clients, and then submit everything in line with the checklist.

The 'reviewers' are then split into two groups, and they look at different aspects of the submission. The first of these involves the review by the firm's directors, which means they look at specific items to assess and sign-off against. The second stage involves compliance, where the compliance team makes sure everything on both the AAM internal processes, as well as the regulations, is ticked off.

Phanse doesn't want either herself or her compliance department to be viewed as a hurdle. Instead, she works with the sales team as a business partner to ensure that the most compliant outcome is achieved quickly, with minimal business impact.

AAM's compliance team works on a 24-hours turnaround time for review of cases to ensure the additional controls do not slow down the sales process.

This is also built into her team's KPIs to ensure this is followed consistently.

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However, if a client has an urgent withdrawal request and is in need of urgent funds, her team is dynamic enough to respond quickly and work with the advisers to prioritise such cases.

As a priority, Phanse has also made sure the firm is fully compliant with Singapore's anti-money laundering (AML) regulations by updating the firm's entity-wide risk assessment and tightening other controls.

Indeed, one of the notable areas in which the regulators in Singapore – and around the world – have cracked down is AML, in terms of both legislation and enforcement. In line with this, AAM has updated its policies relating to stricter requirements around proof of identity and residence for clients, as well as source of funds and overall wealth.

COMPLIANT WITHOUT COMPLAINTS

It isn't possible for a wealth advisory firm to keep all of its clients happy all the time. "Markets have been volatile," says Phanse, "so although firms can ensure advisers have given the necessary disclaimers to clients, and that clients understand them, there is a potential risk of client dis-satisfaction."

Yet AAM has managed to grow its business without having to heavily use a complaints management system. AAM has a full complaints handling process but the volume of complaints is really low. Many FA firms face a much larger number of complaints, requiring them to implement an IT system just to deal with the volumes to manage them.

This seems a redundant concept to Phanse, given that she and her team only have to handle maybe two or three complaints a year.

The firm avoids many more by operating largely on the philosophy of treating the customer fairly, by ensuring they understand the level of risk that they take on any transaction.

AAM's detailed risk questionnaire requires clients to answer about six or seven questions; based on the outcome, the firm uses a risk code to understand whether a client's risk outlook is cautious, balanced or growth-oriented.

However, once in a while clients who have opted for growth outlook which subjects their portfolios to high volatility respond negatively when the market doesn't perform as they want it to.

These are the complaints that compliance cannot do anything about. The approach is to professionally explain to the client that they read and signed the relevant documentation, so they ought to have been prepared.

Where there are justified complaints, Phanse jumps into action and, in conjunction with her management, they take a very firm stance. "We deal with complaints very, very strictly," she says. "We have even terminated advisers in the past because we want to set the right example to make sure that our sales team is following company policies and doing things in the right way."

Mostly, however, not having to be distracted too often by unhappy customers means that AAM can channel its compliance resources in more productive ways, to support the advisers' efforts to win new business.

CARROT AND STICK

There are clear guidelines for AAM's advisers on regulatory compliance and standards of documentation expected of them.

Championing compliance

AAM believes it is important to make a positive example of people who foster a compliant attitude.

Generally in the FA industry, advisers get awarded for achieving volumes of sale. AAM tries to also focus on the qualitative aspects of a sale by rewarding its quality focused advisers.

The firm gives out a Compliance Champion Award every quarter – SGD1,000 (USD696) plus a certificate. "This is to recognise advisers who have been doing proper documentation and meeting compliance requirements. We want to tell our advisers that the quality of sale is a priority. If you take care of the quality, the quantity will take care of itself," says Phanse.

Phanse and her team help advisers to monitor their continuing professional development (CPD) hours and follow up with them. Every year, they each must complete 33 hours of CPD; if they don't, the compliance team doesn't sign off any new business for them.

On the flipside, the firm realises the importance of giving recognition for advisers who conduct themselves and their business in a strictly compliant manner, including submitting the appropriate paperwork. For Dabbs, if his advisers are doing a good job, he says recognition beyond just their commission is important.

The firm can also leverage this to reinforce its value proposition that its advisers strive to look after the client's best interests, money aside. ■

What client advisers can learn from Harry's Razors

A simple thing such as buying men's shaving razors online was enough to crystallise for Anthony Solimini of UBS Wealth Management the importance for advisers of delivering a top-notch and clearly-articulated client experience in the current industry and market environment.

The online space has driven disruption in traditional companies with huge market share, across all sorts of industries.

Yet success isn't only about selling online, explains Anthony Solimini, head of sales and capabilities development at UBS Wealth Management in Asia Pacific. "It is also about presenting traditional products and services in such a way that the 'user experience' is much better than with traditional companies."

The same is happening for men's razor blades. The industry in the US is a USD3 billion market, over 70% of which is dominated by the Gillette brand.

Solimini recently read about Harry's Razor Company, out of New York, that decided to try to break Gillette's dominance by creating a razor of high-quality German craftsmanship, simple design, modern convenience and, most importantly, less expensive. Inspired, he ordered a starter pack, and within 48 hours it was delivered to his door. It lived up to expectations. And all in a beautifully-designed package.

Perhaps most notable was the set of instructions with the welcome pack.

It outlined the following: an industry overview; traditional ways men buy and use razors; what is changing and why Harry's can provide a superior product at a more competitive price; and why it wants the shaving experience for its customers to be memorable and enjoyable.

That is exactly what Solimini says client advisers need to do. "They must help their prospects understand what has been the 'traditional' model of buying financial products and services, how it's changing, why this was needed, and how these changes are benefiting clients."

But he sees another big difference between 'traditional' players and disruptors. "They realise that to entice new clients, products and services need to be sleek, sophisticated and unique. This is not easy when selling financial services, but it needs to be done."

ANTHONY SOLIMINI
UBS Wealth Management

Sticking to what's core for a successful platform

Private banks must constantly evolve and fine-tune their digital platforms to deliver on what clients want and how they prefer to interact with their advisers, according to UBS' Stefan Arn. But they must do this in line with a clear strategy and plan of execution.

As private banks big and small grapple with how to prioritise the evolution of their offering via digital platforms, they need to focus on what's core versus non-core.

Yet this doesn't mean identifying which of their products and services are more or less important to the overall business – rather it is about how they allocate their resources to be able to leverage on their competitive edge – with a genuine focus on clients.

UBS Wealth Management, for example, is betting its digital future on building out those aspects of the offering where it believes it can bring the intellectual capital of the firm to life.

This is mainly around the advisory process, where UBS Wealth Management is able to enhance investment decisions through having a fully automated robo-system in conjunction with the opinions of the chief investment officer (CIO).

Clients benefit from a combination of customised portfolio construction capabilities, daily portfolio health checks and repositioning recommendations which match their individual risk appetite and financial targets.

"Banks which just start to adjust their interfaces to new trends and offerings, will be left behind, especially since time to market is becoming so crucial."

"Banks which don't understand and invest in their core, and just start to adjust their interfaces to new trends and offerings, will be left behind, especially since time to market is becoming so crucial," says Stefan Arn, chief information officer for UBS Wealth Management and also UBS Switzerland.

He is also IT head for strategic regulatory initiatives at the group level.

GETTING THE CORE OFFERING RIGHT

The temptation for many private banks which are playing catch-up is to try to react to the rapidly-changing service and product habits of individual markets or specific client demographics.

However, operating a platform in this way is also a very costly exercise.

Instead, a key component in the overall objective for any private bank must be consistency, urges Arn.

Apple represents perhaps one of the best examples of how to achieve this.

There is standardisation from the colour of the product to the design, even, of the stairs of its retail outlets from New York to Hong Kong to Zurich.

Such a philosophy is particularly important for a bank with the market coverage and influence of UBS, and which must be cognisant of maintaining its track-record of systematic advice.

Arn says this starts at the back-end, which typically absorbs 95% of the IT cost.

As a result, for example, the online wealth management offering that UBS has in Switzerland and Germany is based on a single platform.

Although this creates a larger and more complex back-end than the competition, it also leads to what Arn describes as a superior offering to the rest.

This is based on various factors. For example, UBS uses more data sources than other banks, capturing the investment news of the 900-person chief investment office.

Then the bank has the largest product shelf in the whole market, and from which it can recommend suitable investments and strategies.

This is all integrated with a suitability engine which currently covers more than 90 regulations globally.

"We can do all the cross matching that we need to," explains Arn.

It is built to handle, for example, a Canadian client living in Singapore and booking in Switzerland.

NOT STARTING FROM SCRATCH

Amid the mind-boggling complexity of getting all this right raises a question about whether it would make more sense in the long term to abandon all the legacy systems.

It is something Arn has thought about. But he prefers to adapt and evolve what he has in place already – rather than building it again from the bottom up.

"The challenge [with fintech companies] is finding the 'pearls'. But given the global investment in the double-digit billions into fintechs in 2015, there must be some pearls to find."

It isn't the money which puts him off; instead, the need to be quick-to-market drives his mind-set.

From a client perspective, being able to deliver valuable, contextualised content also highlights the value of an established system.

Building a GUI is only 1% of the overall IT cost, and without the right data and content, there is nothing to bring it alive. Being a market leader also poses its own set of unique challenges for Arn.

"This is why we can't lose a minute," he says. "It has become a scale play."

Hypothetically, he explains, assume the bank is able to create one wealth management platform capable of serving all markets that UBS wants to be in, as well as meeting all the product suitability requirements in each location and adjusting very quickly to any changes.

If the bank successfully does this, then depending on the business appetite, it can offer the platform to a level where the CIO opinion provides certain product insights and directs the execution platform, which interfaces with the wider market.

FINDING A ROLE FOR FINTECHS

One of the ways Arn says UBS has experimented to aid out-of-the-box thinking is running a competition with a number of fintech companies.

The hope with any such collaboration, he explains, is it will bring a viable idea to justify UBS partnering with them. Yet these situations are the exception rather than the norm.

"The challenge is finding the 'pearls'," he says. "But given the global invest-

ment in the double-digit billions into fintechs in 2015, there must be some pearls to find."

In his opinion, this is unlikely to come in the form of a fintech being able to disintermediate the business.

Onboarding clients, for instance, requires an IT architecture that is set up to pull data from multiple sources to facilitate and support the suitability discussion that is required.

As a result, fintechs are more likely to be useful to him in providing specific pieces of the jigsaw which UBS prefers not to do itself for its wealth management business – which goes back to determining what is core.

"So if a firm comes to me with yet another idea for an aggregator, then this is less interesting since we have done this ourselves for many years," explains Arn.

"But if someone is able to provide a way for us to handle a product on our shelf in a more convenient way, that's exciting," he adds.

Or, when somebody offers Arn another way to do a payment, he says that this is also appealing to him, because it is not core.

In a decade's time, he says that he would expect to see some significant changes to the banking landscape when it comes to the areas of execution, settlement and transactions.

"One area of these developments is digital currencies and blockchain technology, where there is high chance to increase transparency and automation."

Among the main shortcomings with fintechs for the time being, however, include the timeframe within which most of their ideas will actually be scalable for financial institutions.

Further, they might only be relevant or useful in a particular market.

And given Arn's desire for a standardised offering, an investment in anything which runs contrary to such a goal seems unsustainable.

NECESSITY FOR SURVIVAL

The consequences for the banks of them not investing in their platforms, or not doing so in a focused, strategic and sustainable way, are so far-reaching that it explains why there is the current scramble by many senior management across the industry to upgrade their platforms now.

In short, it becomes prohibitively costly to do any meaningful business without embracing digitally-led change in this way, especially for the larger international institutions which have cross-border business.

"Operating large franchises with multiple locations [around the world] will eventually be not viable [without scalable digital platforms]," says Arn.

From his perspective, scalable means being able to more easily cope with adding more clients.

The platform itself has to be elastic; that's proven at UBS Wealth Management around the world.

"In Germany, for example, we operate at marginal costs when we on-board new clients," he says.

"So the predicted savings have materialised," he adds.

"In a decade's time, I would expect to see some significant changes to the banking landscape when it comes to execution, settlement and transactions. One area of these developments is digital currencies and blockchain technology."

Ultimately, and regardless of the various ideas and innovations that float around the market, most important for any private bank looking to create a competitive and relevant platform is for it to stay focused.

"It is all about [a mix of] people, strategy and execution," confirms Arn. "If one of those three fail, then we don't have a business." ■

Creating a culture of ethical compliance

Developing a more ethical mind-set among staff – especially at the front line – to ensure people act and behave in the right way is only possible if organisations drive the right internal culture and find a healthy balance in terms of a carrot-and-stick approach.

A Generally, the go-to starting point in building an ethical compliance culture within private banks and other wealth management firms is compliance training. But what's next?

The key to embedding ethics is getting values right. This means helping the client while staying compliant. So the moment that a relationship manager (RM) or client adviser genuinely puts their clients' interests first, the battle is already half won.

If this does not happen, the cost of non-compliance and subsequent enforced change has consequences both for the firm as well as individual employees.

Ultimately, if an organisation doesn't get this right, it needs to consider the amount of business and revenue it forgoes by spending so much in terms of time and resources – and potentially monetary fines – to constantly rectify itself.

HOW TO DRIVE THE RIGHT INTERNAL CULTURE

Moves afoot in the wealth management industry to stop paying RMs on a commission basis is a positive step in terms of using revenue as a tool to drive ethical behaviour.

But to create the right culture within an organisation, it must come from the top down, meaning the chief executive officer (CEO). It is neither an HR function, nor a compliance one.

The CEOs should lead by example by encouraging their line managers to follow the same conduct – by ensuring their message cascades down, supervisor by supervisor, so that each employee can witness the values of their managers, leading all the way to the top of the organisation.

After all, ethics and governance go hand-in-hand. The back-stop (for the time being) and part of any conduct risk management approach is that management chains need to be aligned on how ethical compliance is managed in order to mitigate the risk and promote the

Measures to foster ethical behaviour

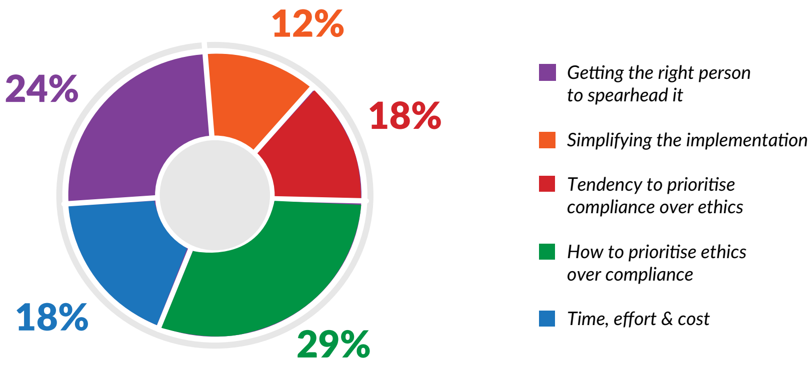
- *Carrots and sticks – monetary rewards, disciplinary actions – possibly including criminal sanctions*
- *Disclosure of personal interests*
- *Constant review of risk areas to improve or introduce checks and balances*
- *More effective descriptions on the wider implications of poor compliance, and its impacts on profitability*
- *Developing and recognising ethics as a specialty field – not just part of general compliance*


Perfect
co-ordination,
expert
execution.

Common challenges to create an ethical compliance programme

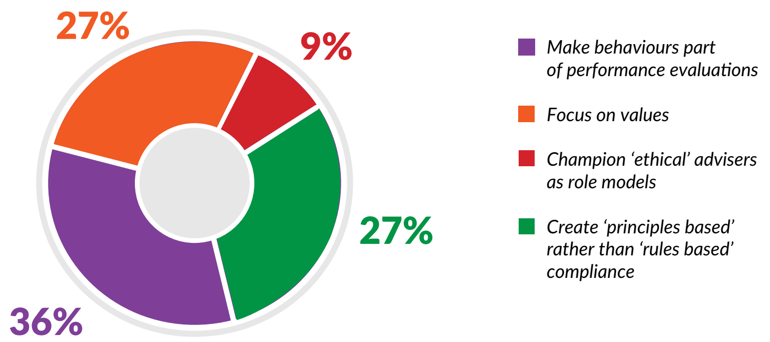
- *Getting the right person to spearhead the programme*
- *Implementation – procedures need to be well-designed so employees don't find it too onerous to comply*
- *Tendency to focus on compliance (mandated by law) instead of ethics (the right thing to do)*
- *How to prioritise ethics over compliance – firms default to policy learning and standard training solutions – not specific instruction on positive and desirable ethics in an effort to influence behaviour*
- *Time, effort and cost*

WHAT IS THE BIGGEST CHALLENGE IN CREATING AN ETHICAL COMPLIANCE PROGRAMME?



Source: Hubbis - Compliance in Asian Wealth Management Forum 2016

WHAT IS THE MOST EFFECTIVE WAY TO FOSTER AN ETHICAL CULTURE?



Source: Hubbis - Compliance in Asian Wealth Management Forum 2016

correct cultural and behavioural traits throughout the organisation. In this way, line managers can play a much-need role as compliance managers too.

To reinforce this, from a process and policy perspective, senior management needs to adapt the firm's performance appraisals and systems to factor in ethical behaviour.

The RMs will then more clearly be aware of and understand the impact of their actions on their bonus.

At the same time, the focus shouldn't simply be relying on rules which embed themselves into procedures; this will not result in a good level of compliance.

Instead, principles-based knowledge and understanding of compliance is key – especially when rules cannot be universally applied to the varying scenarios in wealth management.

SPOTTING RED FLAGS

While it is critical to set the right tone from the top, there are several key ways in which the compliance function broadly can monitor and measure the extent of ethical behaviour throughout the organisation.

For example, on a daily basis, assurance staff should also 'walk the floor.

They can then more realistically provide a first-level risk advisory gauge on transactional matters; this provides an indication of how business – and especially any process or policy exceptions, are handled.

Further, by doing key controls testing, assurance staff are able to gain an understanding of how employees within the business carry out their daily activities; and by conducting such testing over a period of time, it makes it pos-

sible to uncover trends in the behaviours among individuals.

After reporting such results up the management chain and observing what actions get taken (or not), this is a good indicator of the quality of leadership and management.

When it comes to complaints, incidents and losses, compliance teams can monitor the communication logs leading up to and throughout the handling of these situations.

This will typically provide a good indication of any non-ethical behaviour which exists within the firm.

ACTING AND BEHAVING IN THE RIGHT WAY

Yet is it really possible to train people to be ethical?

Is it likely that behaviour will improve based on mandatory training?

Inevitably, ethics is something which is very personal, plus it tends to vary between individuals.

It is typically shaped by personal circumstances, combinin a mix of someone's family values, education and also their life experiences.

However, education can to an extent influence or change a person's view on what is right or wrong.

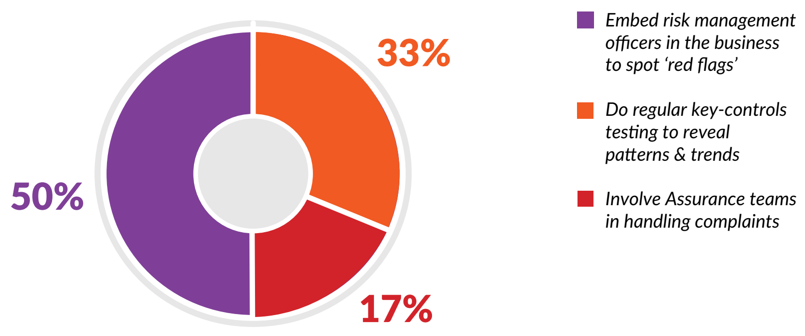
In line with this, for wealth management organisations to ensure that they can embed the values they want their employees to demonstrate, the starting point is taking the corporate values, adjusting them to the roles of each individual, and making those people commit to them.

As part of this, role plays to show RMs how to deal with various situations can help a lot.

For instance, RMs need to understand that they do have responsibility for these areas – not just for bringing in new clients and AUM.

They need to realise the importance of their role on the risk side of the business as the first line of defence.

WHICH OF THE FOLLOWING PROCESSES DO YOU THINK WOULD HAVE THE MOST POSITIVE IMPACT IN CREATING ETHICAL BANKERS?



Source: Hubbis - Compliance in Asian Wealth Management Forum 2016

Implications of non-compliance

- *Bad publicity*
- *Loss of clients – they don't want to be associated with non-complying organisations*
- *Loss of competitive edge*
- *Run-ins with regulators – possible revocation of licenses, subjected to extensive audit*
- *Possibly change of leadership and management – once governance and controls are called into question, change at the top might be necessary, often in turn leading to changes to structure and risk management*

They are then far more likely to have a greater level of understanding and awareness about why they need to comply with various regulations when they are introduced and implemented.

BALANCING THE CARROT-AND-STICK APPROACH

The carrot-and-stick approach to dealing with non-ethical behaviour is quite proven.

This involves rewarding good behaviour on the one hand, while making RMs aware on the other hand that the consequences for any bad behaviour can include disciplinary action or various sanctions, including criminal ones.

In turn, this creates a certain level of fear among staff..

The impact on them as an individual is the most effective way to reinforce the message about ethical conduct. ■

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Citi's new approach to growing retail banking in Asia

With a remit across 12 markets and 13 businesses, including deposits, wealth management and bancassurance, Gonzalo Luchetti has a clear vision for evolving the nature of the conversation and interaction the bank has with the region's urban based, affluent and emerging affluent. He tells Hubbis how he plans to achieve this for Citi.

The fact that 12 of the 24 consumer markets Citi is in are in Asia underlines the region's importance to the global retail and wealth management business.

"We feel Asia is one of the best opportunities we have across the world," says Gonzalo Luchetti, Citi's Asia retail bank head. "Looking at different profit pools, there is an expanding wallet in investible assets largely being grown through wealth creation in the region. It's also one of the fastest-developing parts of the world when you put scale together with speed of growth."

As a result, the bank is confident about investing in the region.

In short, Citi's wealth management value proposition, which covers the full spectrum across the retail bank, is primarily an urban based, emerging affluent/affluent strategy. Yet in trying to accelerate its scale in this way, it has opted to do so selectively, rather than aiming to be all-things-to-all-customers everywhere it operates.

Key to getting its offering right in today's marketplace, believe senior executives, is offering a multi-faceted service to the individuals it wants as customers.

The plan, therefore, is to further combine an array of digital touch-points with access to a more focused, needs-based conversation with better-trained front-line advisers.

REGIONAL PRIORITISATION

Independent research on Citi backs up the fact that the Asia consumer business should be the fastest-growing segment for the bank.

Further, said CLSA in a report in early 2015, this unit should reflect Citi's prototype for the rest of the franchise.

It highlights three reasons for this: first, the target segment is the affluent and emerging affluent as opposed to the mass market; secondly, branch networks are geared towards major metropolitan areas and, if markets do not

GONZALO LUCHETTI
Citi

have a sufficient and consistent affluent customer base, Citi has been closing branches in rural areas, while adding new ones in urban locations; and thirdly; the bank intends to target more growth in its Asia consumer business, given favourable risk-adjusted returns due to the combination of an ability to charge more for risk (as opposed to the US) and customers who pay back more often (vis-a-vis Latin America).

CLSA also pointed at the time to efforts to integrate systems as being key to aiding the client experience. In turn, this should also lead to improved synergies. "[Citi] is also enhancing its retail eco-system by optimising physical and digital touch points, creating a lower-cost but high-impact footprint."

This report was published only a few weeks after Luchetti was appointed to his current role, in early January. Since then, he has been focused on spear-heading the distribution he is responsible for towards the goals outlined – and some even bolder ones.

REINFORCING THE BRAND

The Citi name clearly carries a certain degree of cachet within the retail and wealth management space in Asia.

The bank's reach across the region reinforces this; through Citigold Private Client and Citigold, it serves more than 600,000 of the region's most affluent consumers. Citibank is also the top card issuer in Asia Pacific, with about 17 million open card accounts.

Geographically, the consumer bank's largest markets are mostly in developed Asia, meaning Korea, Singapore, Australia, Hong Kong and Taiwan. Growth opportunities seem greatest in the region's biggest consumer markets of China and India.

To broaden its appeal to its target audience, it has also recently launched Citi Priority. This basically targets those customers with up to USD100,000, to

CITI'S WEALTH MANAGEMENT BUSINESS IN ASIA PACIFIC

1/3	1	14	250	355	651,000
1/3 of Asia's billionaires[1] (ex-Japan) bank with Citi	The largest wealth manager amongst Consumer banks	14 businesses in Asia Pacific	$250 billion in footings[1]	Wealth Management centres	Provides wealth management services to over 651,000 clients

Citigold and Citigold Private Client centres across Asia2

Client types

[1] Includes Private Banking footings, reported within Securities & Banking as of Sept 30, 2014
[2] Citigold, Citigold Private Client and Citi Private Bank centers as of Sept 30, 2014

Source: Citi

complement the existing segments of Citigold, for individuals with investible assets of USD100,000 to USD1 million; Citigold Private Client, from USD1 million to USD10 million; and then the private bank takes over.

REDEFINING THE PROPOSITION

However, Luchetti knows his competitive environment has intensified and broadened significantly in recent years – and that he must adapt and evolve.

The attraction of Asia's wealth pool and consistent growth rates has resulted in competition from multiple players which simply didn't exist 10 years ago.

"We have seen a lot of local suitors up their game," he says. "The capabilities of these banks were fairly simple and plain vanilla in previous years. Since then, they have developed a much more competitive proposition, whether in terms of technology, product or talent."

At the same time, while some of the sub-scale players have been forced to exit the market or pare back their operations, those firms which remain are building a much more focused business on their target markets.

Luchetti gives an example of compression in the HNW space, where the landscape has shifted. Some global private banks are no longer in Asia, while aspiring local players are raising the ante with dedicated HNW propositions.

Several other components of the offering to affluent and emerging affluent customers have also increasingly come under the spotlight as essential differentiators for the way wealth management in Asia is expected to look and feel in the years to come.

Digitisation ranks highly among these. This is in line with the decreasing frequency – and interest – in terms of personal, in-branch engagement among many of these individuals.

"We are having a lot more interaction with clients on an average basis per month, but much fewer of those happen in the physical realm," says Luchetti.

This ties in to Citi's strategy over the next five to 10 years to gradually change its network infrastructure geographically, including the 'urbanisation' of its retail banking business towards more specific hubs and a higher concentration of relationship managers (RMs).

"In some cases this will mean fewer outposts, whereas in others it may mean the same number of outposts but a different look to them," explains Luchetti. "There will be much fewer 20,000-plus square foot branches, and those will be flagship and central hubs, with many more compact formats in hotspot locations."

DEEPER AND RICHER

Despite the importance of digitisation in all aspects of the customer experience and execution, Citi is not overlooking what has traditionally been the bread-and-butter of wealth management: a personal touch.

Even among younger groups of clients who are of the Facebook and WeChat era, research the bank has done with both existing and prospective customers shows a desire for some degree of human interaction. "They don't only want the self-assisted experience," reveals Luchetti.

Probably the most important way to make the most of the human aspect to the advisory equation is for the bank to be able to use it to pivot into providing much more 'holistic advice'.

While one of the most over-used industry terms, Luchetti can define it, and his vision to implement it, very clearly. "We want to elevate the level of questions we try to answer together with the client. This doesn't mean the outcome of the advice is not a portfolio recommended alongside policy protection and perhaps some credit-related

Made for the role

Prior to his current mandate, Gonzalo Luchetti was for three years from 2012 the global head of wealth management and insurance responsible for Citigold, Citigold Private Client, Investment and Insurance product distribution globally, and the global international personal bank business.

This followed a three-year stint where he was responsible for managing the international personal bank business in Latin America, spanning nine markets.

He first joined Citi just under a decade ago, in 2006, as head of strategy and finance for Citi Private Bank in Latin America. He helped drive the region's growth strategy and led key business optimisation initiatives.

He was groomed at Bain & Company in San Francisco and London, and then got his first 'inside' feel for the industry at JP Morgan Chase in business development for the firm's international financial services division.

needs being satisfied. What it does mean, is that hopefully we can help clients understand how they should think about their lives in the context of how much they should borrow given their circumstances, not just their net worth, and also based on the income they have, their family situation and their current level of protection."

In practice, a more meaningful conversation with a client could start off by asking them whether they want to send their kids to Harvard, for example, in 20 years' time.

This is a stepping-stone to understanding what they need to do in order for that to happen. So given that the fees at Harvard might be increasing at a faster rate than inflation, a strategy can be discussed and implemented now.

Such advice is rare to see within banks servicing the customer segments that Luchetti is focused on.

This is because while that type of discipline is common to see among accredited financial planners in more developed markets like the US, it doesn't really exist yet in a lot of the emerging markets.

"This is really the crux of how we see the business developing, and this is the leadership position we want to take in approaching that problem," says Luchetti.

This is based on the fact that he believes more clients in his target markets have an appetite for this dialogue.

Even if the outcome of the financial plan and conversation is a series of transactions, it enhances and advances the client engagement and overall relationship for both the client and the bank.

A FUTURE-PROOF MODEL

At Citi, the belief is that the winning model in wealth management is one where there is a triangle between the client, RM and do-it-yourself approach.

"So we need to have a seamless ability to service clients when they want to operate without talking to a person, but at the same time we have the ability to give them the RM experience, to also help them navigate through the complexities of investing," says Luchetti.

When it comes to the investment part of the portfolio, the bank will continue to pride itself on offering what it considers to be best-in-class products.

It sources these from a combination of a premier funds platform, an Asian hedge funds platform, and its investments lab expertise.

"We have a house view, and we select the funds which we think are the best, and where we want our people to be talking about the best ideas that we have on a consistent basis," says Luchetti.

The best producers the bank has are those RMs who avoid talking only about a certain mutual fund of the month. Instead, they know the families of their clients and help them plan for their future needs.

Citi's priority, therefore, is to try to steer the other 80% of the bank's customer base in Asia, which has been more transactional in nature, towards the richer, holistic advice.

"This is the journey we are on," confirms Luchetti. "It's not a year or two's effort, and while we have tools to help us, it also involves a huge change in management processes to start making people think differently about their engagement with clients."

So in order to implement some of the required RM training that the bank knows is critical to its success, a new initiative is to team up with The Wharton School of the University of Pennsylvania to form the Citi Wharton Global Wealth Institute.

The over-riding objective is for RMs to be able to have a richer advisory conversation with their clients. "This is the starting point for the pivot." ■

Raising the advisory bar

In partnering with The Wharton School of the University of Pennsylvania, Citi aims to provide its global adviser community with business and executive training.

The Institute is part of a new, three-year executive education initiative that will reach the Citigold, Citigold Private Client and Banamex global advisory networks.

It launched in December 2015 on the University of Pennsylvania's campus in Philadelphia and Beijing.

The participants will comprise Citi's top-performing relationship managers and financial advisers.

Over the next three years, Citi expects to enroll as many as 500 individuals worldwide through the Institute.

Sentiment stresses need for diversification, despite optimism

A survey of participants at Hubbis' 6th annual Asian Wealth Management Forum in Hong Kong highlights a pressing need for proper advice to clients on how to diversify portfolios amid asset class uncertainty and an array of market, policy, economic and political risks.

Amid current market volatility and uncertainty, there is clear evidence of the need for relationship managers (RMs) and investment advisers in Asia to help clients create more diversified portfolios.

This is according to 100 senior individuals who responded to an investment outlook survey, out of the 300 participants across private banks, retail banks, IFAs, insurers and independent wealth managers / family offices at the annual Hubbis event in Hong Kong.

Their collective views suggest the end of the year will look much better than today for developed equity markets, and for commodities such as gold, silver and oil, but not so good for the Hong Kong property sector. Fixed income, according to respondents, is an unknown, with divergent opinion on how various types of debt will perform.

Ultimately, practitioners believe that this is finally the year for conversations with investors about proper long-term asset allocation and diversified portfolios, with cash an important component of a client's investment strategy. What it isn't a time for, it seems, is panicking, being over-leveraged or selling into the current volatility.

Market outlook highlights - predictions by end-2016

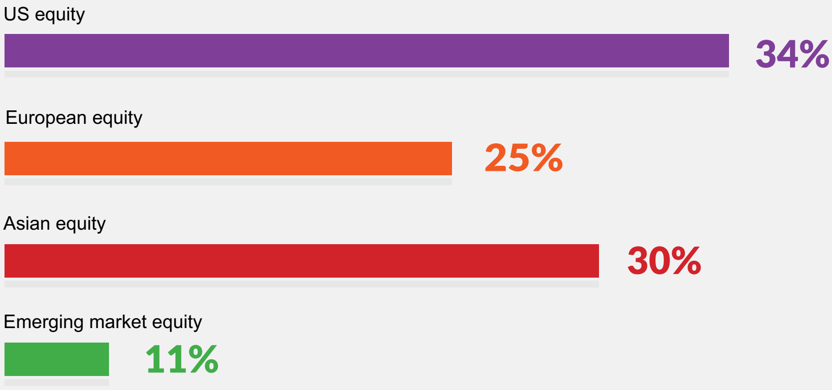
- *Higher equity markets, led by the US*
- *Higher gold, silver and oil prices*
- *A fall in the value of Hong Kong property*
- *Higher allocations to hedge funds and private equity*

OPTIMISTIC ON EQUITIES, DRIVEN BY DEVELOPED MARKETS

Respondents were confident about how the equity markets will generally perform between now and the end of 2016. Nearly 80% said they expect levels to be either the same or higher, with 43% opting for growth.

The best-performing equity market in 2016 is tipped to be the US (34%), followed by Asia (30%) and Europe (25%). The worst sector is predicted to be emerging market (EM) equities (41%).

WHICH DO YOU EXPECT TO BE THE BEST PERFORMING EQUITY MARKET IN 2016?



Source: Hubbis - Asian Wealth Management Forum 2016, Hong Kong

NO CLARITY FOR FIXED INCOME

The direction in 2016 was less clear among respondents over fixed income.

Half of the results point to no change, with the remaining votes split evenly between higher and lower markets. Further, no specific fixed income instruments are predicted to be stand-outs. Around one-quarter of respondents expect high-yield bonds to perform the best, followed by investment-grade bonds (23%) and US Treasuries (14%). At the same time, however, 24% of respondents also said high-yield bonds would be the worst-performer in the fixed income space in 2016. The other main product to avoid, according to the results, is local currency EM debt.

While this is perhaps more positive and stable overall for fixed income than some people might think – especially given credit problems in high yield and most government rates at zero, the alternative is even riskier equity assets.

COMMODITIES TO STABILISE, PRICE RISES LIKELY

When it comes to commodities, there appears to be a bright outlook for gold. Around 62% of respondents predict it will be higher at the end of 2016 than today, with 26% opting for it to be at the same level as today.

57% **Respondents who predicted oil will be higher at the end of 2016 than today.**

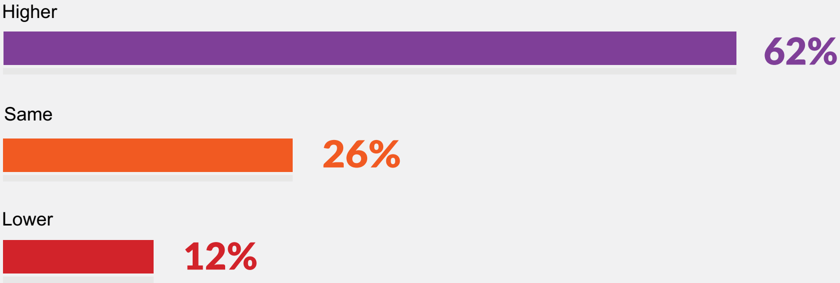
Sentiment for silver is broadly similar, although not as strong; 44% said it will be higher, with 46% expecting no significant change.

In terms of oil, 57% of respondents believe it will rise compared with today, 28% say the price will remain consistent, and 13% predict a fall.

The outlook for Hong Kong property is much more negative. Three-quarters of all respondents said valuations will be lower by the end of the year.

For the US dollar index, meanwhile, views are mixed. While 40% of respondents think it will be higher by the end of 2016, 37% predict no change, and 23% believe it will fall.

COMPARING NOW TO THE END OF 2016, DO YOU EXPECT GOLD TO BE HIGHER OR LOWER IN PRICE?



Source: Hubbis - Asian Wealth Management Forum 2016, Hong Kong

ALTERNATIVES FIND FAVOUR

Against this backdrop, alternative investments are set to prosper, according to the views of industry practitioners who responded to the survey.

For 71% of them, they said they would advise clients to either increase (34%) or hold (37%) current allocation to hedge funds. Views were similar for private equity, with 37% of individuals suggesting allocations should rise.

71% **Respondents who would advise their clients to either increase or at least hold current allocation to hedge funds and private equity.**

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A HOST OF RISKS

Among the various market, policy, economic and political risks that market practitioners are fearful about, lower economic growth in China was at the top of the pile.

This was followed by political turmoil and credit crisis / defaults as the next two most significant concerns in the minds of industry players.Other key risks included: lower oil prices; higher volatility in equity markets; lower company earnings; and the US Federal Reserve raising rates.

GIVING PROPER ADVICE

In line with discussions on panels at the event itself, as well as further audience polling, the market outlook for 2016 suggests that the best way to adapt the offering for end-clients is via diversification.

Reviewing portfolios to ensure investors are focused on longer term asset allocation was a consistent theme in terms of the views of survey respondents about the key piece of advice they feel they need to give clients.

Other comments included the need for clients to sell risky assets, hold more cash for the time being, re-balance portfolios to suit volatile markets, and look for more stable income streams via their asset diversification.

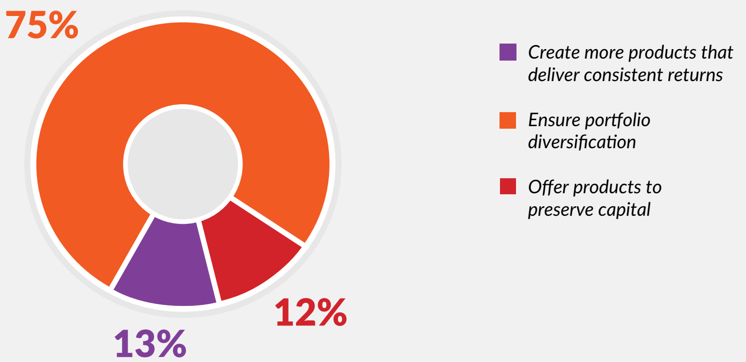
There was also an overwhelming view that the uncertainty will result in passive strategies seeing more take-up than active ones this year.

What market practitioners felt most strongly that clients shouldn't be doing, however, is to panic, or try to time market bottoms. Investing with a short-term mind-set is not recommended. ■

The top 3 risks in 2016

- *Lower growth in China*
- *Political turmoil*
- *Credit crisis / defaults*

GIVEN THE MARKET OUTLOOK FOR 2016 – WHAT IS THE BEST WAY TO ADAPT YOUR PRODUCT OFFERING FOR END-CLIENTS?



Source: Hubbis - Asian Wealth Management Forum 2016, Hong Kong

Battling a 'perfect storm' with simple solutions

Challenging and volatile markets are set to make 2016 a very tough year for wealth managers to generate transaction revenue. The only way they can hope to be successful is by listening to clients to really understand their needs, and then presenting the best solutions.

Amid highly-challenging markets, 2016 is set to be a transition year for most banks within wealth management.

Not only are there high levels of volatility and a lack of direction. But coupled with wary clients, these add more fuel to the existing uncertainty and fear stemming from negative and unpredictable influences. These include: weak and exposed markets in China; the likelihood of rising interest rates; divergence between monetary policy in the US and elsewhere; a US presidential election; the high potential of geo-political unrest; and expected market blow-ups from time to time.

For relationship managers (RMs) and other front-line advisers, they must step up this year more than ever before.

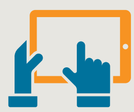
Most pressing is the need for them to quickly get into a position where they feel brave and confident enough to simplify the difficult conversations they have with clients about investment strategy and portfolios.

But while diversification and risk management are clearly now critical, many product gatekeepers say their bankers lack the understanding to identify clients' needs and convert often overly-complicated products and themes into outcome-focused solutions.

Why the quality of the advice must improve?

Advisers need to suggest clear and rational investment opportunities to their clients

Advisers need to recommend simple solutions – not complex ones



Advisers also need training and other tools such as quick-reference crib-sheets to aid discussions

Advisers need to educate their clients

It is no longer a dealing job. And RMs don't necessarily need new products to meet the requirements of clients. Instead, armed with the broader set of skills and wider perspective they need to do their jobs, bankers should be able to balance their KPIs – assuming they know what they are – better across revenue from existing and new clients.

If banks get this right, and deliver an offering in conjunction with advice which is relevant to clients to provide protection from a so-called 'perfect storm' – then implementing much-needed advisory fees becomes viable.

Alternatively, already-suffering transaction volumes and margin pressures threaten to drive many of these institutions into the type of short-term and reactionary responses which are not in anyone's interests.

GIVING CLEAR DIRECTION

The key for RMs in 2016 is being able to articulate rational investment opportunities to their clients, and then build portfolios with simpler solutions.

This is easier said than done. Perhaps the biggest problem with many front-line advisers is the fact that they get swamped with investment ideas, but don't have a consistent way to portray them to their clients in a regular and high-quality manner.

This is possibly due a lack of real understanding, time or interest. Or the RM might simply dislike the product, or prefer to remain focused on a limited range of products they know well, even though something new could be relevant for that client.

It is vital, therefore, to give RMs and other front-line advisers training and other tools such as quick-reference crib-sheets, such as product summaries, to present the right investments to clients in a consistent and proactive way, not an ad-hoc one. These bankers would then move closer to the real relationship-driven model that exists in more mature wealth management markets.

For the banks, success in building trusted client relationships through these ways won't continue to entirely depend on the best or biggest platform. Instead, they will be able to compete based on the quality of how their people deal with their clients.

In addition, senior management must do more detailed planning and give clearer direction on what each adviser is supposed to be doing, and what they should achieve.

There is a growing urgency for all of this; questions from clients about their portfolios and market outlook are only likely to get increasingly challenging.

DON'T 'SWING FOR THE FENCE'

The somber mood among many product gatekeepers when they look at the year ahead follows a year which saw promising capital inflows into Asian investment products.

This rose to USD535 billion during the first 11 months of 2015, according to data from Strategic Insight, driven by mainly mixed asset funds, and a particularly high contribution from China.

The figures also showed that such flows into equity funds more than doubled to USD106 billion compared with the full year in 2014.

Bond inflows were also up as of the end of November, said the data, to

Time for discretionary

Investment outlooks at the moment create an even stronger case for banks to create more comprehensive and relevant discretionary offerings.

In contrast to advisory, within which structured products are at the forefront, discretionary portfolio management (DPM) gives RMs a more coordinated and professional reference point for discussing client portfolios.

While many institutions continue to say they are committed to developing DPM within their private banking business, to do it properly they need a dedicated programme to sell to a client.

This is key, given that many banks don't enable their RMs to refer to a strategic asset allocation when they communicate to clients – an essential tool to help try to weather the expected storm.

This needs to be asset allocation not in terms of outperforming, but in terms of return. It can then be effective as a risk-monitoring and management tool, especially for those clients which are entering 2016 overweight risky assets

In turn, this involves a specific solution, run by a DPM team following efficient, structured processes to match the client's investment profile against various options.

It isn't enough for banks to dabble in DPM without a clear vision for growing the business with the right team.

roughly USD 20 billion, with China, India and Thailand accounting for most of the inflows.

Things took a turn for the worse, however, at the end of the year, continuing to be tough into early 2016.

In structured products, for example, December and the start of January were among the quietest periods on record in terms of volume, according to some of the highest-performing private banks in this segment.

Yet this is often because structured products get used (wrongly) by RMs and clients alike as trading instruments. Now, higher volatility means that the banks are again in a position to be able to sell products which can add value to clients, and at the same time earn them decent revenue.

Again, this comes back to whether RMs really understand what they are selling, and why.

A growing source of frustration for many gatekeepers is that their own front-line staff continue to sell what clients know and ask them for – not what the product specialists suggest they sell, and what are probably more aligned with the clients' best interests.

For example, some of the priorities for product gatekeepers include getting cash deposits into products like actively-managed certificates with selective bonds. Bond repackagings are also on the hit-list, to repackage a part of a client portfolio in a floating format to increase yield in US dollars. Principal-protected, longer-dated products are also more relevant as a solution, as part of a three-year plan within banks to try to avoid a short-term approach.

A LONGER-TERM FOCUS

With this year going to be more about education than transaction revenue, the RMs who will stand out are those which can sustain their businesses through these more difficult and volatile market conditions.

And the more proactive they are, the more successful they will be as markets return to normality and opportunities re-emerge – and when clients will, hopefully, remember who served them best in challenging times.

There are a few key ways to help facilitate this.

The hurdle, however, relates to the fact that a lot of the information is disjointed and exists across multiple platforms. And there is still too much of it.

But RMs also need to get clients to focus on, and be invested in, ideas and solutions that are right for them in the current environment. Plus, they need to be more confident and convicted to be able to walk away from a trade that isn't right given the state of play today.

The upshot of all this should be bankers which can convert complicated products and themes into a simpler, outcome-based conversation.

"RMs who will stand out are those which can sustain their businesses through these more difficult and volatile times. And the more proactive they are, the more successful they will be as markets return to normality and opportunities re-emerge."

For example, along with the approved 'shopping list' that RMs can access for each client, depending on their risk and investment profiles, bankers would benefit from a more comprehensive set of 'cheat sheets' – which are also relevant and interesting.

These would give a snapshot of the institution's market view and suggestions on how to execute it.

This would flow in to a more coordinated discussion internally, with investment advisers, to present a consistent message and core set of products to a client at a particular point in time.

Armed with the right tools and knowledge, therefore, RMs are ultimately more likely to be able to block out the so-called noise from the markets, to avoid being distracted.

In turn, rather than focusing on products with the aim of achieving high returns – or 'swinging for the fence', to apply a baseball term – the focus should be a needs-based and more conservative strategy for each client portfolio.

And once this is in place, RMs must stick to it – plus they need to encourage their clients to do the same, rather than be lured back to short-term behaviour. ■

How Wing Lung Bank has created a one-stop China model

Providing cross-border access to mainland clients eager to explore options offshore is something the bank is proud to deliver. Joseph Tam and George Lee explain the edge that Wing Lung Bank, with the collaboration of China Merchants Bank, gives its private wealth offering.

Having an established and credible Chinese counterpart is something that the majority of private banks lack.

By contrast, Wing Lung Bank can provide a full range of products and wealth management services to HNW individuals from the mainland.

Indeed, becoming part of the China Merchants Bank (CMB) Group in 2008 has proven to be Wing Lung Bank's unique selling point.

The competitive edge the Hong Kong-based institution says it has created, relates to its access and reach in servicing Chinese clients in the mainland.

"Through CMB, we are in touch with our clients in the mainland every day," says Joseph Tam, executive vice president and head of private banking and wealth management at Wing Lung Bank. "And by servicing them together, we understand the real needs of these clients."

More specifically, the bank has gained this upper hand in tapping into the domestic market via access to CMB's network of 1,200-plus branches in China, and an existing base of more than 40,000 private banking clients.

Further, in 2014, the Wing Lung Private Banking Centre was launched as CMB's first offshore private bank.

The aim is to provide HNW clients in Hong Kong and mainland China with distinctive cross-border financial and wealth management solutions, such as settlement, financing, succession planning and global asset allocation.

Results over the past 18 months highlight the success to date. Wing Lung Bank's private banking and wealth management business has grown by around 50% in terms of number of clients, and 15% in terms of AUM. At the same time, revenue has risen by more than 30% year over year.

JOSEPH TAM
Wing Lung Bank

"This is the golden age for banks focusing on mainland clients, especially if the banks have a trust capability, because this is now needed," explains Tam.

GEORGE LEE
Wing Lung Bank

PROVIDING UNIQUE ACCESS

Some of the practical benefits of the accessibility that Wing Lung Bank gives to its mainland clients can be found in the wealth structuring offering.

For example, the trust services being offered by the bank can be an option for mainland clients to hold and protect their offshore assets.

Moreover, the valuations of Chinese property and the RMB have been down for two years in a row. Plus, big money was lost in the stock crisis in China in the third quarter of 2015.

Overseas investment opportunities have therefore become increasingly important for China's wealthy; risk aside, they want returns.

"Initially, mainland clients were looking for diversification in their portfolio, incentivising them to go outside the mainland because they didn't want to put all their eggs in one basket," says George Lee, Wing Lung Bank's head of investment consultancy and research team. "Now they look for better returns."

ONE-STOP SERVICE

Indeed, some of the take-aways from the '*China Private Wealth Report 2015*', jointly produced by CMB and Bain & Company, show the increasing maturity of the mainland Chinese private banking sector.

For example, wealth preservation and wealth inheritance have become more important, with growing demand on product, channel and destination diversification. Plus, domestic competition is focusing more on deepening client relationships and on service model innovation; Chinese private banks are accelerating their overseas expansion.

As a result, being able to cater for the preferences of how mainland clients would like to be serviced, together with Wing Lung Bank's one-stop private service, are key for its success.

Rather than having to use multiple banks across borders, many of these individuals tend to prefer being looked after by a closer group of advisers.

"This also means their personal information won't get disclosed far and wide," explains Tam.

"This is one of our strengths, as clients have a trustworthy partner which can service their needs in China, Hong Kong and overseas," adds Lee.

It is part of what Wing Lung Private Banking Centre refers to as its cross-border '1+1+N' service model. With this approach, each client is served by 1 dedicated CMB relationship manager (RM) and 1 dedicated RM from Wing Lung Bank, in addition to investment consultants, trust specialists and various product experts. "This allows our team to provide bespoke wealth management solutions to clients both onshore and offshore," explains Tam.

Such an approach is also important for clients from mainland China, given the various changing dynamics relating to their view of and appetite for wealth management services.

For instance, says Lee, most Chinese HNW clients have been steering clear of discretionary portfolio management and funds, as most of them have trusted their own judgment.

"Through CMB, we are in touch with our clients in the mainland every day."

However, suggests Tam, with the challenges that are stemming from the falling value of the RMB, in combination with losses from property and the country's stock markets, these individuals are beginning now to question their own judgment.

Debunking the myths and anxiety over China

With so many daily news stories across the world's financial media covering China, it's no wonder there is excess hype and fear. But a well thought-out investment strategy must be based on a sound and rational approach, not a reactive one.

With the investment world reeling from China's stock market collapse and the government response, it is easy to get caught up in the fear and paranoia driven by media headlines.

But there are various things which many commentators – as well as advisers and investors – might be getting wrong about China. These are the inevitable causes of hyper-anxiety, further impacting sentiment and stock markets around the rest of the world.

In short, investors everywhere need to get used to the fact that China is subject to frequent change, which in turn generates volatility.

Indeed, this isn't a new thing; it is just that people seem to be paying a lot more attention to it now.

Since 1994, for example, the Shanghai Stock Exchange (SSE) Composite Index has experienced more than 30 bear markets – in comparison with just two for the S&P 500 Index.

Investors' reactions to China also highlight a key difference between Westerners – who tend to panic during a rapidly-falling market – and domestoc stock buyers, who shrug it off.

Where the Chinese government should have done more to ease concerns in the investment community is in terms of the communication around how the authorities are managing the RMB.

Angst over the exchange rate is also a likely catalyst for some of the capital outflows, another cause of concern. More specifically, it makes much less sense today for Chinese corporates to convert the US dollars they earn overseas into RMB and then bring this back into the country.

"Investors everywhere need to get used to the fact that China is subject to frequent change, which in turn generates volatility."

Regardless, the fact that foreigners own less than 2% of the market cap in China means that their appetite to invest doesn't tend to have a direct impact on the health of the Chinese economy, especially the Index.

Yet while FX reserve accumulation will slow, China's USD3.3 trillion dwarfs even the second-largest reserves of any country – Japan with USD1.2 trillion.

The time to worry will come if Chinese individuals start to lose confidence in their government's ability to manage the economy; then real capital flight will happen. However, this is unlikely to happen any time soon.

Until then, this all seems to play to those investors with a longer-term investment horizon. And it should encourage private bankers and other advisers to have more measured conversations with their clients amid any uncertainty.

AN ACTIVE STRATEGY

Clearly, there is weakness in certain parts of the Chinese economy. But the overall picture is not quite as bleak as the doomsayers might have the rest of the world believe.

The peak in construction activity in terms of public infrastructure and housing has already past. Manufacturing wages, according to private surveys, are still rising around 5% to 6% a year.

Crude oil imports were up 9% by volume in 2015, following a similar rise the year before. Plus, consumption contributed two-thirds of Chinese GDP growth in 2015, with this story likely to continue. Also notable is how low household debt is, with savings significant, based on the fact that Chinese individuals, on average, save 25% of their income.

"An active rather than a passive management approach to investing in China is the way forward."

Further, although the SSE Composite Index is heavily dominated by state-owned enterprises, in reality more than 80% of employment in China is in smaller, entrepreneurial, private companies.

These are the drivers of new jobs, and therefore wealth creation.

Given that the consumer and services sectors – probably the biggest slice of the Chinese economy – is only a tiny fraction of the index, this suggests an active rather than a passive management approach to investing in China is the way forward. That can prevent investors from accessing just the 'older' parts of the economy now suffering.

To achieve this from a stock selection perspective, investors should look to steer clear of those companies that helped to drive the rally in 2015.

DIFFERENT APPROACHES

In the wake of the uncertainty that many people feel around investing in China, the appetite for exposure to the market highlights a marked difference between the mind-sets of investors generally.

For example, North Asian-domiciled clients continue to show interest because they are more familiar with the names.

By contrast, clients outside this region seem overly-scared, and have lost confidence in the face of there being no clarity about what's next and how the situation will be handled politically.

Yet, again, the fundamentals haven't changed. Advisers need to avoid getting caught up in the hype of the media stories. And for those wealth managers who don't have to succumb to a trading strategy and be invested all the time based on client requests, China's volatility has much lower implications.

For those clients who want to preserve capital, there are also opportunities unearthed by China's volatility to get access to the domestic market from afar.

Nestle is an example of many stocks that operate in regulated environments with more stable currencies and sound company fundamentals, for instance – but for which China accounts for a large part of the revenue.

On the other hand, with competition from Chinese companies, the market shares and margins of such foreign businesses might gradually erode. ■

"For those wealth managers who don't have to succumb to a trading strategy and be invested all the time based on client requests, China's volatility has much lower implications overall."

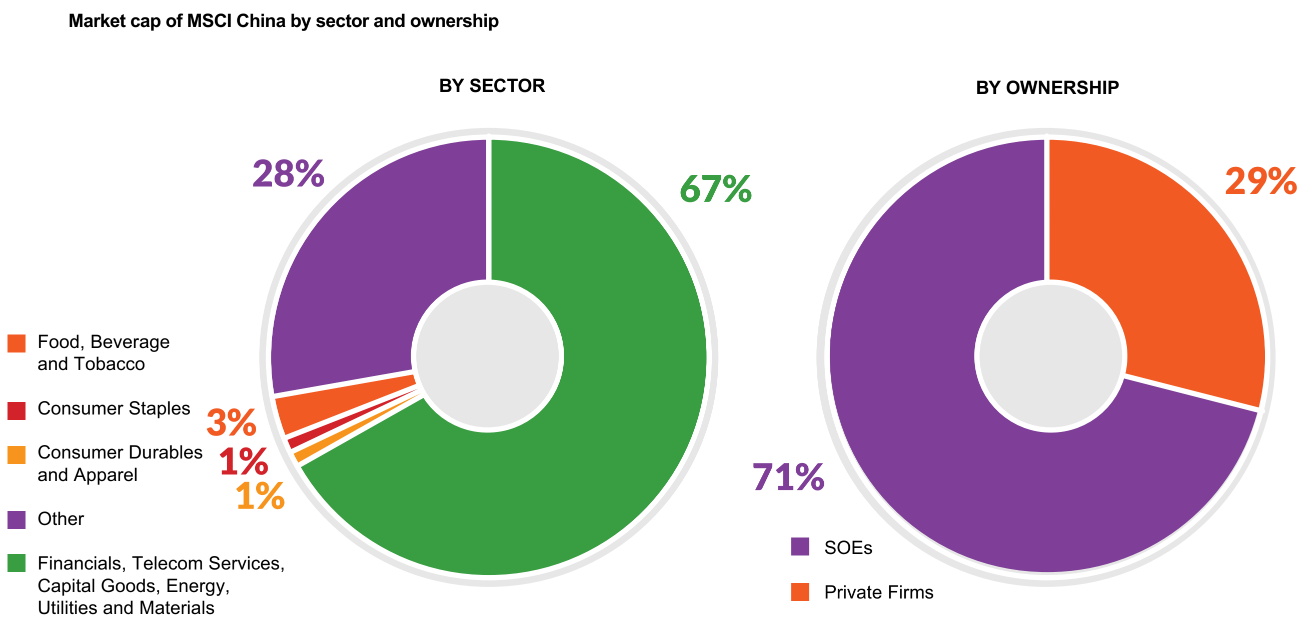
More reliable data

In addition to the need to focus on the reality of the current environment, understanding how to read, filter and interpret the data that comes out of China is also an important component of devising a rational approach to investing.

Inevitably, there are grey areas. And some data points might be more credible than others. But investors should probably have more confidence in China's statistics today, based on the existence and acceptance of privately-run market surveys covering sectors such as manufacturing and property.

Regardless, it is questionable whether it should even matter to longer-term investors if GDP growth is 6.9% or 6.5%.

ACTIVE VS. PASSIVE FOR CHINA



Source: CLSA; data as of November 26, 2014, Matthews Asia

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Why mutual funds are on a 10-year growth path in India

As financial and social pressures mount for savers and tax-payers in India, Ajit Menon of Tata Asset Management explains why various government and industry-led initiatives bode well for a much deeper penetration of mutual funds over the next decade.

The simple fact about asset management in India is that the penetration of mutual funds continues to be extremely low, at roughly 2%, at best.

Yet when looking at the actual number of potential investors, based on the 33 million tax-paying individuals who hold a Permanent Account Number (PAN) card (to allow them to buy such funds), the fact that there are 10 million or so unique individuals, with some level of mutual fund holding paints a rosier picture.

And for optimists like Ajit Menon, who is now head of strategy at Tata Asset Management, there are some tangible signs that things are moving in the right direction as far as product manufacturers are concerned.

POLICY AND SOCIAL PRESSURE

For example, one of the big opportunities he sees lies with the new Indian government's focus on financial inclusion as a significant component of its policy objectives.

The state's motivation, explains Menon, is not wanting to continue being the biggest borrower as part of efforts to drive change in the economy.

"[Instead], the government would like people to participate more in creating that and therefore they would like that money to come into the formal banking channels and into the avenues available to invest, whether that is equity or fixed income," he adds.

Tied to this, the government wants to encourage individuals to steer away from just putting their money away unproductively, for instance in real estate or gold, for instance. This syncs well with the fact that the tax base is expected to expand dramatically across the country. "What that does at the most basic level is make more people available as potential investors," says Menon.

AJIT MENON
Tata Asset Management

At the same time, there is growing expectation that the traditional savings instruments in India – other than fixed deposits – will no longer have guaranteed returns.

If this happens, and they get pegged to the government securities rate, Menon believes it will signify to investors that they can no longer sit back and be complacent. "They will need to look out for themselves and look at where they can put their money."

With social security almost non-existent, despite more recent government efforts, there is no escaping the need for individuals to put money aside for their retirement.

Combine this with the fact that people are living longer, and it is easy to see Menon's perspective that there is an ever-stronger case for the mutual fund industry to really expand and make its impact over the next 10 years.

SHAPING THE INDUSTRY

Within the growth decade that Menon is forecasting for the mutual fund industry in general, he foresees an important change in terms of how product is bought and sold.

"The industry currently is largely in product-push mode. Very few people really ask for mutual funds, and in many cases they don't know what they are anyway. But I think that's going to change."

So far, there has been relentless communication by the regulator as well as the financial industry broadly, mainly through the media. And many more people than previously now at least know what a systematic investment plan (SIP) is, says Menon.

This stemmed from the securities watchdog's initiative to force every asset management company in India to set aside two basis points of their AUM for investor education.

With SIPs among the simpler concepts as a starting point for such knowledge spreading, they have a way to explain the need for investment discipline.

The hope is that awareness among peer groups will grow via social media and other common communication channels that people now use.

"I think here is enough peer group pressure to encourage people to do the smart thing with their money," explains Menon. "That is what I think is going to happen in the next five to six years."

"The industry currently is largely in product-push mode. Very few people really ask for mutual funds, and in many cases they don't know what they are anyway. But I think that's going to change."

More tangibly, he believes that if the 'pull' aspect to the sales of mutual funds is a mere 3% to 5% today, in another five to six years it could well rise to what he says is a much 'healthier' level of 25% to 30%. And when that happens, asset managers and distribution partners need to really think about their points of differentiation, in terms of capabilities and strengths, to capture the flow of funds destined for the industry.

PREPARING FOR CHANGE

If things pan out the way Menon expects, a few key aspects of the market will need to evolve too.

For instance, the regulator is already talking about changing the way that mutual funds report numbers.

The idea is to move from reporting AUM to reporting based on quantum of retail assets the firm has built and grown, and the number of portfolios developed.

"This means there will be a focus on retail penetration, and people will start looking at league tables very differently," explains Menon.

Another change that he believes is likely in the market is a shift from a focus on products to one which talks about solutions. What also needs to come with this is a greater emphasis on competency, training and also fairer, more transparent fee and incentivisation models that can help build viable distribution models in the market places, both existing and new.

"All of this gives me confidence that retail is the space to be in for the next five to 10 years," says Menon. ■

Changing the Philippines investment mind-set

Robert B Ramos of the Union Bank of the Philippines explains why investor education and formal training for front-line bankers can make a wealth management offering more compelling. This will change how the country's emerging affluent think about investing.

When it comes to the concept of wealth management in the Philippines, most investors still seem set in their old ways. With the mentality of 'savers', they prefer to hold most of their liquid assets in time-tested fixed deposits, rather than investing in mutual funds that offer the promise of higher returns and also more diversification.

A major appeal of time deposits is the 2.5% fixed return on offer. Yet while high enough to beat inflation, what they earn is significantly lower than the average 8% from equities on the local stock exchange.

As a result, it is difficult to see how most of these individuals can achieve their long-term financial objectives.

"There is much greater comfort with time deposits," explains Robert B Ramos, first vice president and trust officer within the trust and investment services group at the Union Bank of the Philippines. "People don't talk about investments based on their current objectives, their time horizon, or their needs. What they do know is that equities are volatile."

Tied to this mind-set is also a preference for holding investment assets in the form of a trust.

Though these are widely-accepted structures in the Philippines, they make the process much more cumbersome.

"A trust is a complex structure," adds Ramos. "It integrates the US asset management and custody businesses into one service. It serves its purpose here but we need to learn from what is happening in other countries."

ROBERT B RAMOS
Union Bank of the Philippines

EDUCATION TO PAY OFF

Being able to deepen the understanding among investors generally of the value of wealth management relies on proper education about products.

Only then, says Ramos, will they be able to objectively evaluate the risks as well as returns trade-offs associated with investing – without getting disheartened by short-term influences, such as market volatility.

In line with investor education, advisers too need to increase and widen their knowledge, he adds.

The common approach in the Philippines at the moment – not dissimilar to what happens in many Asian markets – is to sell products which are front-of-mind. And in the Philippines, this tends to mean a time deposit. "If we try to provide more in-depth training to advisers to enable them to understand what might be suitable for a client, it will allow them to offer different products and services that will fit the needs of these clients," explains Ramos.

But prioritising financial education for investors rather than advisers may result in a bigger bang for the buck.

It will, says Ramos, deter advisers from taking the easy road by trying to recommend products for a client without first taking the time to understand what is suitable for them.

The win-win will come when advisers embark on the road towards needs-based selling at the same time as investors look beyond short-term gains towards building long-term wealth.

Meanwhile, to ensure that any initiatives can have the most impact, the regulator is likely to need to step in to make it compulsory. At present, with bank staff able to take or leave these courses, few advisers lack formal certification and training.

STANDING OUT

Beyond the quality of their advisers, a big challenge for banks in the Philippines is to differentiate themselves, as fees and products are broadly similar. "Often, clients pick one bank over another based on just one criterion: location. Clients go to a bank that's nearest to them," explains Ramos.

The surest way to make an impression on the client, therefore, is to enhance the customer experience. This comes back to the importance of quality of advice. "Products are standard, so you can't really be exotic in your offering. So you have to compete on experience."

"Often, clients pick one bank over another based on just one criterion: location."

Those banks which are able to offer a broad array of products and services under one roof will also have a greater chance of success. But to achieve this, institutions need to change the way they sell products, to integrate various aspects of the wealth management process into a single function.

"If you create alliances that allow you to do different investments through one account, you are in a better position to succeed," says Ramos. "Wealthier clients are short on time, so they want a one-stop shop." ■

Building the right wealth proposition for the Philippines

Union Bank has identified its target customer segment as the emerging mass affluent – meaning individuals with between USD80,000 and USD500,000 in investible assets.

The appeal of these individuals is clear, says Ramos.

They have the potential to generate more business as they grow in wealth and stature; they can also serve as a good source of referrals for the bank.

In contrast, the relatively few HNW and UHNW individuals in the Philippines present less potential for many local bankers; these clients like to place some of their assets in more mature markets such as Singapore and Hong Kong.

It is also perhaps more realistic for local banks to target the affluent segment given the limited amount of product innovation.

"While there are different types of fixed income and equity funds to offer short-, medium- and long-term investment choices, the strategies adopted by different funds are more or less similar, if not identical," says Ramos. "There is a need to bring in more variety."

One way of adding variety to the product mix is to have an open architecture model, where banks can sell funds from other providers, says Ramos.

Union Bank is adopting this approach, he reveals, but this is at an early stage.

Why we need to bring bank distribution into a new age

How the majority of mutual funds continue to be distributed by banks in Asia is outdated, at best. While only a limited number of fintechs are likely to survive, robo-advice done well seems set to change the landscape and show the way for a more rational client engagement.

It has become obvious, as well as increasingly urgent, that the bank distribution model for mutual funds in Asia needs to be overhauled.

A combination of legacy systems that operate in silos, along with legacy mindsets too, suit an approach that was built for a different era – and, with many institutions, never updated.

Some of the largest global banks, for example, have multiple product platforms across different locations around the world, rather than a unified one.

And each platform houses a vast number of investment products on behalf of multiple manufacturers.

The solutions that many banks have resorted to involve applying a series of patches to try to plug gaps and get by in the short term. This relates to all aspects of the business, from the technology to the training of front-line staff.

So where the 'rubber hits the road', so to speak – how can banks ever hope to coordinate their offerings to live up to their rhetoric about having a holistic customer engagement?

The financial planning process, including taking a long-term view, falls at the first hurdle in such a model, which also breeds the wrong type of adviser. As a result, the amounts that the average mass affluent customer of a typical large retail bank's wealth business invests in funds – or even (much-needed) insurance products – tend to be well under 10% of AUM.

Ultimately, the bank that breaks the mould and offers proper online banking and trading will win.

Lower costs and better control from a compliance perspective will leave more resources available to give proper advice, or focus on clients with a higher net worth.

CHANGING THE CONVERSATION

The way in which a fund is typically sold across Asian markets today, both from the asset management firm to the bank, and then on to the end-customer, is no longer relevant to how people think. Or to what they need.

Some of the more developing countries for fund distribution perpetuate this by still offering fees of around 5% to people who sell their funds. The concept of 'stickiness' is lost as a result.

From one perspective, this isn't surprising. The lack of loyalty among many front-liners, coupled with short-term revenue targets, means they are just chasing the next dollar of commission.

And without being in the bank long enough to operate in a long-term way, these relationship managers (RMs) are never around to capitalise on any value system and from doing business the right way.

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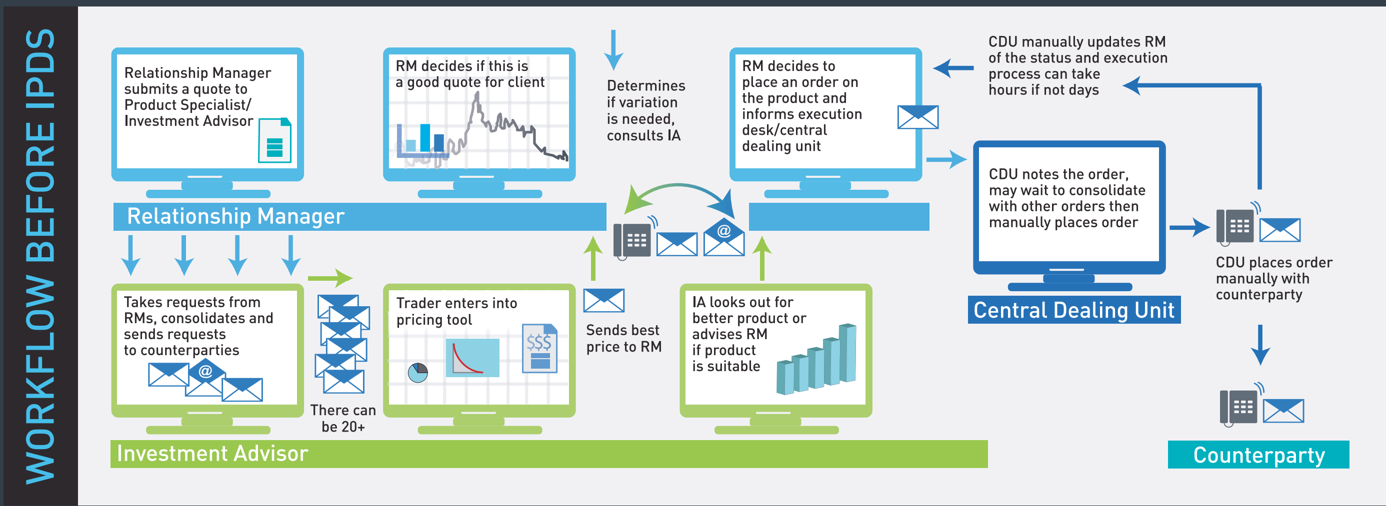

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The focus, therefore, must be on how to change the conversation. How can banks and their advisers create a proper, long-term relationship with a customer?

For them to really understand the needs of clients at different stages of their life, this involves changing the key performance indicators (KPIs). There must be more emphasis on AUM, and less on individual trades, which clearly lead to a short-term investment mind-set.

This is only possible if the conversation is needs-based – about retirement, savings, investment, legacy planning, or whatever is important to the customer. Individual conversations about a fund belong in the past. This can then create a feedback loop; an RM can document the conversation, and immediately ask for feedback from the client.

Perhaps another way to drive the point home – and in turn disrupt the business – might be if the mutual funds sold each year in markets like Hong Kong, for instance, were to be classified as 'advised' or 'non-advised'. This would certainly force banks to be more objective, and to give proper advice.

HARD TO CHANGE

Despite best intentions at some banks to change their business model to support RMs become more client-objectives driven, the majority of those institutions are publicly-listed, so have a 12-month – if not quarterly – timeframe to effect change.

This is exacerbated for banks where wealth management is a small portion of their overall net profit.

Plus, there are several global banks for which this segment in Asia is less of a strategic priority and more of a tick-the-box exercise for sell-side analysts.

Yet the type of change which is needed within most banks requires a timeframe much longer then an annual bonus period; the majority of chief executives, therefore, are unable to bring about the type of wholesale change in adviser behaviour and platform structure to change the conversation.

In the view of shareholders, such a change is risky, and one almost certainly likely to reduce revenue in addition to net profit within their timeframe (annual or quarterly).

As a result, only privately-owned firms, or those organisations with a substantial portion of business from wealth management, have the ability to consider such a change.

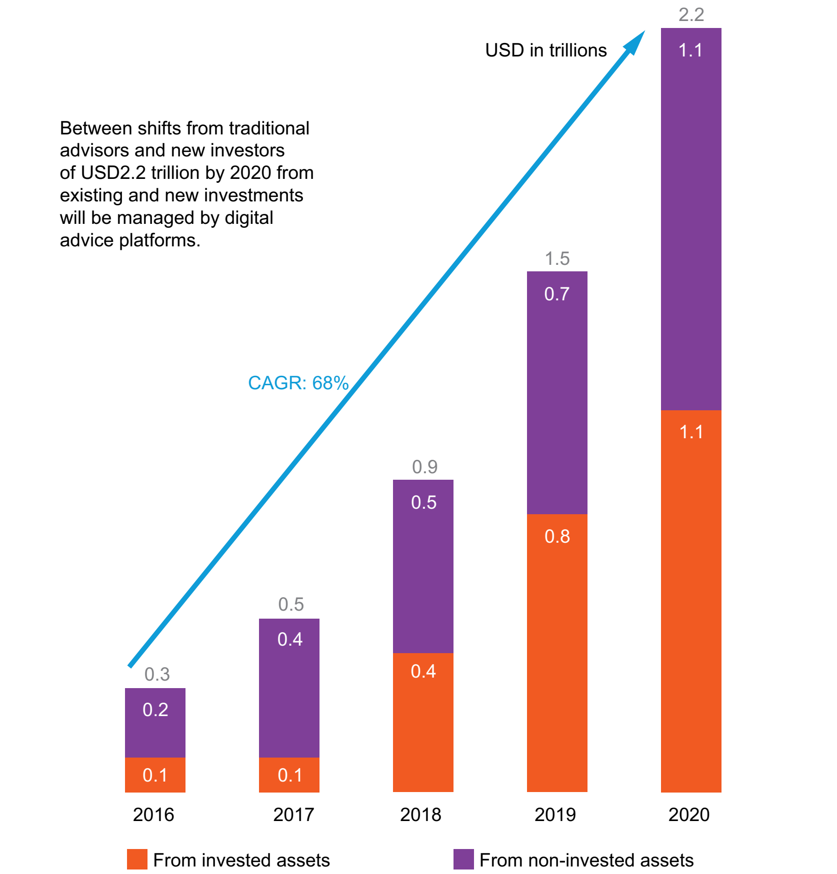
From the fund managers' perspective, they need to address the disconnect between what they know they need to do to help facilitate the right conversations between RMs and end-clients, and what they do in practice to get their funds on a bank's platform.

Rather than rocking the status quo, most firms just increase the already-vast product mix, and with little added value via training which is anything more than just a box-ticking exercise.

THROWING OUT OLD TECHNOLOGY

The other big problem with the distribution models stems from the technology platform at most institutions. A key reason, in most cases, is a chronic under-investment in the platform over a

PROJECTED US ROBO-ADVISORS AUM (USD)



Source: 'Robo-advising: catching up and getting ahead' - KPMG, 2016

number of years. For example, the wealth and private banking industry should in fact be investing between 6% and 10% of revenues into IT, as part of change-the-bank initiatives.

Yet many institutions have been squeezed so much by thinning margins and regulatory or compliance priorities, it would be more common to see just 1% a year allocated to IT investment during the last four to five years.

Compounding this issue is that no bank seems willing to forge a 'bank of the future' model. This would require a leap of faith, with a technology specialist acting as an active stakeholder in driving this type of change.

Even for those banks whose IT platforms might be better than average, they still tend to be over-complicated. They inhibit RM effectiveness through the client segmentation by AUM, for retail, mass affluent, premier and private bank. Certain products are restricted to private banking or retail investors only, for instance, and to access a different set, one has to either open up new account or move the entire account to that segment.

RELYING ON ROBOTS

A more rational and efficient approach to distribution inevitably involves a shift towards the robo-advisory models taking root in the US and Europe, and gradually making some headway in Asia.

This is clear to many of the most forward-thinking practitioners, especially on the investment side of the business. And as long as an automated approach works, it's less time-consuming as well as being less expensive for customers.

A global fintech report by PwC in March 2016, entitled 'Blurred lines: How FinTech is shaping Financial Services', endorses this view too. It says automated investment advice poses a significant competitive threat to operators in the execution-only and self-directed investment market, as well as to traditional financial advisers.

While many self-directed firms have responded with in-house and proprietary solutions, and although advisers are likely to adapt with hybrid hi-tech, high-touch models, the real question is whether they can compete with the secondary by-product of automated customer analysis: the lower cost of customer onboarding, conversion and funding rates.

What's driving the high-degree of interest in robo investing are some of the very same factors holding back the current bank distribution model: the desire for more transparency around investment options and decisions; a need for greater accessibility through low or no minimums and fees; the focus on customer experience via web and mobile apps; and a rise in the use of ETFs to build diversified portfolios. This is according to a 2016 KPMG report, called 'Robo-advising - catching up and getting ahead'.

Yet the overlap in function between current RMs and potential robo-advisers, or existing sophisticated advisory solutions, is substantial. And most RMs do not recognise this, or are unwilling to retrain themselves to develop a set of skills which robo-advisors could not replicate – such as objective-driven conversations with clients. Further, banks seem unwilling to change metrics for RMs to incentivise that move into more value-added skills.

What is also unclear clear, is how such offerings can provide advice on a broad enough basis, to include products that are interesting and diverse enough to customers. Further, for Asian customers in particular, disruption would be more likely if the disruptive platforms can offer pan-Asian mandates to customers in Singapore or Hong Kong.

In the interim, this means significant cost savings to banks targeting the mass affluent and majority of the lower levels of the HNW spectrum – especially in terms of the reduced number of product professionals they need on the books. They will need fewer people doing due diligence and research on funds, equity and fixed income, for example. Plus, they won't need an execution team at all.

But this is all easier said than done. Before banks can provide robo-advice, they need to make sure their systems are 'clean' and assets properly classified. ■

Leading by example

A 2016 KPMG report predicts that between shifts from traditional advisers and new investors, USD2.2 trillion from existing and new investments will be managed by digital advice platforms by 2020. "Interest among existing banking clients is high, and banks would be remiss to ignore the opportunity to add robo-advising to their product portfolios."

Meanwhile, across generations, income and gender, more than 75% of respondents to the KPMG survey indicated they would be "very likely or somewhat likely" to consider the above offer from their bank. Further, 80% of millennials (aged 18 to 34) said they would be "very likely or somewhat likely" to consider the described robo-advising product.

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Digital drive: a closer look at Credit Suisse's journey so far

The bank has invested heavily to keep pace with the reality of the digital demands of HNW clients. Its focus is providing the type of compelling experience required today, given the expectations shaped by sites like Facebook and Google.

Francois Monnet understands more than most people working in private banking that the industry can no longer under-estimate the pressing need to make the shift to digital – both culturally and in terms of mind-set – which client demand now requires.

Yet this goes way beyond just creating a snazzy front-end that is more about style than substance.

Instead, it is about rethinking the way the interaction between bankers and clients happens, and the experience for the latter. This transforms the service model across organisation, process architecture and supporting technologies.

For Monnet, as the former chief operating officer for Credit Suisse's private banking business in Asia Pacific, devising a way to deliver on this was all-consuming as part of his mandate to build and spearhead the bank's digital capabilities within Asia Pacific.

In the meantime, a growing number of independent industry reports also started to express the urgency around the need for far-reaching digitisation. It has become increasingly clear, for example, that clients today have a greater propensity to leave an institution which is not able to provide a multi-channel strategy rather than just a bricks-and-mortar offering.

Ultimately, private banks need to enhance the connectivity and collaboration between their front-line staff and clients. And this involves a lot more than content; digital is important for scale, engagement and consistency.

"The digital experiences people want have been elevated by the Facebooks and Googles of this world," says Monnet, who as of January 2016 is now heading the Greater China Private Banking business for Credit Suisse. And catching up requires a conviction from within the organisation that this is the right path.

FRANCOIS MONNET
Credit Suisse

The new delivery model which the bank already pioneered for the global app it launched first in Singapore in early 2015, already highlighted to its senior

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management the reality of the size of the investment in time, people and budget to meet such a commitment to innovation and technology.

LISTENING TO CLIENTS

The starting point for Credit Suisse in mapping out its digital value proposition was defining its target audience, and understanding how these clients use financial services.

This shed further light on the reality that the majority of the bank's private banking clients in Asia Pacific are what Monnet describes as 'validators'.

This means they value advice. More specifically, they want to understand investment opportunities and trade-offs to validate with their advisers, they think in the mid- to long-term and appreciate support in understanding global markets and refining their views and ideas before taking a final investment decision.

This means the bank could break free with confidence from old paradigms. So it began to emphasise the client experience from the outset as the foundation for change.

Credit Suisse then took a bold, client-focused approach to the design and testing of its digital roadmap.

Rather than relying on large project teams comprised of individuals with diverse backgrounds yet limited time to devote to such a demanding project, Monnet decided to rely on a small team.

He trusted the instinct of this group with coming up with new ideas, which then enabled the bank to get to the stage of client usability testing much more quickly.

This feedback process has been a critical component.

"We did not just build our digital private banking capability for our clients; we actually built it with our clients," he says.

For example, in designing, developing and prioritising the features of the first version of the digital banking app, in-depth and one-on-one 'Voice of the Client' sessions were held with around 100 clients across the region.

The final home page of the digital platform, which presents a critical overview of a client's portfolio, is evidence of this type of dialogue.

It was changed 108 times based on client feedback to express some of the content in layman's terms.

THE NEW-LOOK ADVISER

A key underlying philosophy for Credit Suisse is that the relationship manager (RM) stays at the heart of the client experience overall.

"We want the technology to be relationship enhancing," explains Monnet. "You need to position that as a multi-channel strategy."

There are two elements to this type of service model. On the one hand, it involves a compelling client experience that meets the need for something which is simple and sticky increasing usage. It also requires a seamless way for clients and RMs to interact – which can be seen in the collaboration suite the bank has created.

The app, as an example, not only redesigns the way in which the bank interacts with its clients, but in terms of how it curates content for and advises them as well. Further, news and content are curated for clients differently.

They have access to watch lists, market data and also Credit Suisse insights through the app, in turn altering the types of discussions these clients have with their RMs.

How digital banking benefits RMs

- **More focused** – *RMs have more time to focus on their clients' priorities. Clients are able to manage many administrative activities themselves, freeing up the bankers to focus on value-added interactions with their clients.*
- **More effective** – *RMs can use the digital channel to deliver ideas and content to clients, and clients have new channels to access key information about their portfolios, ideas and research insights. This means RMs' and their clients are pre-informed prior to in-person discussions.*
- **More empowered** – *As the number and quality of client touch-points increases, RMs have greater insights into clients' preferences. Also, clients are empowered with the information that is most important to them and with the capacity to trade or to engage the team at the bank, whenever they choose.*
- **More engaged** – *RMs and clients can leverage multiple collaboration touch-points, via a secure suite of communications channels.*

Plus, an intuitive user interface enables clients to self-serve for basic transactions.

As a result, given that making clients digitally-enabled increases their access to portfolio analytics, research and data, by being able to download information 'on the go', RMs now need to be up-to-speed with what their clients know.

The upshot is a more rigorous and structured approach internally to training the bank's RMs.

PRACTICAL CONSIDERATIONS

Monnet is quick to point out that many people under-estimate the complexity and amount of work which goes into such a digitisation initiative.

Indeed, perhaps the biggest hurdle in going digital – even more complex than the infrastructure – is the new target operating model that is implied by the direct access the client suddenly has into the bank.

"It changes the way we work, every day," says Monnet.

For example, a truly digital offering should mean a bank's RMs are clued-in, and access to the institution's resources and expertise is around-the-clock. "The times of day when most people go online are before 8am, at lunch time, and after 10pm," he explains.

This shows the extent to which a proper digital engagement goes way beyond just an app.

The collaboration suite that Credit Suisse has built, for instance, gives clients the ability to interface with the RM through tools such as electronic messaging, video calls, document sharing and the possibility to annotate on their screens.

This requires a vast amount of behind-the-scenes attention to detail and in-depth discussions over every aspect of the functionality on offer, says Monnet. As an example, the video call feature needs specific assessment and planning.

"We need to ask ourselves questions in relation to how the call will take place," explains Monnet. "Does it take place in an open office, or a booth? Is the RM appropriately attired? Does it happen with a headset? Will the RM be trained to talk into a camera? Is there an audit trail?"

The fact that this is just one of 300-plus features of the bank's platform highlights the enormity of the challenge when considering the shift to digital.

"The challenge is how to integrate the front-end into the backbone of the bank."

GETTING THE BACK-END RIGHT

What a comprehensive digital solution also requires is the bank putting in place and maintaining a better coordinated back-end system. "The challenge is how to integrate the front-end into the backbone of the bank," says Monnet.

"This is needed to create, for instance, straight-through processing for transactions, the automatic maintenance of client profiles both upstream and downstream, or a credit system that enables a client to invest online, especially when these systems were never meant to be connected to any kind of client view," he explains.

Yet while banks typically have vast amounts of structured and unstructured data, their databases and other systems within which the information sits often aren't set up in order to communicate with each other. "Digital is all about data," says Monnet. "Banks typically don't have the infrastructure to ensure the data [which is needed] is in the right place. This affects the execution."

Next on the agenda in implementing a digital dimension to the business was addressing cross-border issues.

Merging accounts of clients who are resident in several countries, involving multiple jurisdictions or domiciles, is clearly no quick nor easy task.

Tackling this particular conundrum took Monnet nine months, working full-time with 20 people almost seven days a week to achieve this.

The result is that individuals with a single account, a joint account or a Limited Power of Attorney (LPOA) in another account, can access all three in a different capacity with a single login. ■

The formula for a compelling UHNW proposition

Anurag Mahesh of Deutsche Bank explains how to really add value to individuals at the higher end of the wealth spectrum.

The ultra-wealthy demand a lot from their wealth managers. In Asia, though, it may well be the opposite. This calls for some fresh thinking on the part of these advisers.

The focus of many investors on stocks, bonds and other commonplace investments that do not require a high level of sophisticated advice means that wealth managers have to look at new ways to appeal to UHNW clients.

Greater awareness about markets and wealth management services has further limited the scope for advisers to make a mark. These unique problems call for tailor-made solutions.

Deutsche Bank's wealth management group believes a move towards fewer products which are easier to understand would nudge the industry towards a sharper focus on the process of investing. Herein lies the opportunity to differentiate offerings in a more meaningful way. "Products will not differentiate one institution from another. But this doesn't mean the process has got com

"Products will not differentiate one institution from another. But this doesn't mean the process has got commoditised. It's all about customising the correct solution for the client."

ANURAG MAHESH
Deutsche Bank

moditised. It's all about customising the correct solution for the client that addresses the specific need and that's where you differentiate," says Anurag Mahesh, Deutsche's global head of key client partners.

BUSINESS AT THE CORE

In particular, Deutsche has found that UHNW clients like to have a discussion centred on their businesses.

This makes sense given that much of their wealth – especially when they first start to make it – is usually tied up across multiple countries in the companies they own.

As a result, advisers able to provide personal wealth management advice in conjunction with access to corporate banking services under one roof score more points in the eyes of the client.

"That is key to differentiating in this segment," emphasises Mahesh.

This brightens the prospects for wealth managers who work in those organisations that are equipped to handle such an ask.

For example, if and when a client decides to monetise their businesses through an exit such as an equity IPO, they are often likely to park part of this money in their personal portfolio with the same wealth manager.

TAILOR-MADE SOLUTIONS

Apart from being able to meet its clients' investment banking needs, Deutsche is also paying close attention to the evolving requirements around advice, explains Mahesh.

But in doing so, the firm realises the need to support the specific investment requirements of Asia's wealthy individuals and families.

More specifically, these UHNW clients do not want advice typically associated with discretionary portfolio management services.

Their focus on capital markets means they want ideas around what work for them from a risk, as well as a returns, point of view.

"The UHNW individuals do not need traditional advice about asset allocation; they have enough experience to figure out where they should be investing," says Mahesh.

Deutsche's access to a wide pool of talent, ranging from economists to analysts to relationship managers (RMs) – plays to this.

It gives the bank an ability to draw on a variety of resources as part of its UHNW proposition.

"These clients are not going to deal with you if they are only going to get access to a single RM," explains Mahesh. "They love to have a discussion with the bank as a whole. There is so much at stake both for their business and their [personal] portfolio that having the right conversation could save them millions of dollars."

Realistically, such attention to individual is only available at the upper end of the wealth pyramid.

For a client worth USD5 million, for example, it is generally unaffordable from a bank's perspective to provide such dedicated resources.

There is no industrialisation of the process, explains Mahesh.

"For an institutional client, there is no concept of scale or industrialisation and it is the same concept with which we need to approach hiring for the UHNW."

A FOCUS ON TALENT

Staying ahead in the ever-competitive Asian wealth management space also requires Deutsche to retain its existing talent and attract new advisers. But in the absence of a large talent pool to tap into, it isn't an easy thing to achieve.

"For an institutional client, there is no concept of scale or industrialisation and it is the same concept with which we need to approach hiring for the UHNW," says Mahesh. "The only person who can monetise an UHNW client is someone who has been working on that relationship for the last 15 to 20 years, and there might not be more than two or three people in the entire industry who could do that." ■

Ready for change: transforming Bank of Singapore

Eddy Tai of Bank of Singapore reveals to Hubbis the drivers, decision-making and final blueprint behind the technology and operational transformation the private bank is implementing in 2016.

In 2016, Bank of Singapore faces one of its biggest technology projects yet.

After inking the plan for a sweeping, front-to-back transformation of its entire platform, the proof will be in the execution now underway.

The platform will significantly improve operational efficiency through streamlined front-to-back processes, to provide relationship managers (RMs) with better tools that will improve their productivity, and to provide clients with a new mobile app to support client

"Our priority this year is really on execution. We have the strategy; we are committed to investing in our platform; and we want to implement our plan in a much faster manner."

EDDY TAI
Bank of Singapore

In short, this significant undertaking aims to create a fully-integrated front-to-back platform, with a new suite of private banking applications, and also to further leverage on the OCBC Group's infrastructure.

engagement and superior advisory. This mobile app will be progressively introduced by the second half of 2016.

The design focusses on back-office standardisation and front-office differentiation; and will maximise on synergy with the OCBC Group. "Our priority this year is really on execution," explains Eddy Tai, the bank's global head of operations and technology. "We have the strategy; we are committed to investing in our platform; and we also want to implement our plan in a much faster manner," he adds.

A MORE HOLISTIC PATH

The all-encompassing initiative, to make it easier for clients to do business with the institution, makes Bank of Singapore's approach markedly different from what many similar organisations take in attempting changes of this nature.

"Some banks address the problems in the back-end first, whereas others focus on the front end," explains Tai.

"But we have attempted to address both at the same time in one holistic effort," he adds.

This means that Bank of Singapore would avoid the types of issues that confront more silo approaches.

For example, if one takes a front-office-first approach without improving the processes, then data quality remains the same; and eventually one cannot deliver the required quality of service and data to clients.

On the other hand, a back-office-first approach will not only delay business benefit delivery to the front office as well as clients, but it also tends to create a silo process.

It will be unable to factor in client experience as the starting point and key driver when re-designing the various processes.

According to Tai, the strategy is to engage clients in a more extensive way through the planned transition to offer them better services and tools; it isn't about moving towards a self-service style of banking.

He is also focused on giving the bank's product team better business capability to introduce more customised solutions to clients – and faster.

TAKING ITS TECHNOLOGY FORWARD

A large part of the transformation that Tai is spearheading at Bank of Singapore is driven by the need – which exists across the private banking industry as a whole – for a greater role for more comprehensive technology.

REALISTIC REGULATORY BURDEN

Another key objective that Tai says Bank of Singapore has for its new platform is to manage and reduce the impact of the regulatory pressures which exist in banking today.

With so much time spent performing administrative tasks, investment suitability, numerous client checks and a lot of form-filling to stay compliant, RMs today are severely limited in terms of how much they can realistically achieve in terms of prospecting or working on existing relationships.

"With so much time spent performing administrative tasks, investment suitability, numerous client checks and a lot of form-filling to stay compliant, RMs are severely limited in how much they can realistically achieve in terms of prospecting or working on existing relationships."

Yet having this technology and infrastructure isn't the end-goal in itself.

While it is a key enabling factor, it isn't core; technology must simply help the business to serve clients better.

Further, Tai doesn't get caught up in the fintech hype. He cannot envisage robo-advisers replacing bankers – at least in the short to medium term.

Bank of Singapore can leverage on the OCBC Group's capability for the adoption of fintech in the right area, at the right time, according to Tai.

But Tai says that the bank's new platform can cut the amount of time that RMs have to spend each day on non-core tasks.

"With a good platform, we can free up approximately 25% of the RMs' time for better client servicing," he explains.

In risk management and regulatory reporting, there is a lot of synergy to be realised, he adds, as Bank of Singapore is able to tap into the OCBC Group's capabilities – the regulatory requirements are the same and not unique to private banking. ■

A new angle to woo UHNW families

Khing Go's decision to join Marc Faber Group in late 2015 highlights the growing potential to give real advice to UHNW clients – something independent firms can take advantage of as compliance burdens and revenue targets continue to hamper many private banks.

From the diversity of deals, geographies and clients that Khing Go is busy working on, you wouldn't think he has been in his new role, running the Singapore office of Marc Faber Group, for less than six months.

But the firm's value proposition seems to be spot on for the firm's target of UHNW individuals and families.

These clients have increasingly been looking to steer clear of the capital markets over the past 12 to 18 months or so, in favour of more tangible opportunities which are aligned with their own business and private interests, explains Go.

"We are looking at direct investments into commercial real estate, and investing into some primary businesses where clients participate," he says.

In short, these types of deals tend to generate better returns in the long run, plus are more interesting to clients, especially where the businesses are related to those of the individual client. "They are more tangible; they are something clients can touch and feel," says Go.

"Direct investments are more tangible; they are something clients can touch and feel."

KHING GO
Marc Faber Group

FROM SOLID FOUNDATIONS

Go's connection to Marc Faber himself goes back 25 years. "He has always been one of my favourite people to listen to about what the markets are doing. He is willing to challenge what's happening and he backs up everything he talks about with facts."

While Faber still manages money for a few clients, these tend to be personal relationships of his.

So after a conversation between the two of them, they saw a good opportunity to grow the business on the asset management side.

This ties in to Faber's focus on emerging Asia, where valuations have the potential to be even more interesting over the next five years.

But rather than being known as a 'family office', Go says Marc Faber Group is more akin to a consulting company which selectively helps a few families organise and manage their wealth and related matters.

The two biggest families which Go says the firm is dealing with at the moment are in South-east Asia, but it is also speaking to a few others in Europe which are still looking to relocate their businesses to Singapore.

In such cases, the work involves helping clients organise themselves accordingly, including obtaining their residencies and setting up local operations.

The current portfolio of projects ranges from industrial businesses to a Korean medical company to a trading firm. Commodities is next on the horizon, given the fall in prices and therefore more attractive ventures to target.

But this isn't just a good way to help clients to diversify assets; Go and his fellow partners at the firm also look to invest. "Everybody wants to try and get some yield," he explains.

"We don't expect superior returns, but if we get something back in equity in the next five to seven years, then we will be very happy."

For the time being, the search for yield plays is also taking the firm to the UK, where it is bidding on an airport parking business and other real estate, and to eye opportunities in Northern Spain, which seems to be undervalued at the moment, he adds.

These aren't necessarily pre-IPO investments. For some, says Go, it's more of an exit strategy.

environment which is impacting all market players.

For example, to really help families achieve what they are looking to do with their businesses requires advisers to look into the details of the entities they are running and where they have made their wealth.

"Added value is not only going to come from the non-balance sheet business," adds Go.

Another of the differentiators he believes his new firm offers is helping clients address challenges relating to the governance, structuring and intergenerational transition of their wealth.

"Our ambition is not to grow our business by a quantum amount, but instead with specific mandates and clients."

NO SHACKLES

The firm is very focused on how it services clients, and also on who it wants to work with.

"Our ambition is not to grow our business by a quantum amount, but instead with specific mandates and clients."

But being part of an independent firm gives Go more flexibility to offer these types of products and services to UHNW clients than he would have within a traditional private banking environment. This is thanks largely to the current regulatory and compliance

"This is also one of the reasons why I left the private banking space," he says. "I want to understand what clients really want and that has to do with corporate governance and family planning for the future, not just using a trust."

His own personal involvement with a charity called Smile Asia, which helps children with facial deformities in South-east Asia, aligns his goals with those of his clients in this area. "A number of clients want to set up charities, with various purposes, and we can help them because we have the so-called know-how," he adds. ■

Independent firms can grab more AUM, but growth hurdles remain

Sentiment among participants at Hubbis' annual get-together for the independent wealth community show the optimism for this industry segment to become more prominent, but only if it can engender enough client trust in the model and lure more competent advisers from private banks.

Increasing awareness among HNW and UHNW clients of the added benefits of an independent adviser – especially in times of market distress – is one of the key factors driving optimism among industry practitioners that this segment can control more client assets and wield more influence amid an increasingly polarising landscape within Asian wealth management.

Independent asset managers (IAMs) and multi-family offices (MFOs) stand to benefit from a mix of dynamics playing out at the moment: growing client wariness and skepticism about the service and performance they get from their private banks; a search by clients within the current financial market turbulence for models offering disruptive innovation combined with greater flexibility via a more tailored and relevant service; a desire for genuine independent guidance to manage market volatility and uncertainty; and the growing appeal of access to alternatives not present within all bank offerings.

This is according to more than 100 respondents from IAMs, MFOs, other independent firms, and some private bankers – on the industry today, and where it should go from here.

Yet, the hard work is by no means over. And a number of hurdles remain.

MEASURED GROWTH PROSPECTS

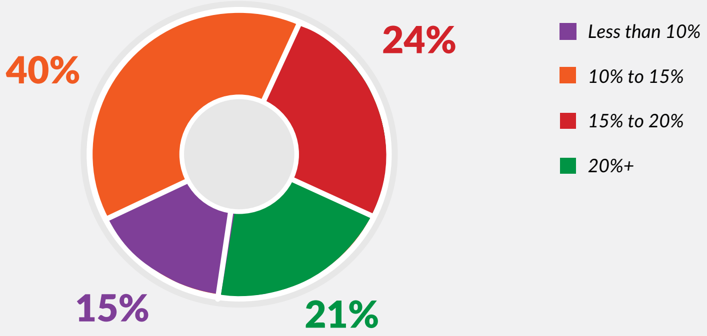
At present, less than 5% of private wealth AUM in Asia is overseen or managed by independent firms. But in 3 years' time, 64% of respondents predict that between 10% and 20% of this AUM will be with firms such as IAMs and MFOs.

Yet what will continue to hold the industry back, say 32% of survey respondents, is if firms cannot convince more clients to pay fees for advice.

Top 5 opportunities for independent firms

- *Capitalising on their flexibility*
- *Capturing clients unhappy with the service and performance from their private bank*
- *Hiring private bankers and investment advisers disgruntled with higher compliance scrutiny*
- *Consolidated and comprehensive (and unconflicted) service*
- *Flexible product range*

WHAT % OF ASIAN PRIVATE WEALTH AUM WILL BE MANAGED BY INDEPENDENT FIRMS IN THE NEXT 3 YEARS?



Source: Hubbis - Independent Wealth Management Forum 2016 - Survey

Top 5 challenges for independent firms

- *Compliance burden and keeping up with change*
- *Acquiring clients and convincing them it's worth paying a fee*
- *Being able to attract enough talent (pay, commitment, prospects, etc)*
- *Bank platforms' DDC process*
- *Raising sufficient AUM for economic viability*

Two other key hurdles to growth for independents, say respondents, are the ability of firms to attract enough competent private bankers (22%) and the compliance burden (18%). Client awareness about what an independent firm is, and more resources or support at the regulatory level, aren't considered to be significant obstacles.

Putting themselves in the shoes of target clients, 55% of respondents believe the main reasons for those individuals to not want to use an IAM or MFO, for example, is a lack of trust in a small or young company. This far outweighs concerns that practitioners say clients have around brand image, an understanding of the business model, or the need to pay fees.

Meanwhile, promoting the greater flexibility involved in working for an independent firm is the most likely way for them to encourage competent and experienced relationship managers (RMs) and client advisers at private banks to make the switch, say just over two-thirds of respondents.

At the same time, independent firms must take advantage of the opportunity arising from the fact that many RMs in private banks now find the strict compliance regimes within which they work to be frustrating and stifling.

68% **Respondents who believe 'more flexibility' at independent firms is most likely to encourage RMs at private banks to make the switch.**

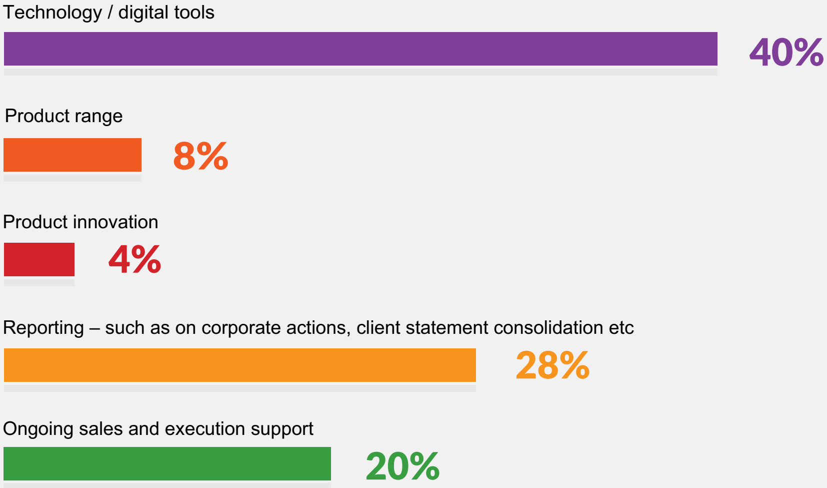
The regulators can also play more of a role too, according to survey results. Forty percent of respondents say a statement from the regulator showing full support for this segment would be big step in the right direction; 38% of respondents want a lower compliance burden.

CUSTODIANS NEED TO SHAPE UP

Where there is big potential for a shake-up in the way the industry works, it seems, is in terms of the role of custodians.

While the majority of independent firms today use a private bank, 45% of respondents expect to see consolidation over the next 12 months, with IAMs and MFOs opting to use fewer custodians. Meanwhile, 38% of respondents say more independents will choose alternatives to a private bank.

WHAT ASPECT OF THE CLIENT SERVICE THAT CUSTODIANS PROVIDE TO INDEPENDENT FIRMS MOST NEEDS TO IMPROVE?



Source: Hubbis - Independent Wealth Management Forum 2016 - Survey

For private banks, they most need to focus on improving their technology and digital tools, say 40% of respondents.

Reporting is the other key item on the wish-list of independents (28%), such as on corporate actions, and client statement consolidation.

Ongoing sales and execution support (20%) is of reasonable importance, but product range and innovation (11%) seem to be lower down the priority list. ■

Independent wealth management at a cross-roads

With Asian private banking on track to becoming increasingly polarised as many firms shy away from servicing various clients, now should be the time for independent wealth managers to flourish. This assumes they can overcome their main hurdle to date – namely the scalability of the business.

Given the uncertainty and volatility in today's markets, a lot of private banks will face a tough time in providing any real value or advice to clients.

When factoring in the fearfulness of these banks in terms of doing the wrong thing for a client amid the glare of the regulatory spotlight, this suggests a negative impact on service levels.

As a result, the next couple of years represent probably the best-ever opportunity for independent wealth managers in Asia to shine and attract net new money.

An added catalyst is the fact that the value of a differentiated approach via genuinely independent advice is also becoming clearer.

This is the case both for clients as well as private bankers, who might feel restricted in what they can do for their clients in the current environment.

Taking advantage of this, however, requires independent asset management (IAM) firms and multi-family offices (MFOs) to raise their game and address the ongoing challenges they face in scaling their businesses.

These include: more clearly defining business models; finding more clients; creating more clarity over fee models; attracting more competent and experienced private bankers, along with other professionals; and offering appealing – typically private market – investment prospects to clients.

The burdens of regulation and compliance also continue to press heavily on them, given their size and more limited resources. Plus, the need for more bespoke and user-friendly digital tools and systems is a costly exercise to undertake.

"The next couple of years represent probably the best-ever opportunity for independent wealth managers to shine and attract net new money."

At the same time, independent firms need to re-assess their expectations of custodians and what they get from them – not just use the private banks as an

extension to a middle and back office. Further, independent firms should consider other viable custody options.

With all this in mind, those IAMs and MFOs set to succeed tend to be quality firms with carefully thought-through business plans.

They have a critical mass already, or a focused proposition in servicing a core group of loyal, fee-paying clients.

For these independent models, they are making steady progress and expanding in terms of AUM, getting referrals and selectively hiring.

For the others, which might also include some of the early entrants in this space in Singapore, for instance, they might soon come to the point where they will need to reconsider their future, potentially resulting in some consolidation.

MIXED PROGRESS

There is clearly a certain amount of momentum already within the independent segment in Asia, mainly out of Singapore and Hong Kong.

However, after a flurry of firms set up shop post-2008, from both outside the region and some home-grown operations, progress has slowed somewhat over the last 12 months or so, especially in Singapore.

These smaller organisations have found it difficult to make the model work in a sustainable way. And this has been compounded more recently by the onerous regulatory obligations they cannot ignore.

Having to meet such a high bar of compliance while maintaining a profitable business has proved to be significantly more challenging than many would-be entrepreneurs initially thought, or hoped that it might be.

The strain on the time and resources of independents arising from the regulatory landscape has come on two fronts.

On the one hand, the documentation and reporting demands placed on these firms are almost as pressing as they are for the largest institutions.

This has been the case in most markets. But in Singapore, in particular, the Monetary Authority of Singapore (MAS) imposes stringent requirements.

On the other hand, many private banks have become risk-averse, resorting to taking an overly-conservative stance to avoid falling foul of the regulator when it comes to onboarding new clients or offering certain products or solutions.

It is no longer acceptable to the regulator for the banks to just ‘tick the box’ if they fail to acquire the quality of information required, not just the volume.

But this is a mind-set issue. More rigorous checks and balances also create the possibility for independent firms to add more value to a client.

For example, advisers who take more time to gather the information required can get more insight and understanding about an individual client to provide a more tailored solution and service.

The fact that the estimated annual cost of compliance at some banks might be as much as USD10,000 per client presents an opportunity to capitalise on the situation – given that this cost makes it commercially difficult for institutions to take on smaller clients.

Some independent firms have also seen a certain amount of referrals coming from some of the banks – in situations where they fear doing the wrong thing but don't want the client to take their assets elsewhere.

In such cases, banks might specifically recommend the client to approach an IAM or MFO.

payroll of a larger institution in favour of a more entrepreneurial path.

But they are starting younger now. A growing pool of students at either graduate or MBA levels, for example, seem to be applying to join independent firms in preference to banks with better-known brand names.

At the same time, there is a wider group of clients who IAMs and MFOs can add value to, as more people become familiar with the type of advice they can get from such firms.

A number of wealthy Chinese patriarchs and matriarchs, for example, are tasking their overseas-educated children to set up and run the family office. This second generation realises and appreciates the value of an independent approach to helping in terms of managing the assets and expectations of their parents.

Getting the independent proposition right

Although multiple business models exist within independent wealth management in Asia, firms which do well are those that have identified their target clientele and are clear about the value they can add to them.

Aligning clients with the vision, culture and value system of the firm also highlights the focus on quality rather than quantity.

For independents to prosper, they must look beyond just making money for the client. Instead, it is about how to protect the value of the wealth for a purpose which is in sync with the goals as well as the expectations of the client.

At the same time, the best propositions tend to be those which can source individuals with the most relevant skill-sets to deliver the various products and services the clients want.

"There is certainly a lot more awareness today about independents and their models than in recent years."

PROMISING SIGNS

This is further evidence that there is certainly a lot more awareness today about independents and their models than in recent years.

Tougher markets and, therefore, less certain career prospects for some private bankers are leading to more and more of them assessing their options.

Inevitably, there is more to do, to help these bankers accept coming off the

Yet despite the alignment between clients' interests and the fee structure being closer than typically found in a private banking relationship, paying for the service is still quite a hard sell.

The more successful IAMs and MFOs say their clients see the value in the fee-for-advice model, but they tend to still be the exception rather than the norm.

One of the obvious differentiators for most independents is their consistency and continuity. This is a result of the fact that the individuals running the firms also own them in most cases, or at least have some type of vested interest.

Also, they are experienced practitioners who are less likely to 'jump ship'. This gives the clients a sense of stability which they don't get at most banks.

Even the most brand-conscious clients realise a brand name only goes so far. What it offers in terms of the platform and product capability, it often lacks in real understanding about the client. ■

Why Carret's independent offering delivers more with less

The latest independent firm on the block in Asia aims to bring a combination of its multi-family office services alongside private equity access. Kenneth Ho explains to Hubbis the game-plan, and appeal, of such an offering.

When Kenneth Ho left Bank Julius Baer in late 2015 to form a joint venture in Hong Kong with US firm Carret Asset Management (CAM), it put another spotlight on the growing appetite of senior practitioners from private banks for something different.

There has hardly been an exodus to independent firms, yet. But for Ho, the perceived security of staying within a more established financial institution was no longer as exciting as the opportunity to build out and run the multi-family office activities in the Asian region for Carret Private, the new international arm of CAM, the New York-based independent investment adviser.

The firm's track record is impressive. And its 50-plus year, USD2 billion AUM heritage was one of the draw-cards for Ho.

Further, CAM was founded in 1963 by Philip Carret, a Wall Street icon and investment legend who pioneered the concept of value investing. He also launched one of the world's first mutual funds, the Pioneer Fund, in 1928.

His spirit lives on in the entrepreneurial corporate culture of CAM in the US. The firm serves wealth managers, financial advisers, select institutional clients and HNW individuals and families.

Ho's mandate includes bringing to Asia a focus on providing tailored, premium solutions for UHNW clients in the emerging markets. But to get access to this tailored expertise, he stresses exclusive membership to their multi-family investment club.

His services cut across wealth management, corporate advisory and capital markets. At the same time, there is an interesting principal investing angle.

KENNETH HO
Carret Private International

CHARTING A NEW COURSE

Ho joined CAM at an important time for the firm – as it begins its global expansion plans, particularly in markets outside the US, said Alan Quasha, chairman of Carret Holdings, at the time of this hire. More specifically, the slower growth that exists in the US spurred it to look at the other side of the world for its next step and the evolution of its overall business.

The expectation is that the multi-family office venture in Asia will develop initially by selectively hiring a few senior private bankers who want to be part of the growth journey.

Indeed, he was hand-picked for the role after nine years at Julius Baer. As head of the investment solutions group and a member of the bank's executive committee in Asia Pacific, he was part of a core team that grew the regional franchise from essentially nothing to over USD60 billion in AUM.

"His leadership, experience and knowledge of the international growth markets will greatly enhance our ability to penetrate new markets for our firm," added Quasha.

Part of Ho's motivation lies in his desire to apply the momentum he helped to create at Julius Baer and channel it in a more entrepreneurial way, he explains, and also in conjunction with the China research team at CAM in New York.

The private equity component is another string to the multi-family office offering that Ho runs out of Hong Kong.

This comes from Arocarret, an Asian private investment company, managing capital on behalf of its partners, family offices and entrepreneurs. Since 2007, the company has made proprietary, direct investments into private, mid-market companies throughout South-east Asia.

Ho plans to leverage this. His goals for 2016, for example, include investing between USD50 million and USD100 million of client money into exclusive investment deals.

Another objective, he adds, is to bring on board three to four senior private bankers over the next 12 months.

His target hires are the type who would be managing USD500 million to USD1 billion in client money, probably for around 30 clients.

But the key clientele of these bankers would more likely be the five largest by AUM, who look for tailored solutions but are no longer getting the attention and treatment from the private banks that they want – due largely to the pressures of regulation and compliance, explains Ho.

He says being able to deliver something different is an incentive for which the more proactive bankers are likely to have a strong desire at the moment.

DOING MORE WITH LESS

This goes to the heart of the multi-family office offering in general: looking to do more with less.

What this means for clients in reality, says Ho, is an adviser who has access to a true open platform to source the best custodians, products and opportunities – and at competitive prices.

Not spending their lives under the ever-watchful eye of the regulator is another tempting aspect of working within such a structure.

"It's getting tougher for the banks," explains Ho.

As a result, the game has certainly changed for the private banks. And this potentially jeopardises the ability of advisers to spend enough time focusing on the needs of their clients, or to customise solutions for them amid the desire within many institutions to standardise much of the products, services and operating procedures.

The upshot, says Ho, is that many of the largest and potentially most lucrative clients get marginalised.

By enabling its advisers to focus on the largest clients, therefore, Carret's multi-family office set-up aims to facilitate tailored solutions.

More specifically from a product perspective, the private banking menu has become increasingly limited.

New rules and regulations have led to more onerous requirements in relation to product risk ratings and due diligence on funds, for example.

On the other hand, Carret's flexibility comes from the process it follows in terms of the custodians it chooses to work with, and from not having to manage large numbers of private bankers who today seem to be operating with handcuffs.

For example, Ho will review in detail the capabilities of five different banks on behalf of a client, to enable it to select from what he and his team believe is best for each client.

Other elements of the value proposition Carret can offer are more administrative in nature.

For instance, the service includes consolidating clients' bank accounts in a single report, and then helping them review and analyse their portfolios. ■

Why the future of advice starts with educating kids

Proper financial education at an early age will not only instill a need to seek advice when it comes to financial affairs. It will also positively influence financial advisers to embrace training in pursuit of higher professional standards, says Paul Smith of CFA Institute.

The investment and wealth management industries continue to find themselves in a Catch 22: most end-customers are not aware of – or might not even think about – the need for financial advice, in turn forcing wealth managers to push product.

And an immediate – and damaging – upshot is the seemingly insurmountable hurdle in convincing most practitioners to pursue higher professional standards and more ethical practices.

Yet the business model should, in reality, be far from one where products get 'sold'. Instead, it is the services which should be 'bought'. "The industry continues to be sold to people rather than them going looking for what may or may not be appropriate," explains Paul Smith, president and chief executive officer of CFA Institute.

The impact of such a conflict of interest is further exacerbated as a result of fees being embedded in products, rather than the service.

"The industry continues to be sold to people rather than them looking for what may or may not be appropriate."

This further fuels the perception among many would-be consumers of financial advice and products to steer clear of wealth managers to address financial concerns or needs. Indeed, a trust-related study from CFA Institute, released in February 2016, highlighted that pro

PAUL SMITH, CFA
CFA Institute

fessional investors expect higher levels of transparency than ever before, including regular and clear communications about fees and upfront conversations about conflicts of interest. They hold their investment managers to the highest ethical standards, plus are laser-focused on returns.

"The bar for investment management professionals has never been higher," explains Smith.

"Retail and institutional investors, as always, crave strong performance, however both groups also demand enhanced communication and guidance from their money managers. Building trust requires truly demonstrating your commitment to clients' well-being, not empty performance promises or tick-the-box compliance exercises," he adds.

"Effectively doing so will help advance the investment management profession at a time when the public questions its worth and relevance."

READY-MADE REMEDY

Some of the results of the study by CFA Institute are reflected in other surveys.

In the 2016 Edelman Trust Barometer, for example, financial services ranked 8th in terms of the trust that the public places in it as an industry sector. At 51%, this lags the leader, technology, at 74%, as well as others including telecoms, energy, and pharmaceuticals.

"Other professions have an inbuilt advantage," says Smith. "They are the sort of people you know from an early age in your life. For instance, if you are sick, you know you need to go to a doctor."

By contrast, he adds, few people ever get told they need a financial adviser until they are well into their 20s. This builds an apathy and lack of interest when it comes to the services on offer.

It also highlights the urgent need for proper financial education to be given at as young an age as possible.

This would also help to overcome the never-ending debate over whether the advisory industry's problem stems from the lack of public awareness or a lack of training and professionalism.

"The answer has to be more fundamental financial literacy, meaning starting this education sooner," says Smith.

"We have to teach people at an earlier age that seeking financial help is something they are going to require, and the individuals within the industry need to be readily identifiable as professionals from which the public can get that advice as they go through their lives."

CHANGING THE INPUTS

Yet while the end-customers have responsibility for changing the rules of the game by being better informed, financial services institutions must do a lot more to drive better practices.

Inevitably, training has a big role to play. And CFA Institute has seen signs of more appetite too.

Its December 2015 exam, for example, saw a record number of candidates (52,315) tested for Level I, an increase of 11% from the previous year. There was a 43% pass rate.

And in June and December 2015 combined, the highest total number of more than 103,000 candidates sat for Level I, representing nearly a 10% increase on 2014.

In pursuit of transparency, ethics, performance

Key findings from the CFA Institute study on trust include:

- *Since 2013, retail investors show a significant increase in trust of the financial services industry – rising from 50% to 61%. About half the gain is thanks to strong increases in the US, UK and Australia. The other half is due to higher absolute trust levels in markets not included in the 2013 study, notably China, India and Singapore.*
- *Both retail and institutional investors share the view that financial professionals are falling short on issues of fees, transparency and performance.*
- *More than half (53%) of retail investors cited "underperformance" as the biggest factor that would lead them to switch firms. This was followed by "increases in fees", "data/confidentiality breach", and "lack of communication/responsiveness".*
- *Forty-three percent of retail investors would leave an investment firm if data security were to be compromised.*
- *The study found that once an issue has triggered an investor to re-evaluate their relationship with an investment manager, the majority (76%) of retail investors are likely to leave within six months.*

Pinpointing CFA Institute priorities

After just over 12 months in his global role at CFA Institute, Smith says the priority remains to maintain the relevance of the curriculum.

Practically, this involves making sure newer topics get covered, such as ESG (environmental, social and governance), Islamic finance, and private wealth management.

The latter is a segment in which Smith sees significant growth potential – evidenced by the fact that 30% of the membership now in the US is on the private wealth management side.

"The world's middle class is getting bigger and bigger, as are the assets they control, so there is going to be a greater need for people to help others understand what to do with their wealth."

Another key goal for CFA Institute in general, Smith adds, is to try to improve the overall health of the industry, via thought-leadership and advocacy, as well as making members as good as they can be.

"The prime way we can influence the market is by having more CFAs who are better at their jobs on a day-to-day basis," he explains.

Also increasingly important to creating the right culture and mind-set towards higher professional standards is the ability to ensure more diversity in the investment and wealth management industries – by gender, by ethnicity and by background.

"If we want to change the outputs, we must first change the inputs," says Smith. "This is vital if we are to improve the quality of the decision-making."

Some of these issues are especially acute within the banking segment targeting the mass affluent.

"I see many organisations try to sell a sophisticated investment product using a workforce that clearly isn't up to the mark," says Smith. "In some instances, they use people to do this who are not trained for the purpose."

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THE ALL-ROUND CHALLENGE

The organisation which Smith presides over is one which has such a vision to promote professionalism and ethics in investment management, for instance, to be able to drive a positive influence in the market.

"If we can spread the CFA story and impact enough investment communities around the world, then we will produce some positive returns because we are trying to produce investment professionals who put their clients' interest first and behave in a professional manner," he explains.

The more of these types of individuals who are around, and the more important they become, the more this all builds to create a healthier industry, adds Smith.

An important aspect to this, however, is the relevance of what people learn and how they portray it to their clients.

This exposes a shortfall in the majority of industry training – too much of a focus on technical knowledge and less on the softer side that facilitates the conversation with the client.

It is these types of human skills, or the 'bedside manner', in the case of a doctor, that differentiates practitioners working in medicine, for example. But they are found wanting among many financial professionals today.

Smith says this is largely due to the fact that it is possible to test an individual's technical knowledge, but difficult to do so with bedside manner.

"This is the challenge of the whole industry, though, which can leave clients feeling cold." ■

Hubbis at-a-glance

We focus on the Asian wealth management industry and produce high-quality, localised content that is practical and independent. This includes news, articles, research, reports and conference-related content, and is available in multiple formats including video, web and print. The Hubbis e-learning platform consolidates this wealth of knowledge into an indispensable training and development resource for all professionals.

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Case studies
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SKILLS

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FAMILY WEALTH

TECHNOLOGY

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Hubbis offers a unique platform that brings together content, thought-leadership and collaboration - to challenge and provoke conventional thinking, with an aim to innovate and improve the Asian wealth management industry across the following segments: Private Banks, Independent Wealth Management, Retail Banks, Asset Management, Insurance, Technology, Professional Services. Through our events and content channels, we reach senior management, business heads and other key stakeholders from the top international, regional and domestic organisations.

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- **120,000** monthly unique website visitors
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