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ASIAN WEALTH MANAGEMENT

Issue 4, 2016

Traditional values with an innovative business model

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Developing wealth and asset management

UBP'S ASIA VISION
How to turn conviction into reality

THE DIGITAL FUTURE
How and why private banks must catch up

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Foreword

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

This is being produced at a time which is probably the most difficult ever for the wealth management and private banking industry in Asia.

The last 12 months have been particularly tough, and the challenges that firms face are mounting.

From the economic environment, tax amnesty and regulatory scrutiny, to the debate over onshore versus offshore, and the continued hunt for both talent and growth – chief executives are reconsidering their business models, along with the strategic choices they need to make, in order to remain relevant.

The content in this issue should be relevant to anyone who is serious about building a sustainable and profitable wealth management business in Asia.

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

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

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

ANDREW CROOKE
EDITORIAL AND CONTENT DIRECTOR
HUBBIS

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70%

UBP's cost-income ratio of just under 70% is evidence that the model works.
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USD10 mn

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5 years

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500

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USD136 mn

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610,000

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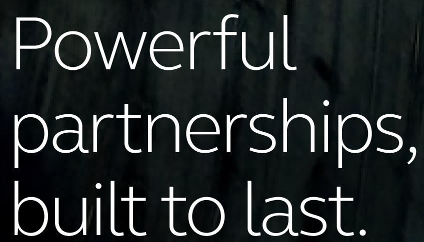

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How to know when you're doing well for clients

For a client-adviser relationship to be promising, the focus – and type of conversation – should be spot on from the onset, says Kees Stoute.

Still today, many private bankers operate on the assumption that getting assets in from a client potentially represents the beginning of a promising and flourishing relationship.

- "What is the minimum amount I need to open an account with you?"
- "Uh... well,,, that would be USD 500,000."
- "Ok, then, I will try you out with USD 500,000."

Let's have a closer look at this though. We will start with a few assumptions/ observations:

1. In general, people are happy to pay a fee to professionals who, in one way or another, (make a transparent attempt to) improve the quality of their life.
2. We can only consistently add value in areas over which we have a certain level of control. As we do not control the markets, we should never define our added value in terms of delivering superior investment returns.
3. The most successful wealth management professionals share three characteristics: i) they have big clients; ii) with whom they have established deep relationships; iii) earning predominantly recurring income.
4. The ability to develop deep relationships with the client depends on the type of conversation with that client: is the conversation about the market, your products, your firm, you, or predominantly about the client's life? Obviously, the more the conversation is about the client's life, the more likely that a deep relationship ensues.
5. In general, technology is redefining the relationship between consumers and service providers, making the actual service provider almost invisible to the end-consumer (Uber, Amazon, Booking.com, robo-advisers, online universities, etc). For wealth management professionals to survive in this industry this means the focus should be on areas that are most difficult to 'impersonalise'.

Back to our example: the client is willing to try you out by 'giving' you the minimum amount needed to open an account. In other words, if you do well and in line with – or even above – his expectations, you may expect a larger share of his pie.

The obvious question, then, is: "How do we define 'doing well'?"

Unfortunately, in these types of relationships, the performance expectation is usually defined in terms of investment performance.

If we hold this against the five assumptions/observations, we conclude that:

- It is usually not clear how and to what extent investment performance is correlated with quality of life, thus making it challenging to charge a decent enough (recurring) fee.
- Delivering investment performance cannot be controlled, simply as a result of the fact that we cannot control the markets.
- With a focus on investment performance, the conversations with clients will be mostly about the markets and products.
- With a focus on the markets and products, it will prove to be a serious challenge to develop a deep relationship with the client.
- Conversations about markets and products are relatively easy to impersonalise.

Our conclusion: the likelihood that 'I will try you with the minimum amount' will ever result in a profitable, mutually beneficiary relationship seems remote. ■

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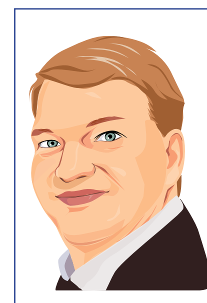
What to do when interest rates are rising



In the ETF world, there are many tools available to minimise the impact of higher rates, or even capitalise on them, says Todd James.

With the US Federal Reserve raising rates in early December; and given the fact that longer-term interest rates have drifted higher recently, many investors are looking for ways to protect themselves from even higher rates.

INFLATION PROTECTION

Generally speaking, long-term rates increase when inflation expectations increase, thus investors can protect themselves from inflation by investing in a portfolio of Treasury inflation-protected securities (TIPS).

These, as you would have expected, have seen a surge in demand recently.

The most popular ETFs which are investing in inflation-protected bonds are iShares TIPS ETF (TIP) and Schwab US TIPS ETF (SCHP).

LOWER-DURATION BONDS

The classic advice given to investors when interest rates are rising is to reduce the duration of their bond portfolio.

A higher-duration portfolio has more interest rate risk than a lower-duration portfolio, so by reducing duration, a portfolio will have less interest rate risk. There are plenty of low-duration ETFs on the market that can help reduce the average duration of an investor's portfolio, including: the iShares Short Maturity Bond (NEAR); the PIMCO Enhanced Short Maturity Active ETF (MINT); the Guggenheim Enhanced Short Dur ETF (GSY), and many more.

INVERSE BOND ETFS

Another method to hedge against rising rates is to invest in inverse bond ETFs. These funds comprise short bonds, meaning they rise in price when interest rates increase.

The ProShares Short 20+ Year Treasury ETF (TBF) provides daily inverse exposure to Treasuries with maturities greater than 20 years.

This inverse exposure to the Treasury Index is a powerful tool for investors with a bearish short-term outlook for US long-term treasuries.

However, keep in mind, it costs to maintain a short position over time, which can result in losses even if interest rates don't move.

LONG/SHORT BOND FUNDS

Another category of ETFs attempts to reduce duration by simultaneously investing in a long and short positions in bonds. One such ETF is the ProShares High Yield-Interest Rate Hedged ETF (HYHG), which short Treasuries to hedge a portfolio of high-yield bonds.

With a target duration of zero, the fund aims to capture purely the credit spread while immunising itself from interest rate risk. It gives investors a potent dose of credit exposure with radically-reduced duration risk.

FLOATERS

Another way for investors to reduce interest rate risk is by investing in floating-rate securities.

The iShares Floating Rate Bond ETF (FLOT) holds a basket of bonds with maturities of five years or less.

As floating rate notes, the interest rates on these securities resets periodically based on floating benchmarks such as LIBOR; so if rates increase, the pay-out increases as well, while the price stays relatively stable.

The PowerShares Senior Loan Portfolio (BKLN) is another type of floating-rate ETF. It tracks an index of the 100 largest bank loans with floating rate coupons. The fund has little interest rate risk, but relatively high credit risk due to its below-investment-grade portfolio. ■

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Re-positioning in a new world of Asian private banking

Asia's competitive and challenging private banking environment urgently requires senior management to re-define operating models and create the right infrastructure to stay in the game, according to a roundtable co-hosted with Synpulse in Hong Kong.

- *Consolidation is a key trend in Asian private banking, offering a way to reach the critical size needed to get out of the cost trap*
- *Brand name is a crucial factor in staying competitive in the Asian market, followed by economies of scale*
- *Post-merger integration is both time-consuming and challenging – especially in terms of the platform transition with client data migration, plus the handling of licenses*
- *A strong IT platform with digital banking capabilities is a must to grow over the long term – but building a scalable platform with high automation of processes is expensive and takes time*

Increases in regulations, industrialisation of processes and changes in client behaviour all continue to put pressure on margins in Asian private banking. In turn, this has forced institutions to re-define their approach and business strategy.

One outcome – that has become a favoured approach among a number of foreign and local banks alike – has been the consolidation to cope with growing competition.

Among the latest developments along these lines was DBS' recent announcement that it will buy the wealth management and retail banking business of ANZ in five markets, for roughly SGD110 million above book value.

Then, in late November 2016, Bank of Singapore completed the acquisition of the wealth and investment management business of Barclays in Singapore and Hong Kong. Of the USD17.5 billion in AUM in April 2016, the day the agreement was first signed, USD13 billion in AUM was successfully transferred.

This resulted in a purchase price – which was set at 1.75% of the AUM transferred upon completion – of USD227.5 million. Both developments also highlight the growing prominence of Asian-based institutions in the market.

These banks might also have a competitive advantage in terms of access to the growing amount of wealth – and numbers of HNW – in markets such as China, through onshore branches.

NEW MODELS NEEDED

Current cost-benefit analysis suggests more consolidation to come going forward, predict some senior management in the industry.

Yet this isn't the only path being chosen as different players try to map out a strategy and operating model to

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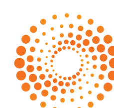

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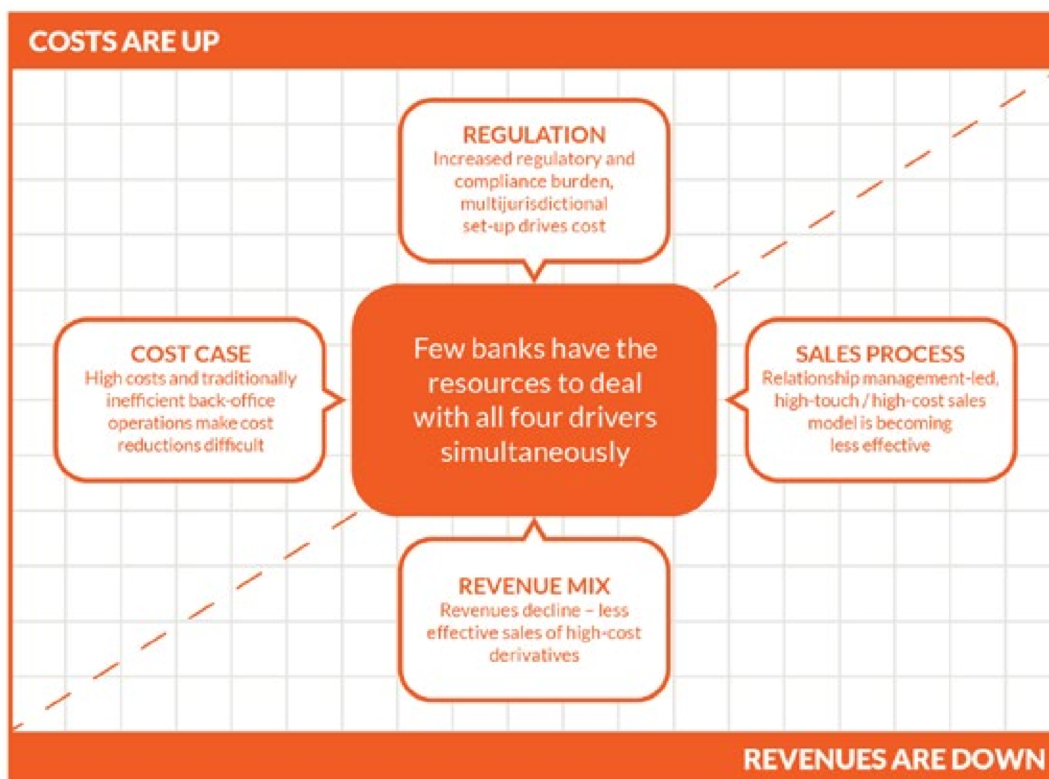

tackle the many challenges they are grappling with.

Outsourcing the IT platform, for example, via business process outsourcing (BPO) is one option to avoid high up-front investment costs, if the bank cannot leverage the platform of its head office.

There is no one-size-fits-all solution. Essentially, a mix of M&A, adopting advanced systems and platform capabilities, tackling regulatory issues and optimising cost-to-income ratios are important for the development of the bank and AUM growth.

Yet, keeping the AUM productive is the key to long-term success – not necessarily the amount of assets per se.

"Keeping the AUM productive is the key to long-term success – not necessarily the amount of assets per se."

OPERATIONAL CHOICE

When assessing costs and benefits of outsourcing, rather than the pure economics, softer factors need to be taken into consideration.

For example, because the platform and back office is outsourced, it can create cultural change.

How to integrate with the model and implement the outsourcing is an important factor in determining how well it works for different banks.

A key element for many banks is how they tackle the efficiency challenge if they choose to build and maintain solutions in-house.

Local banks, for instance, can leverage their retail businesses to tap into the industrialization already in place. The key question is whether they will be

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able to catch up with those players which are looking to outsourced offerings to ensure their platform is as automated and up-to-date as possible.

A LOCAL ADVANTAGE?

Some of the local banks might also be constrained by the fact that it is more difficult for them to attract tycoons as private clients.

This makes it more challenging for the private wealth division to be a significant contributor in terms of AUM.

sidered as the minimum to run a viable private banking business in Asia.

However, while critical mass is obviously vital, the 'right' amount is more about the economies of scale and being disciplined on the cost front, in conjunction with productivity of the bankers – rather than pure size.

The contribution of revenue and level of profitability should not be overlooked, especially among the local banks with private banking divisions.

"When it comes to consolidation via M&A, defining the best-fit Target Operating Model based on business strategy and objectives driven by the deal is key to achieving a cost-effective integration."

Yet local banks have a more natural advantage from being able to tap into existing client books, on the retail side of their business. This also lends itself, in theory, to being able to transition bankers from advising affluent clients to the HNW segment.

At the same time, there can be some challenges in passing clients or bankers from the affluent to the higher net worth segments.

Capital might also be a major issue for some banks. So even if they want to grow via M&A, this might be a challenge.

CLEAR GOALS NEEDED

The estimate of USD30 billion to USD35 billion in AUM is broadly considered as the minimum to run a viable private banking business in Asia.

Ultimately, when it comes to consolidation via M&A, defining the best-fit Target Operating Model based on business strategy and objectives driven by the deal is key to achieving a cost-effective integration.

However, different partnership and sourcing options can be considered to get further advantages in terms of scalability, cost efficiencies, and front-office effectiveness.

Implementing a third-generation operating model with a global BPO network connecting centres of operational excellence can also benefit many financial institutions – regardless of whether they choose to be part of the consolidation wave. ■

A roadmap for next-generation private banking

Research by Synpulse in mid-2016 has highlighted the extent to which the current challenges that the Asian private banking industry is facing have driven a wave of consolidation to cope with the growing competition in the region.

External growth strategy such as M&A is currently redefining the Asian banking landscape to remain profitable, where standardisation, industrialisation and outsourcing may be envisaged in parallel, according to the research.

Given the importance of the wave of consolidation as a solution to exist, Synpulse interviewed market experts whom recently participated in consolidation. The aim was to understand the rationales driving an M&A decision, and identify the important aspects relevant to a successful post-merger integration.

Complexity of M&A integrations, while considering hard factors – such as architecture, infrastructure and banking processes – in parallel to soft factors – for example, culture, positioning and human resourcing – drive an effective and efficient integration strategy.

Defining the right and suitable operating model can give a real competitive advantage, said the Synpulse research, by creating the future optimal business architecture after the integration of the two parties.

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How UBP plans to turn Asian conviction into reality

Following Union Bancaire Privée's (UBP's) integration of Coutts' international business, Michel Longhini and Michael Blake share a clear vision for how the Swiss-based firm can take advantage of Asia's potential – when many of its peers are floundering.

Securing sustainable Asian private banking growth from M&A seems to be an effective strategy in a region where revenue is harder to come by than most players would like.

Various exits, office closures and other strategic downsizing decisions by various organisations of all sizes appear to defy the optimism about what has become the world's fastest-growing market for HNW individuals.

Success seems far from guaranteed despite the demographics and statistics. But this hasn't stopped Geneva-based UBP. Further, the instant access to a platform in Asia many times the scale of what the Swiss firm had before it bought Coutts' international business highlights UBP's commitment to the region.

ASIA IN FOCUS

Michel Longhini is clearly pleased with the integration of Coutts. "We know from other acquisitions that this is a long journey, but it has been successful from the regulatory, technical, logistics and client points of view, so I think all the prerequisites for a good outcome are there." he says.

He measures success in several ways: the quality of the integration, retention of clients and staff, and the profitability associated to that.

UBP's global cost-income ratio of just under 70% is also evidence for Longhini that the model works.

"This is enough to be very profitable and justify the level of investment required today to be successful," he explains. "And from there, we can build a strong franchise."

MICHEL LONGHINI
Union Bancaire Privée

This has been a factor driving the decisions behind every one of the firm's acquisitions over the last five years, he explains. "With a strong franchise and operational capacity, the investments bring additional results, so it makes sense to continue this strategy." In the Coutts deal, more specifically, the Asian aspect has taken the longest and is

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MICHAEL BLAKE
Union Bancaire Privée

perhaps being most closely watched. As one of the last parts of the jigsaw to fall into place, it saw Michael Blake return to the region to head the expanded firm's private banking business in Asia, following UBP securing its banking licence in Hong Kong to facilitate the rest of the business coming together in the region.

In doing this, UBP in many respects has gone against the trend.

Over the past 12 to 24 months, many of its peers have taken strategic decisions to downsize or exit certain markets or locations in the face of excessive business challenges.

But as an organisation, it has viewed this period as an opportunity it wants to take advantage of – at the right price.

"Some banks have decided to exit private banking in Asia mainly for reasons which are linked to their own global strategic issues, like raising capital, but certainly not part of a long-term private banking view," explains Longhini.

Other banks might have developed a private banking aspect to the wider group, but then realised that it is a small portfolio which does not make economic sense, he adds.

Yet this often applies to firms which are not pure-plays.

"The banks which are buying assets are much more focused players like us, which believe that there is still growth [in Asia], still a need to have certain global coverage to reach the right size, and still opportunities in this dislocating market that perhaps did not exist four or five years ago," explains Longhini.

"The fundamentals of the business are extremely strong if you approach it in the right way," adds Blake.

UBP has taken advantage of such entry points in other markets too. In Dubai, for example, over the past three years it has gone from having no presence in private banking to a set-up today including 20 bankers – and a situation which Longhini describes as very satisfactory growth and profitability.

At the same time, UBP is realistic about the opportunities Asia offers. Having first stepped foot in the region 30 years ago, Longhini has seen the pitfalls of banks rushing in.

But there is intrinsic growth linked to the development of emerging economies that is greater than in other parts of the world.

UBP's conviction is such that it expects Asia to account for roughly 25% of its asset base, across both wealth and asset management, in the next five years. To put this into context, the current level is around 12%.

BUILDING THE RIGHT BUSINESS

To make the integration a success going forward, the starting point must be the franchise, in terms of presence.

The old way of building a business, by just hiring people and expecting clients to come, no longer works. "We must be focused on a certain type of approach or client base," says Longhini.

In addition, those bankers who really know the business and have the client base to back it up, are increasingly looking for a place to work which has values, a philosophy and a product base which is aligned with their thinking.

"We are one of these private banks which can really help senior bankers to leverage their client base," adds Longhini. "I have been impressed by the level of interest that our new presence in Asia has created."

These bankers worry about alignment of strategy and commitment to the private banking business when their institutions are subject to mergers or other strategic change.

According to Blake, they want to work for organisations dedicated to growth over the long term, and which have demonstrated a profitable and successful business model.

This also gives these individuals the opportunity to increase their focus on clients with specific and tailored prop-

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ositions, he adds. “If we apply the cookie-cutter approach, why would [clients] need a wealth manager?”

Attracting the right type of advisers is essential in order for UBP to significantly grow the current USD10 billion in AUM (excluding lending) from private clients in Asia.

The senior management knows this is a priority, and Longhini is confident this will happen through bringing in the teams and individuals who need such a platform to develop their client base.

More specifically, the firm is looking to selectively hire experienced relationship managers, which it sees as a more suitable fit for its family-managed, entrepreneurial, Swiss style of operating.

SUSTAINABILITY

Particularly in Asia, the Coutts business brings expertise that UBP did not have.

This includes deep knowledge about the local markets, for example in terms of equity research and broader macroeconomic strategy.

Also on the product and investment side, Coutts had individuals dedicated to Asian funds who can complement the UBP fund research team, as well as more capacity in areas like fixed income and derivatives.

Wealth planning is another aspect of the business which UBP now has readily-available post-acquisition.

This includes single-premium insurance, for instance, which is not a product often used in Europe. Perhaps the greatest challenge that Longhini, Blake and the rest of the UBP senior management team faces for the sustainability of the Asian franchise is no different from the hurdle for all the firm’s peers: to get clients to pay for the advice they get.

This is the same objective that regulators increasingly have around the world – to reduce, or increase transparency of commissions and retrocessions.

In Asia, it has been more difficult to move the needle in this direction. And the more hands-on nature of local investors adds to the challenge.

“[Asia] clients want to be more involved in the investment decisions that most European clients, as many of them are entrepreneurs,” says Blake.

But UBP has more reason to be optimistic than some of its counterparts.

“I was impressed by the share of assets under discretionary management at Coutts in Asia,” says Longhini.

“It has developed a strong expertise in selling bespoke mandates for clients, and we can leverage on that,” he adds.

Further, the demand for professional management of wealth is strong in Asia among local HNW individuals.

For example, the region has reached the point where the transition of wealth from one generation to the next is underway, and only going to increase.

This means that clients will increasingly be open to concepts such as succession planning and diversification, says Blake. ■

Step-by-step integration

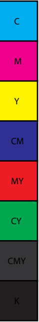
UBP’s acquisition of Coutts globally had several driving forces.

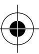
First, the Swiss-based group saw a business that was complementary in terms of geographic locations and priorities. In particular, it filled a gap in UBP’s coverage as well as booking capacity in Eastern Europe and Asia. At the same time, the deal had a positive impact on the book size and profitability for UBP globally.From a product and services perspective, the merger has given the Swiss group access to a full platform in Asia, along with greater expertise in Zurich and Geneva, for example, to complement its own.

To make the most of these value-adds, the first step to post-integration success is training, to ensure there is a smooth transition for the people from Coutts coming in to a new culture. This involves getting them used to new systems, the product range and, in general, the UBP approach to doing business. It is also then important to make sure the Coutts bankers retain their clients, adds Longhini.

Already, the integration efforts from day one of the deal being announced have focused on talking to as many clients as possible – but this is a process which needs to continue.

Making all this more complicated is the fact that the UBP-Coutts deal is essentially a reverse takeover in Asia; the Swiss pure-play has gone from a team of 20 or so in the region to more than 250 today, with around 70 relationship managers.





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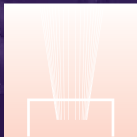

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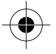
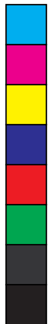
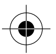




Safety, security, confidentiality the JPMorgan way

Rahul Malhotra explains why traditional values combined with an innovative business model will ensure a profitable future for JPMorgan Private Bank in Asia.

Private banking in Asia has been through a major transformation in recent years. A rapidly-maturing client base, market volatility and regulatory changes have all contributed to the new profile of this industry. Cost have risen and returns have fallen.

Against this background, Rahul Malhotra, managing director and head of South-east Asia for JPMorgan Private Bank, acknowledges the reality of the situation, yet remains not only optimistic, but even positively bullish.

"The business has been through a lot," he notes. "Not just JPMorgan per se, but the industry as a whole."

Yet he is adamant about the value of his bank's clear and focused strategy, based on providing a relevant offering to a core group of clients.

More specifically, he explains, this is driven by a team-based approach which leverages off the JPMorgan Private Bank's experience in wealth advisory, long-term planning, next-generation advice and the ability to deliver more sophisticated financing and other solutions to clients. "So you put these together, along with the bread-and-butter private banking, and it creates a holistic experience, especially for UHNW clients," he adds.

CLEAR SEGMENTATION

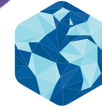
The consolidation in the industry has been evident with a number of players downsizing or even making an outright exit from Asia.

For JPMorgan, however, both the region and the industry continue to be crucial strategically. "Asia continues to be important for us," says Malhotra, "both for the private bank as well as for the other lines of business."

The private bank, in particular, continues to invest in Asia, he adds. "We have a very clearly-defined strategy to provide private banking services to people that have USD10 million in investible assets with us."

RAHUL MALHOTRA
JPMorgan Private Bank

WealthSuite



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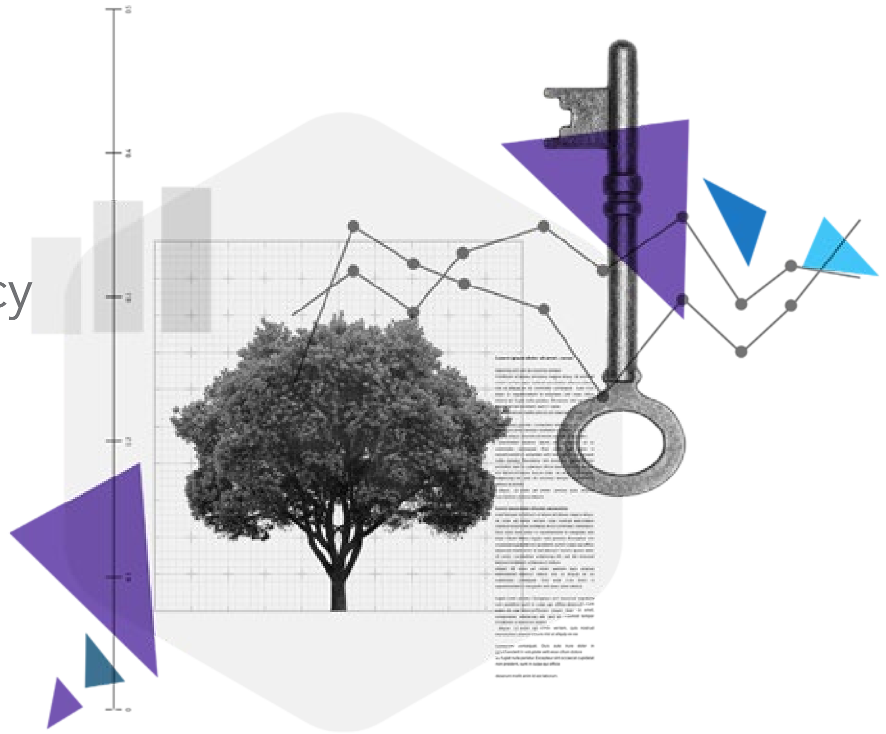

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time reduction
to make a proposal
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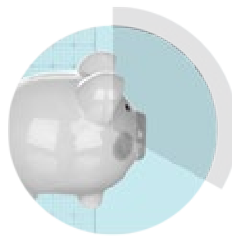

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operating expenses
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straight through
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To JPMorgan, this is the definition of "high net worth", with UHNW clients defined as those with USD50 million and above.

Although five years ago the bank started to target individuals with a lower AUM, motivated by the pace and extent of wealth creation across the board, the costs of doing business have risen dramatically.

As a result, the bank is again more focused on where it can be most relevant in the way it defines its target customer base.

WORKING AS A TEAM

Malhotra believes that the strength of this proposition lies in the JPMorgan brand and the private bank's business model – both of which Malhotra is a keen proponent. "I have 30 years of work experience and six of them have been at JPMorgan. I can tell you I have learned and continue to learn a lot here. The work, the culture, the teamwork, the overall DNA – they are all about doing things right."

Such principles apply at all levels of the business. "It's all about making sure that you are doing right by the client, by the shareholders and by the employees. We do this on a daily basis."

The JPMorgan model certainly relies on its team-based approach. "Clients come to us because they genuinely value our thought leadership, and they genuinely value our advice," says Malhotra.

To him, 'advice' is to be able to sit across the table, listen to an individual, understand what their real needs are, and then be able to really help them meet those objectives. "It's no longer just about looking at financial markets," he adds.

These conversations cover topics ranging from geopolitics to the broader economy, and have been particularly valuable during the volatility in 2016. "They key is to help clients undertand how they have impacted on what's happening in the markets?" says Malhotra. "How do you make things simpler and easier for people to understand?"

Ateam-based model makes a huge difference to achieving this. It was untypical in years gone by for a banker's role to be to wine-and-dine a client, play golf with them, and then pitch stocks and get back to the office and execute the trade. It was like a one-stop shop in many cases.

While many banks might seem to continue to take this approach, the JPMorgan way has been to adopt a new way of doing things. "We have a banker and also a dedicated investment specialist who is in conversation directly with the clients," explains Malhotra. "The specialist is sitting in front of a terminal, looking at the markets and talking to the client, and has a direct relationship with the client."

As a result, the client taps into the resources of the relationship manager (RM) to help define the general objectives and strategy, but calls on the specialist to execute in real time. "It's two for the price of one," quips Malhotra.

LONG-TERM VIEW

This model also accommodates not only the widening client base but also enables the bank to develop and reinforce relationships across generations.

He illustrates this with an example from the JP Morgan tradition: "I have a banker in my team who has been in the business with us for more than 45 years and has dealt with three generations. How often do you come across people that have been in the firm that long enough and doing this?"

These generations have different needs and their risk appetites are also very different. In addition, the younger generation – the millennials – expect much more of a technology-led interaction. "They want you to be able to interface and deal with them, not just in person or through voice, but to be able to interact with them digitally, to be able to give them the service and efficiency that is required through smart usage of technology,"explains Malhotra.

Generational change also brings forth new challenges. "We have a wealth advisory practice that works with families and helps them in putting in place the right structures for intergenerational planning," he adds.

Another part of the bank's wealth advisory offering which is gaining more traction in Asia due to its growing relevance and importance is philanthropy. "We work with families who are looking to start to give back," says Malhotra. It advises them as they start to think about how to plan for this and which firms to work with.

ADDED VALUE

A third component to the JPMorgan Private Bank offering connects its clients with the other parts of the institution – especially its investment banking capacity.

"When you work with families it's also about the way you speak, not only to the person but also the way you speak to the corporate wallet," says Malhotra. "That's why we work well with the investment bank." ■

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The future of digitisation in Asian private banking

A new White Paper explores how current digitisation trends and priorities will shape the future of the private banking industry. It explores how and why institutions must catch up across their entire value chain despite the challenging environment.

The wealth management space is undergoing a series of changes that will shape the industry for years to come.

Asia presents an unprecedented opportunity for wealth managers, but at the same time is also fraught with pitfalls that need to be navigated to take advantage of the growing opportunities.

The Boston Consulting Group (BCG), for example, estimates in its 2015 Global Wealth report that assets in private financial wealth in Asia Pacific (ex-Japan) will grow from USD33 trillion in 2014 to USD55.2 trillion by 2019; which is a whopping 67% growth.

Further, a high percentage of wealth in the region comes from new sources; in 2014 this amounted to 60% of wealth growth, which is 16% above the global average.

Origination of wealth is to a large degree from China and India, with Singapore and Hong Kong being top booking hubs, accounting for 48% of all Asian wealth bookings.

Despite this significant market growth, wealth managers are in a tough position at present. Cost income ratios have remained stubbornly high and the industry is faced with a heterogeneous regulatory environment.

"We have a complex heterogeneous regulatory environment," says one senior industry executive. "And if you look at the spend across the [private banking industry] there is a huge spend still on compliance and [banks] are working with different themes with different regulators."

(RE)PRIORITISING

Clients themselves are also becoming more demanding, and only hold a fraction of their assets with a single player. "Clients are also moving their assets and the key aspect of a relationship that really, really matters to clients is performance. Yet this is [currently] not a

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- *Banks – which will further niche in the UHNW segment and who will rely on the traditional approach in private banking with a more limited digital offering*

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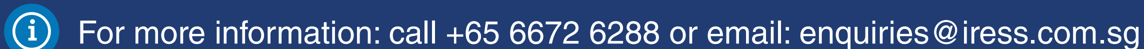

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good environment for performance. That's a challenge."

As performance is harder to deliver, there is an increasing focus on cost efficient and transparent products, which further depresses revenues. "Clearly in the past the private banks (PBs) have made a lot of money from selling structured products but this isn't necessarily the best environment for that."

Competitive advantage, therefore, is increasingly reliant on a bank's ability to generate and maintain trust with its clients. "Clients are looking for trust and they have got to trust their PBs."

Relevance is becoming an increasingly important way to build and further this trust into a relationship that the competition finds difficult to replicate. "Clients are looking for a relevant engagement. Today one of the challenges is there's just too much data. [Clients] don't want to know that here's our latest research report into the automotive industry."

In line with this, clients will want to have their needs met rather than being sold the latest product offering.

The relevance of digital technology in private banking is becoming not only a driver of change, but will also increasingly be a prerequisite to compete. Nearly all aspects of a bank's value chain can be enhanced or delivered through digital means. "Digital is not just the pretty front-end; it is an end-to-end solution for a bank."

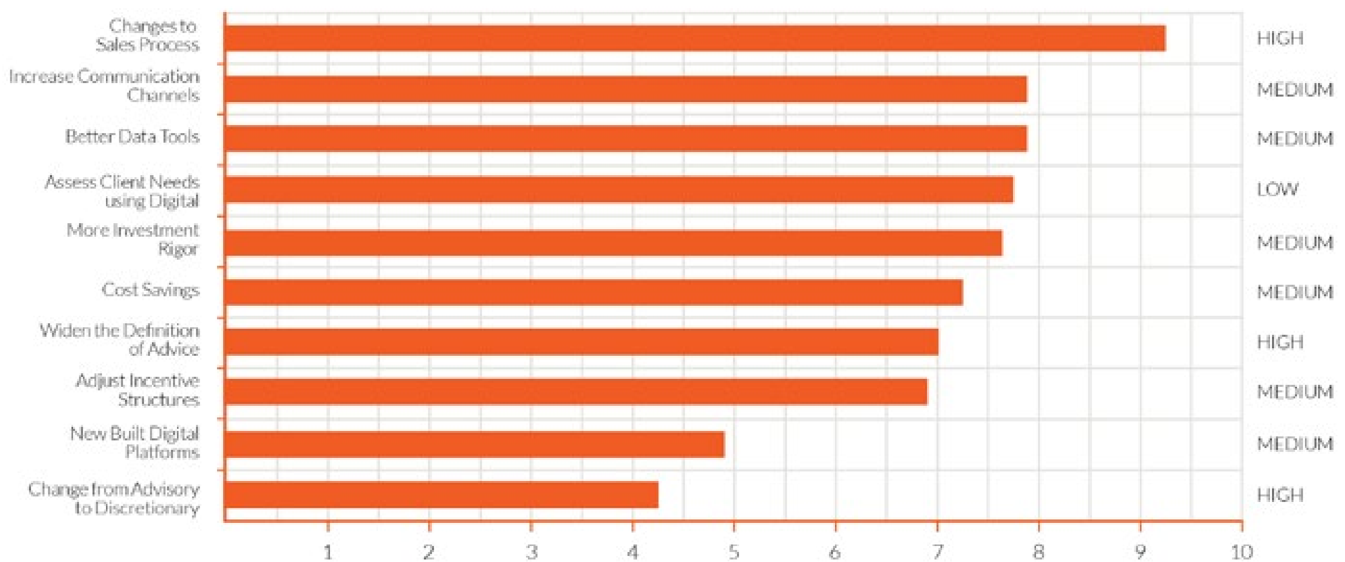
STANDING OUT

The key to the survival of the private banking industry in its current form is the ability to generate and use client trust to retain a competitive edge.

Particularly amongst younger clients, trust is increasingly digitised. These clients will have more faith in digital solutions than the previous generation, which will open the door for new players to enter the market over time.

Further, as clients start to use digital platforms and interfaces, and as they get used to the increased and more personalised interaction, they will demand a more digital offering.

The current priorities in the industry are therefore clearly focused on the client experience and on sales efficiency, regardless if the technology is implemented based on a tactical approach to digital or with a view to deliver an end-to-end digital platform.



Clear focus to increase relevance of client interactions through digitising sales processes, communication channels and data tools; less agreement on the path to get there.

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Multi-channel communication including web, mobile, chat and other digital means is seen as a key enabler.

The same goes for better data tools which help deliver personalised content.

The client's needs assessment is still done mainly by relationship managers (RMs) but technical solutions and data use will be coming into play over time.

While robo-advice in its purest form is still seen as a challenge, we will likely see a hybrid model emerging whereby RMs will be assisted by an intelligent robo tool.

Over time, the balance of advice could well shift from RM to robo.

There seem to be less clarity on future breadth of the advice offering, and more planning and 'lifestyle' offerings should be included.

Changes to the incentive structure to achieve the required organisational changes are seen to be less relevant.

But it is important to note that successful change can only happen if incentives are aligned to change goals.

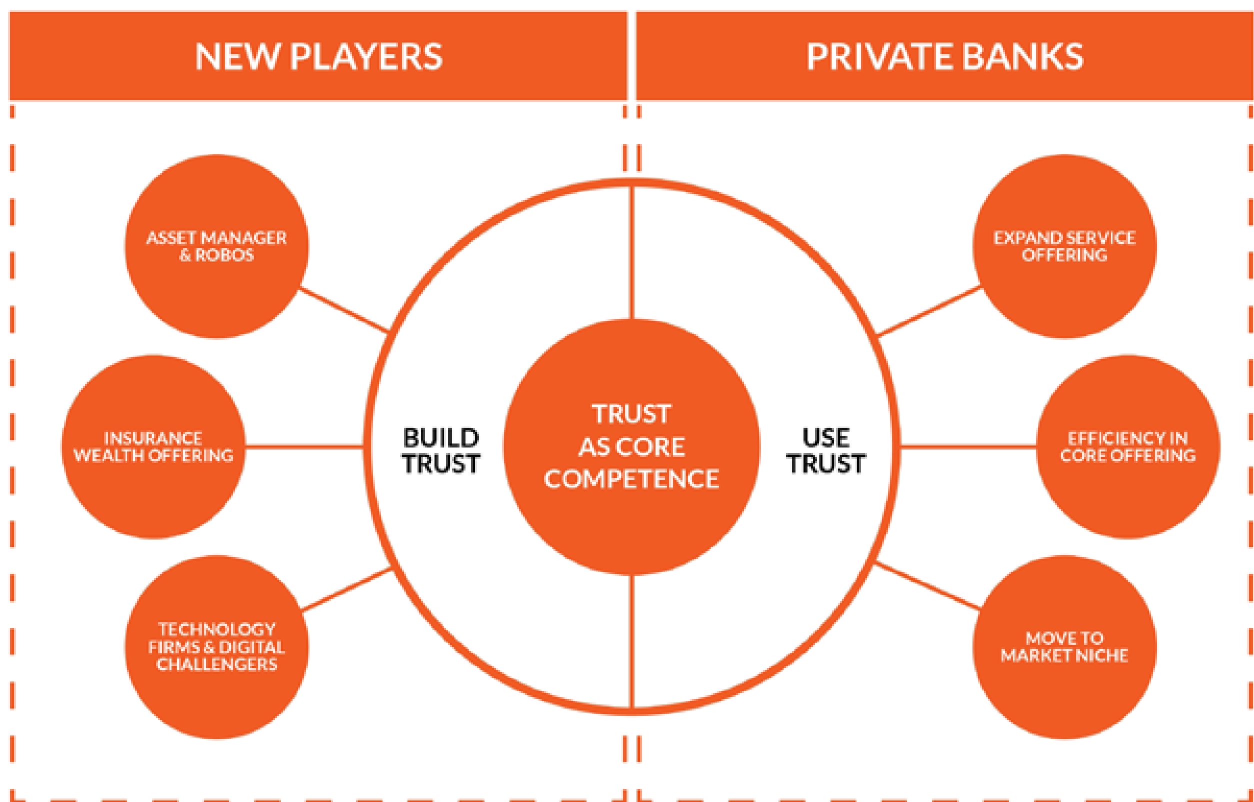
Areas where digital was seen as a more limited driver in shaping the future of the industry were the market entry of new players who operate on a purely digital platform, and a change from advisory to discretionary business models.

On the first point, new digital players are seen to emerge first in the retail and emerging wealth segment. Regarding the latter point, business models are likely to change insofar as execution, advisory and discretionary services are increasingly combined into a holistic client proposition.

There is a widespread sense that front-end digitisation will happen in the next one to two years, greater workflow-based digitisation will happen over three years, and that end-to-end digitisation might take up to five years, due to the stubbornly-high costs of back-office systems migration.

There is agreement, that the road to greater digitisation is irreversible. ■

THE TRUST EQUATION IS CHANGING



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The right type of financial advice

There's nothing wrong with making a profit from advising clients on their investment portfolio, but it needs to be done in the context of building a sustainable client relationship with recurring income for ongoing services that aligns with the interests of clients, says Gary Harvey of Nexus Financial Services.

Just because investment markets are challenging and interest rates are flat, financial advisers shouldn't steer clear of their clients. On the contrary, it should be a time to approach clients to discuss their portfolios and talk about their options.

"We need to move through this period, because who knows how long interest rates will remain low. It shouldn't be a reason for saying that things are too hard, as clients always need advice," explains Gary Harvey, chief executive officer of Nexus Financial Services in Singapore.

Looking beyond those individuals who try to make a quick buck at the expense of clients, Harvey disagrees with any suggestion that all advisers should be tarred with the same brush.

In the case of a lot of insurance contracts and investment products, the outcome can work for everyone if these are correctly matched with the clients' needs and time horizon. In such cases, there is no problem with advisers generating revenue to get paid for their work; ultimately, every business needs to make profit and be sustainable.

"The Financial Advisory Industry Review (FAIR) in Singapore, and other initiatives around the world, are aimed at making advisers think of their revenue as more of a long-term model," says Harvey.

There is no doubt that creating recurring income isn't easy.

But at Nexus, a year after making a splash in the Singapore financial advisory (FA) market following the takeover of Zurich Life Insurance's advisory business, including 150 appointed financial representatives and support staff, Harvey is confident about achieving this goal.

Nexus, for instance, will introduce the concept of ongoing advice on clients' investments for those individuals who are willing to pay for the service. "I like this model because it aligns us with the interest of the client," adds Harvey.

GARY HARVEY
Nexus Financial Services

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THE RIGHT SKILLS

To be able to implement such a strategy, advisers need certain skills that are in line with the approach of the organisation, which change depending on if it is a bank, an insurance firm, or an IFA, for example. "As a financial adviser, I strongly push the FA-client choice model," says Harvey.

In general, he believes that every adviser should be able to display three core qualities: good listening and questioning skills; strong technical skills; and a long-term approach to dealing with clients and developing relationships with them.

Armed with these skills, advisers are then able to develop sustainable relationships that are strong enough to give them the confidence to ask to get paid for their advice.

advisers will increasingly appreciate working in an environment where they can offer their clients greater choice in products and services.

"Advisers are moving from a business model where they make money by selling to clients, to one where they make money by representing the client," he explains. "That's a subtle difference, but an important part of the evolution."

DELIVERING AN ALL-ROUND OFFERING

Applying this to its own business, the Nexus vision in Singapore is to be a one-stop shop for non-banking financial services by creating a range of distribution channels with technical support.

In practice, this means for example that when one of the firm's advisers comes across a client who might be a HNW

"As a financial adviser, I strongly push the FA-client choice model."

He is also not concerned about disclosing fees, commissions and charges; it tells a client clearly that this is what they pay and should be combined with an explanation of what they get for it.

"You can demonstrate value-added services in this way," explains Harvey. "And without sounding like a broken record, this is in addition to product, because portfolio reviews are not free and the client should pay for ongoing advice."

Supporting his view, he sees an evolution happening at some point, where

citizen of another county, but is resident in Singapore, it can pool expertise from the group internally to support that adviser, and in turn ensure that the client doesn't need to look elsewhere for help.

This type of approach is essential, says Harvey, given that no single adviser can be an expert in everything. For example, unless they regularly talk to clients about Universal Life insurance, they won't have the required knowledge in that space. "Rather than ask our advisers to try and produce a solution in an area where they are not experts, we want to support them by giving them access to people who can help provide that solution," he explains.

It also enables the firm to achieve its initial goal of being able to advise clients on a combination of products – ranging from protection, savings and investment on the one hand, to personal and business coverage on the other. Having a variety of solutions also makes the firm more appealing to the wealthier clients it wants to target. ■

Singapore's new wave of FAs

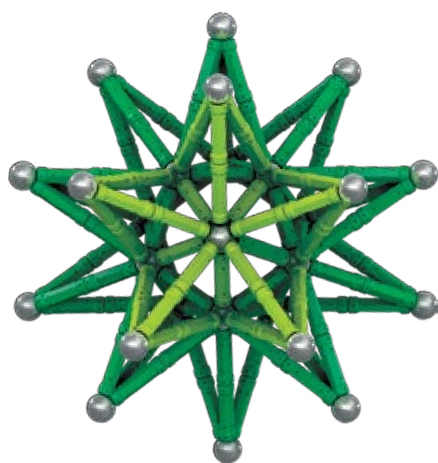
The growing number of product manufacturers entering the FA space is a good thing in the eyes of Gary Harvey.

With Aviva, Great Eastern and Manulife now with their own distribution arms, there is a clear signal that people want to be in a structure that is not just a pure tied agency, and therefore can at least offer customers some choice, he explains.

While the range of alternative product providers might be limited, simply the process of setting up those firms wouldn't have happened if these providers didn't view the FA space as being an area where they expect to see growth.

Yet there is still a need for the industry to differentiate between a company that is incentivised/restricted in the products it offers versus one which is able to make unbiased product provider recommendations. Clients need to be assured of getting such disclosure so they know which choices they are making.

ASIA HAS A NEW **RISING STAR**



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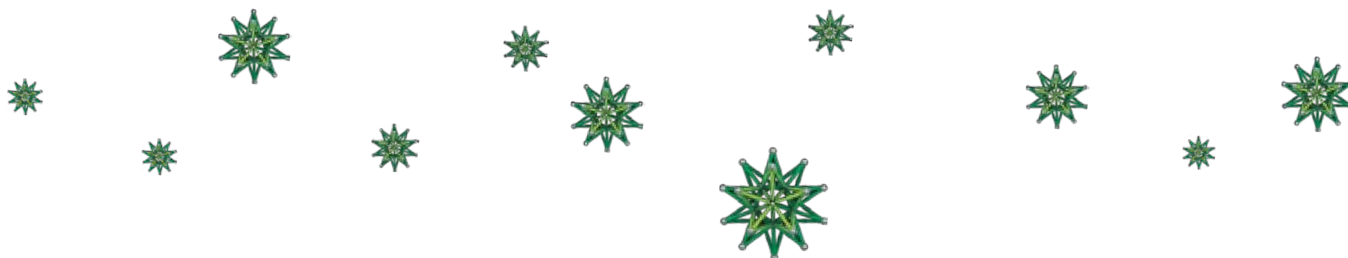

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Bringing holistic advisory to life in India

Plan Ahead Wealth Advisors is one of the 500 or so investment advisory firms in India which appears to take its fiduciary role seriously. Vishal Dhawan outlines the structured process he follows to bring more transparency and better-quality advice to his clients.

The tightening regulatory net around providing investment advice in India looks set to favour those firms which have been most proactive in putting in place a structured advisory process.

This is in line with the clear fiduciary responsibility the firm has for its clients, given that it is registered with the Securities and Exchange Board of India (SEBI).

"We strive to maintain the highest standards of integrity and client confidentiality in our practice."

Plan Ahead Wealth Advisors is among them. "We continue to work closely with clients to ensure that our practice is continuously evolving to exceed client expectations and reinforce their trust in us," explains founder and chief executive officer Vishal Dhawan.

"We strive to maintain the highest standards of integrity and client confidentiality in our practice," he adds.

Such a mind-set, however, hasn't been the norm in the Indian wealth management landscape. Indeed, three years after the Securities and Exchange Board of India (SEBI) issued its investment adviser regulations, only just over 500 licences have been issued (both individuals and firms, as of September 2016). Yet there are roughly 10,000 active distributors (out of around 70,000 registered).

VISHAL DHAWAN
Plan Ahead Wealth Advisors

Market practitioners believe the larger fiduciary role which advisers must play once registered has been a deterrent. Plus, the regulator left a loophole

The Fastest One Wins: How Wealth Managers Conquer New Market Segments With Digital Onboarding

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which has to date enabled IFAs to continue 'advising' without becoming 'registered advisers'.

This might get closed in the wake of recently-proposed changes in mid-2016 to the investment adviser regulations.

The outcome of the current consultation might mean that advisers won't need to register with SEBI, but that anyone giving financial advice will fall under its ambit.

Regardless, the kind of holistic approach that Plan Ahead Wealth Advisors – and some of its peers – have already put in place creates a value proposition which is likely to appeal to clients who seek an adviser who is fully aligned with their objectives.

“[We create] a roadmap in terms of what the client is looking to achieve and how they can achieve it.”

STRUCTURED ADVICE

Since setting up the firm 13 years ago in Mumbai, Dhawan has abided by a philosophy where all advisers strive "to add meaning to finance and add time to life".

They do this by encouraging time-poor individuals to outsource their wealth management to professionals. These clients can then focus their limited time on their work and family.

As a result, while only relatively small with 20 staff – including three advisers and a team of researchers, para-planners and client service executives – he believes Plan Ahead Wealth Advisors has gained wide acceptance and generated significant goodwill amongst its clients and other stakeholders.

The structured process which the firm's advisers follow starts with what he calls 'discovery'. More specifically, during the first meeting with a prospect, advisers use various life planning tools, including one from US company Money Quotient.

This 20-question methodology looks at and measures financial satisfaction levels which, importantly, then gets written down. It gives direction to what the adviser should focus on during the discussion, he explains.

This might range, for example, from concerns over spending habits, to worries about retirement, to how they manage their documentation.

Advisers also run clients through questions on a variety of potentially-relevant issues relating to wealth transition, children's education, setting up businesses, and relocation or migration.

After this 45-minute to one hour meeting, Dhawan says it becomes possible to filter out those individuals who don't fit the firm's client profile. The adviser might also use the opportunity to discuss the firm's services. "This is typically an advisory conversation around their asset and liabilities, and income and expenses," he adds.

From this, the firm creates a financial plan and the next steps.

"This is a roadmap in terms of what the client is looking to achieve and how they can achieve it," says Dhawan. "They can do this as a one--off exercise to get

Enhancing the offering

Dhawan has three clear objectives to develop his business and offering in 2017.

First, he will continue to drive the transition towards being a fee-only firm. "This is important as we think that our fiduciary role demands it, so that we can be completely independent in our advice," he explains.

Secondly, Dhawan wants to add a few more advisers to the team – perhaps seven to eight in total.

His approach to talent development will also involve grooming staff in research and para-planning roles to become advisers. "There is not a lot of ready talent available who can follow our holistic approach, so most of our new advisers will come from within."

Technology is the third priority. He wants to streamline it, rather than being subject to too many disparate systems which don't connect or communicate well with each other. "We are looking for a more enterprise solution," says Dhawan.

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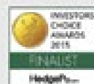

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their financial situation in order, or they can take the decision to engage with us over the long term."

WELL THOUGHT-OUT INVESTMENT

Typically, the planning process would include a focus on investments, risk management and wealth planning.

In terms of fund selection, Dhawan says that there is an in-house research process which involves the use of rolling return data.

"We think this is a better way to measure the long-term performance and ensure consistency," he adds.

Here also, the firm calls on an online financial planning tool, Value Express FE. This is a collaboration of the most respected mutual fund industry information providers in India, Value Research, and FE, a leading UK provider of mutual fund data and analytical tools.

From a risk management perspective, Plan Ahead Wealth Advisors essentially looks at areas such as life coverage, critical illness, disability, house insurance and life insurance.

WELL-PLACED

The firm's attention and commitment to the advisory process is likely to stand it in good stead amid the expected direction of the market amid SEBI's regulatory vision.

There are roughly 2 million people in India – across insurance, banks, IFAs and national distribution firms – who discuss financial services with clients. But only around 40,000 of these are regulated by SEBI.

"We think [rolling return data] is a better way to measure the long-term performance and ensure consistency."

"The regulations say that if someone is offering more than one product type to a client, then they will need to get an investment advisory licence [from SEBI]," explains Dhawan.

For those firms and individuals which, going forward, want to still operate as a non-adviser, then they must call themselves a 'mutual fund distributor' and give no advice.

Yet Dhawan believes that most people will want to evolve to providing advice.

Meanwhile, the regulator is showing that it is not to be messed with. In late November 2016, for example, it banned three entities from acting as investment advisers, after finding them guilty of providing unauthorised services to investors.

FILLING THE GAPS

There is also a pressing need within the advisory landscape in India to address some structural weaknesses, in order to rise to the challenge of providing a suitable and consistent service.

For example, the Indian wealth management industry continues to suffer from a lack of advisory talent.

"There is a clear need for more training and development in the local market, with specialist programmes needed," explains Dhawan.

"We think that this should start at the high net worth level and then move down," he adds.

The availability of products is another issue. For example, REITs have been under discussion for several years but haven't really taken off.

"There is a clear need for more training and development, with specialist programmes needed."

More broadly, beyond funds, there is a need for more diversity and options. For example, many individual investors look at funds as one 'bucket', and once they have too many, Dhawan says they don't want any more. ■

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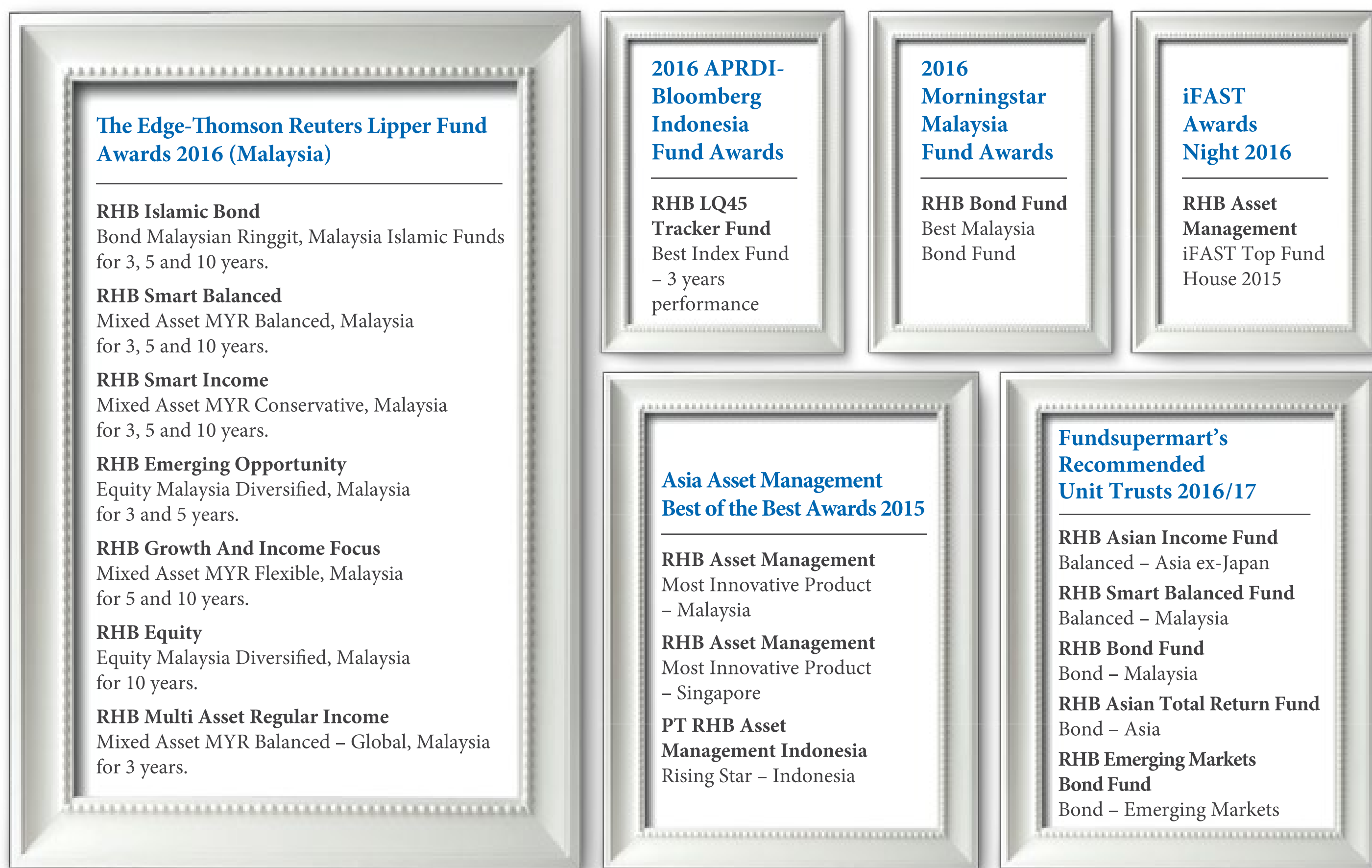

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Emirates NBD drives transformation in wealth advice

Its commitment to the future of wealth management is leading Emirates NBD to pursue an innovation drive that puts digitalisation at the heart of plans to create a compelling offering, with customer experience and usability at the forefront, explains Suvo Sarkar.

Emirates NBD is on a dramatic digitalisation drive that is rooted in a desire to bring a world-class digital banking experience to its customers, and as quickly as it can.

"Digitalisation is one of the bank's biggest priorities over the next few years," says Suvo Sarkar, senior sxecutive vice president and group head retail banking and wealth management at Emirates NBD.

This is evident from its three-year AED500 million (USD136 million) strategy to improve its processes, products and services.

This investment is directly focused on five key areas: end-to-end process transformation; a faster and more responsive customer interface; an omni-channel experience; stronger cyber security and anti-fraud capabilities; and better data management and analytics.

In a sign of this innovative spirit, Emirates NBD has in its sights what it believes will be the UAE's first digital bank targeted at millennials. Another of such initiatives is a recently-unveiled 4,000-plus square-foot branch at Emirates Towers that features the Emirates NBD Future Lab – a futuristic banking space showcasing an array of realistic and (in many cases) already functional digital banking solutions that are nearing roll-out stage to customers.

"Digitalisation is one of the bank's biggest priorities over the next few years."

According to Sarkar, this is not about creating solutions on its own.

Rather, it is an effort to collaborate with existing partners and clients in the private and public sector, as well as to identify fintech innovators, to create pioneering concepts for prototyping.

BOLD DIGITAL PLANS

Developing a stand-alone digital solution for its private banking clients only is a much bigger undertaking for a bank like Emirates NBD than it is for a large global player.

But the UAE-based institution has taken some tangible steps forward in 2016. For example, it has integrated its clients' investment portfolios into its mobile banking app.

Clients can now keep track of their holdings, asset allocation, the underlying instruments, performance and further technical details.

The next phase, says Sarkar, will add transaction capabilities via an order management system to the mobile banking app. From there, the aim is to build in more focused content.

"That's one of the biggest challenges for wealth managers around the globe," he adds.

Private banking clients get multiple publications and research reports in their inbox every day, and most clients won't read even 10% of them."

"So the big question for us is, how do we get the right content to the right client at the right time?" asks Sarkar. To do this effectively, Emirates NBD is looking to build an on-demand knowledge base with topical papers at the client's fingertips. And to provide clients with customised and relevant content.

"So the big question for us is, how do we get the right content to the right client at the right time?"

CHARTING NEW COURSES

Under Sarkar's leadership, the bank has spent most of its efforts over the last two years to enhance its private banking investment advisory platform. "We have built a solutions offering that is competing at international standards. Our investment experts have a deep understanding of local and regional markets paired with a global view. And our customer service proposition has made enormous improvements. So much that they're leading the bank's scoreboard on customer satisfactions metrics."

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Managing expectations

Growth in Emirates NBD's private banking and wealth management unit has been in the double digits on a compounded level ever since it has been set up in 2009. This is both due to an inflow of HNW and UHNW individuals into the country, enabling Sarkar to grow in his home market, as well as growing wealth of its existing clients, he adds. And even after the boom in equities and real estate during the post-crisis years has levelled off, Emirates NBD was able to grow its AUM through new client acquisition and a deeper penetration of the its existing base.

Today, however, making money for its clients remains one of the biggest challenges for Emirates NBD – as it does for most institutions. "Performance levels worldwide have come under pressure; where does yield come from in a low interest rate environment?" says Sarkar. Against the backdrop of his CIO's theme of 'waking up to reality', bankers aren't able to sell their clients 5% or 6% returns anymore; instead 2% or 3% are more common goals.

For 2017, meanwhile, sustainability is the focus. What is a healthy long-term level of valuations in stock markets? What are sustainable business models and investment returns in general? "This will drive the conversations we will have with our clients." Yet many of these individuals saw the heydays in the UAE, so it is a difficult conversation to get them to accept – and be happy with – a more sustainable level of performance in their investments.

One of the reasons for the bank's commitment to wealth management on a broader scale, he re-affirms, is to build economies of scale across its consumer and corporate banking units.

"Our CIO Office and the products and advisory teams [we have] cater not only to the private banking advisory platform but also to our priority banking and select retail banking clients," explains Sarkar.

A further goal for Emirates NBD's private banking division is tapping its network for large ticket deposits to strengthen the bank's liquidity position

"[Estate planning and family governance] are coming more and more into focus, especially as we see the first big inter-generational transfer in the region over the next 10 years. A lot of our private clients are in their 60s, on average."

in an environment where that is scarce at the moment, adds Sarkar.

Other parts of the proposition that he is focused on, is continuing to develop the family governance and estate planning solutions.

"These topics are coming more and more into focus, especially as we see the first big inter-generational wealth transfer in the region over the next 10 years," he explains.

"A lot of our private clients are in their 60s, on average. And the next generation is being prepared to take the helm of family enterprises."

This hasn't been a priority in the region until now simply because there was little need for it.

The majority of wealthy individuals in this timezone are first-generation entrepreneurs. Now, however, this offers a point of differentiation for banks which get it right.

More generally, despite Emirates NBD's digital banking priorities, the institution is very aware that this cannot be an either/or solution.

In line with this, Sarkar believes that success going forward will depend on making customers more empowered.

More specifically, this means reaching them through multiple channels.

This therefore requires banks to be able to offer their customers various options for how they engage with them.

These include, for example, to log-in to a website, or to tap on a mobile device, or to walk into a branch, or even to chat with a banker using voice and video facilities. ■

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Taking wealth management in China to the next level

Our annual event for the wealth management community in China came at an exciting time for the industry – given the increasing scope for offshoring and greater appetite for international diversification.

China has witnessed rapid growth in the onshore wealth management market – both in terms of numbers of HNW and UHNW individuals, plus more sophistication in the form of greater demand for wealth preservation, planning and intergenerational transfer.

Driving this trend towards estate planning is the increasing number of clients entering their mid-50s and early-60s. They are therefore thinking about how to transfer wealth in a tax-efficient manner, plus in a way that helps with the transition to the next generation.

With these developments has come a bit more penetration of managed wealth offerings within the country. This has been on the back of innovation by local wealth mangers in China, which has effectively attracted local wealth.

For the time being, Chinese markets remain the major investment focus and allocation for wealthy Chinese, despite the growing internationalisation of their investment strategy. But various factors that have included RMB depreciation, stock market fluctuations and internationalisation of families are leading to higher offshore allocations in the hunt for diversification.

In line with all these trends, the product and service aspects of China's wealth management market need to evolve in several key ways. For example, the offering has historically been delivered via a 'push' model – meaning selling attractive products with higher investment returns to appeal to customers.

To tap these opportunities, the customer experience needs to improve. This requires more high-touch advisory services, to ensure relationships.

There is also significant scope to increase the penetration of private banking services; at the moment, around 80% to 85% of the domestic HNW population are currently still using their retail bank. Digital and social media tools are another important goal.

This all presents a tangible way to build a longer-lasting business – assuming the industry can address the inevitable challenge of creating and sustaining the resources and talent required to offer a professional and efficient service. ■

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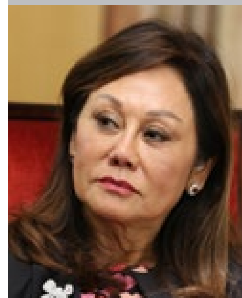
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Evolving the wealth management offering in Taiwan

While wealth continues to accumulate in Taiwan, and investors certainly haven't lost their appetite, institutions and advisers need to further develop their existing relationships as well as build credible platforms and service offerings to make them relevant.

One of the key opportunities for firms advising wealthy individuals in Taiwan lies in how both business and personal assets will transfer from the first generation of entrepreneurs to the next generation, and the structures which will be used.

A longer term, bigger goal for many wealth and asset management firms, is to tap into the retirement needs of an ageing population.

This is being spurred by far-reaching pension reforms underway right now in the country, creating opportunities for investors to choose their own option in the near future.

As part of delivering the right propositions, organisations are looking at how they can leverage and harness digital tools to deliver a more relevant and cost-effective service. This is key, given how competitive the landscape is, driven by value-conscious clients.

This will also enable them to achieve certain, key goals to grow their businesses in a scalable way. These include:

- Products and service should be differentiated among different customers segments
- Customers – ranging from individuals to families to businesses – need financial solutions, not merely be sold products
- Greater awareness of, and importance placed on, asset allocation and asset class allocation
- Distribution through omni-channels, including a mix of physical branches and virtual platforms

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Among the challenges for the development of the industry is the fall-out of the recent government mandate to banks to settle disputes with disgruntle clients; this is setting a bad precedent for the industry. Combined with other, increasingly-stringent regulatory requirements, the cost of doing business is increasing.

As a result, getting good compliance control and performing true KYC to understand clients' needs, are key to future success in wealth management.

Further, there is need to broaden distribution channels for financial products beyond just the banks. This has developed as a result of the lack of an advisory-based financial advisory culture in Taiwan. ■

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How to develop wealth management in the Middle East

Wealth management in the Middle East has much potential to mature, if the industry can achieve key goals such as fostering more dialogue with the regulator, finding and keeping competent people, implementing robust risk controls and selling solutions not products.

The Middle East and Africa saw relatively low growth in wealth in 2015, at 3% versus 4% in 2014, according to The Boston Consulting Group's 2016 global wealth report.

This was partly due to low commodity prices and political instability, leading to lower equity and bond markets.

The latest figures from Capgemini Financial Services Analysis, meanwhile, pinpointed a HNW population of 610,000, on the back of a meagre 0.1% in 2015.

At the same time, the total amount of known wealth in the region rose by 0.9% to USD2.3 trillion.

Yet there is optimism, at least according to several heads of retail and private banking as well as senior executives in the Middle East wealth management community, at a roundtable hosted by Hubbis in Dubai.

Fundamentally, some participants said they believe there is increasing scope for the wealth management industry in the Middle East to thrive given the expected onshoring of wealth in the coming years.

To be in a position to take advantage of this, roundtable participants highlighted some of their key priorities and initiatives – both for themselves and the wider industry –which they said are essential to move the sector forward.

"A fair and transparent working environment will create more cohesion, to contribute to staff staying put."

With the advent of various global transparency initiatives, especially the Common Reporting Standard (CRS) – many clients who are aware there is nowhere to hide assets are likely to also realise that keeping money close to home has a lot of appeal.

While this trend is just emerging, it should pick up pace, said participants.

1. DRIVING MORE INDUSTRY DIALOGUE AND COLLABORATION

The industry needs to build on the recent initiative, in late 2016, to create the first wealth management working group within the UAE Banks Federation (UBF).

This positive step fills an important gap that also further highlights the rela-

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tively embryonic nature of the industry in the region.

Retail and corporate banking, compliance, operations, for example, were among the various other key segments of the industry already represented within the UBF.

The aim now for senior management at the banks, is to drive more dialogue and engagement with the regulator.

This will ensure the various wealth management players can play a much closer and more active role in shaping regulations – rather than them being imposed on the industry.

2. FINDING AND RETAINING THE RIGHT TALENT

Hiring and then keeping good people continues to be a struggle for most – if not all – wealth management firms in the Middles East.

The challenge for the industry is the fact that too many bankers move firms too frequently.

Not only does this add unnecessary costs, but damages consistency in offerings and client engagement.

Retaining talent, therefore, requires a lot more time and attention from senior management to ensure more stability for the business.

Specific initiatives are needed to give bankers more incentive to be more loyal.

These might include, for example, creating a more social environment, rewarding the best performers and paying more attention to the need to performance manage the rest, giving bankers flexibility to collaborate with each other when it comes to meeting revenue targets and servicing clients.

More broadly, ensuring a fair and transparent working environment will create more cohesion, to contribute to a greater likelihood that staff will stay put.

3. A FOCUS ON SELLING SOLUTIONS, NOT PRODUCTS

There continues to be an excessive focus on selling individual products and being focused on transactions.

Instead, advisers should focus on selling investment solutions.

The problem, for example in Dubai, is compounded by the lack of regulatory controls over who can do the selling.

This results in funds being sold to a wide variety of end-clients, often regardless of their levels of wealth, investment experience or current portfolio exposure.

On one hand, this is to be expected; Dubai's wealth management industry is still relatively young – as is the Emirates Securities and Commodities Authority (SCA), the relevant regulator, at only around 15 years old.

However, doing the wrong thing for clients has far-reaching reputational issues – not just for an individual institution, but it can tar the industry with the same brush.

Growing a wealth management business in this type of compliant and sustainable manner, therefore, is key.

4. DEVELOPING AND DEEPENING SHARIAH OFFERINGS

There is a pressing need within the Middle East wealth management sector to develop the Shariah offering.

For the time being, the range of Shariah-compliant products and solutions remains limited, especially in the funds space.

Further, those funds which do exist are relatively small, for example, at around USD100 million.

As a result, expanding what's available and adding more depth to the market is important in developing the Shariah platforms of the relevant financial institutions in this space.

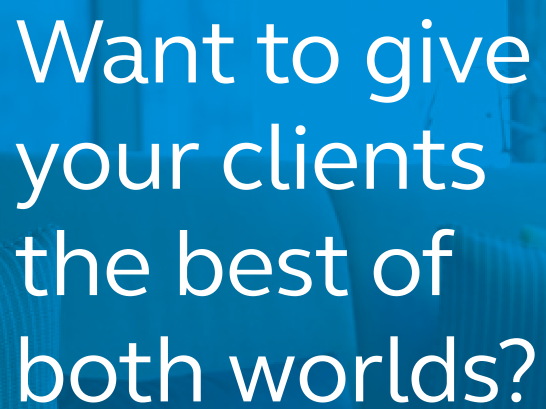
The need for more qualified individuals with investment experience in the Shariah world is a key component of achieving this goal too.

5. DEALING WITH REGULATORY ARBITRAGE

Driving more transparency across different jurisdictions, where possible, especially in terms of pricing, is an important way for the wealth management industry to try to eradicate mis-selling.

However, senior executive noted the challenges in achieving this, given the nature of regulatory competition which exists.

And this isn't confined to the Middle East; Singapore, London and Switzerland, for example, all want to develop what they consider to be a conducive environment for their own banks to operate and compete. ■



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How to increase fund penetration in the Middle East

Fund penetration in the Middle East can only increase with greater understanding among clients about the value of diversification, as well as efforts to package funds into outcome-focused investments and overall portfolio solutions.

Increasing the penetration of mutual funds among investors in the Middle East is crucial amid efforts to build more sustainable portfolios in a region in need of diversity.

This is only likely to come about via more investor trust and education, combined with the ability to structure the offering in a way that creates a clear and consistent outcome for a client.

These are key elements which many product gatekeepers and fund selectors in the region – both from local and international retail and private banks – said at a roundtable in Dubai that they believe are key to delivering the right offering.

This is also the right thing to do for clients, which means it becomes good business for the bank in the long-term. At the same time, this will enable the banks to develop recurring revenue via stickier flows of business.

CHANGING MIND-SETS

For banks to be able to achieve this, and therefore deliver something relevant, practitioners need to better understand the motivations and needs of their clients, and then educate them about the opportunity to deliver more funds-led, outcome-based or packed solutions. Getting clients focus on the benefits of funds is also a vital element to address any negative perceptions about funds that have developed in this timezone.

"Increasing the penetration of mutual funds among investors in the Middle East is only likely to come about via more investor trust and education, combined with the ability to structure the offering in a way that creates a clear and consistent outcome for a client."

This is not uncommon, given that a number of clients invested in a fund at the wrong time. They might, for example, have bought a tech fund in the late 1990s, or a real estate fund in 2007. A broader stumbling block has been the general mind-set towards investing. Most clients are not oriented

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towards alternative investments; instead, they tend to ask only for a simple income-oriented portfolio, or one that may demonstrate a local bias towards bonds.

It is crucial, therefore, for wealth managers to have asset allocation-based discussions with clients. This can involve funds directed towards achieving a specific goal – and even if the income target is lower than for a single bond, it is likely to be more realistic and reliable.

Helping the situation is the fact, say product gatekeepers across the industry, relationship managers (RMs) and investment advisers are pushing for more managed solutions using funds.

They are aware that this means there isn't the same requirement for them to be monitoring portfolios so intently on a daily basis.

A STEP TOWARDS SOLUTIONS

But the way forward, suggest fund selectors, lies in creating a different way to package and sell the funds – more as solutions.

Although not easy, this is possible. Shifting clients away from a one-fund solution to what might be considered a 'model portfolio' offering, is one avenue to explore.

This requires both the selection of relevant funds coupled with a specific advisory process to dictate how RMs can interact with clients, given individual risk profiles.

This is important as a balance is needed. The more funds put into a model portfolio, for example, the more complicated it gets for an RM to explain that to a client. Plus, it is more hassle for an RM to actually subscribe the client to it.

There can be further complications. For the client, while a model portfolio comprising perhaps up to 10 or so funds should meet the goal of being uncorrelated, there are also administrative costs.

RMs, meanwhile, must sign a time-consuming subscription form for the client for each of the funds in the model portfolio. So, if a client has put a weighting of say 7.5% in one fund and 15% in another, the RM has to tally up to the monetary value, which gets quite cumbersome.

One of the reasons for this is the bureaucratic arrangement for paying registration fees for funds. Every time a bank onboards a fund, it has to get approval from the regulator and pay them.

But this is about to change, with the onus in future being on the asset manager to pay the registration fees.

Some people believe this will encourage the growth of easily-available funds from the current universe of around 50 to something like 550, or more.

This is a significant increase from the 50 to 100 or so mutual funds that most local banks might currently have on their own platforms at the moment.

MAKING SELECTIONS

As the universe grows, however, the problem might become selecting from the large number of funds for the portfolio solution, to tailor it to each client. Past performance can serve as a guide to some extent, but this means little going forward.

Warming up to discretionary

On the portfolio side, while discretionary portfolio management (DPM) as a concept is yet to catch on in any meaningful way in the Middle East, such ideas are gaining in popularity.

Practically, product gatekeepers welcome this. It means they can avoid the need with model portfolios to register multiple funds on their platform and then get clients to subscribe and register into each fund, and then seek client permission for any desired changes.

Discretionary mandates are more flexible to manoeuvre around the funds within the content and guidelines of a mandate.

But whether institutions can tweak their propositions sufficiently to give engage clients in portfolio set-up discussions, and create enough flexibility and tailoring to make the DPM possible is still an unknown.

For instance, allowing clients to meet the portfolio managers can be an important as part of the selling proposition.

This, in turn, requires there to be the expertise on the ground to support such an offering.

There are some independent reference options out there. Morningstar's analyst ratings, for example, come from one-on-one meetings with the fund managers to determine the opinion. ■

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Driving diversity

Tomasz Bortnik of Citi explains how the bank aims to leverage its product breadth for a relatively transient population in the Middle East, in a bid to help clients add more diversity to their portfolios.

Citi is well-placed – with strong commitment – to bring much-needed diversification to the investment portfolios of wealthy individuals across the UAE.

"Whilst some clients do aspire to achieve returns above benchmarks, using more sophisticated tools and products, the motivation of a large number of our clients for their money is primarily preservation," says Tomasz Bortnik, head of wealth management product for Citi in the UAE and MENA region.

"Whilst some clients do aspire to achieve returns above benchmarks, using more sophisticated tools and products, the motivation of a large number of our clients for their money is primarily preservation."

The bank has a vast range of products to offer to help them achieve both these objectives. In turn enabling them to achieve diversification in terms of both asset class and geography.

More specifically, Bortnik can point to a suite of products that ranges from more traditional cash and related offerings on the one hand, to more sophisticated advisory services at the other end of the spectrum. "Investing can be done via mutual funds, bonds, structured products, equities and ETFs," he says. "We also have a whole array of insurance products for protection and savings." FX is another important component of the Citi product offering.

TOMASZ BORTNIK
Citi

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In the UAE, wrapper funds are also popular, given the focus among investors on putting their money in trust-type structures.

SUPPORT FOR EXPATS

The Citi wealth management proposition is driven by qualified wealth managers that operate out of centralised hubs and provide a true relationship and advisory service to its clients at a place of their choice.

"This, coupled with our digital and mobile platform, enables us to service our clients well without the needs for an extensive branch network," explains Bortnik.

"To that extent we don't look to compete head-on with the big local banks, which have many branches throughout the country."

Instead, Citi's real potential lies in the very transient population in the UAE.

"Some 85% of the people living in Dubai are not from here and that is reflected in our customer base," he adds.

The Citi brand certainly resonates with this target market of close to 10 million individuals.

"People look for banks they are familiar with when they are in a new country," explains Bortnik.

Further, many expats will also have an account with Citibank in their home country.

OVERSEAS EXPERTISE

The global dimension is also crucial for Citi's offering in the UAE. "We have a quality advisory proposition in the mass affluent segment and the semi-private banking business on the consumer side," says Bortnik.

"A true relationship and advisory service to clients at a place of their choice, coupled with our digital and mobile platform, enables us to service our clients well without the needs for an extensive branch network."

Referrals come in from countries around the world – such as the UK or Singapore, for instance.

"We also offer certain features that are global in nature," he explains. "And some of our key competitors are the foreign banks."

For example, new customers in the UAE who already have an account in other locations and can easily open a local Citi account and transfer money back and forth.

STAYING RELEVANT

Yet a captive audience is a very different proposition from being able to keep that set of customers. And this is especially the case in such difficult market conditions.

As a result, generally low interest rates and some further tumult in markets mean that the product offering must evolve.

"Every year and every economic cycle bring [with them] some new trends," observes Bortnik.

One of the more recent trends he has been seeing is the popularity of multi-asset income funds.

The answer lies in diversification, so the most popular income funds are multi-asset ones which offer diversification in many ways – both by asset class as well as geography.

The reason is simple, he explains.

"These tend to be global multi-asset income funds, which means investors are diversified from every possible dimension – starting from credit risk all the way through geography, as well as asset class and industry, and they sometimes have an income stream attached."

"So ultimately these funds have become the most popular recently because they serve many purposes," he adds.

Delivering what customers need is critical for the bank, and they always remain at the top of the list for Bortnik.

"I think growing the client base is probably the most important priority for us," he adds.

"That is why making sure the clients are happy and achieving positive reviews is an overarching goal." ■

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Making digital more meaningful

Our annual digital wealth event in Hong Kong was held against the backdrop of financial institutions of all types re-assessing their strategies and engagement of all kinds of technology going forward.

Amid all the hype and talk among banks and wealth managers about them looking to enhance their digital propositions and offer clients more via these channels, they need to act if they want to address the real challenges they still face.

These include, among many: compliance obligations, spiraling costs, declining revenue, the need for a compelling client experience, dealing with the data challenge, and essentially being relevant to clients – both the current and next generation alike.

But while the demand for digital is growing among Asian investors, many traditional players are struggling to respond. Traditional firms have been slower to react to changing customer expectations – such as all interactions being more personalised to their needs – with the fast pace of technological development heightening the sense that such firms are lagging.

For those institutions in search of innovation and digitisation for their wealth management business, they need to carefully consider how they work ever-closer with (the right) fintechs as the former rely on the latter for something interesting and new to offer to clients to service their wealth management needs.

Artificial intelligence is having an impact on how the industry is looking at investment opportunities and processes; and this is expected to increase further.

Some fintechs are also finding their niche with viable business models. In turn, this is encouraging traditional firms to move more quickly and to build their own capabilities – whether on their own or in collaboration with fintechs. They need to decide whether to build or buy the technology and expertise required, and how they can fund their digital expansion. They also face the challenge to ensure all of their technology seamlessly integrates end-to-end.

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Yet disruption in any dramatic way looks unlikely. So management need to focus on how to evolve and enhance their businesses in order to thrive in today's intensely-challenging environment.

Key to success, it seems, is buy-in across management; with line managers and unit heads crucial for any roll-out. ■

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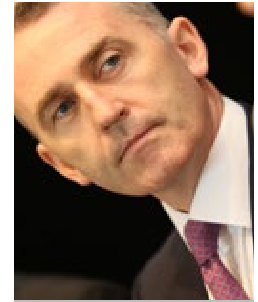
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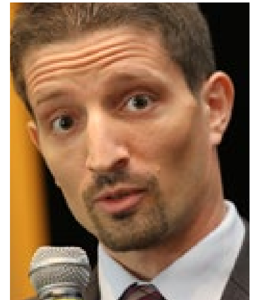
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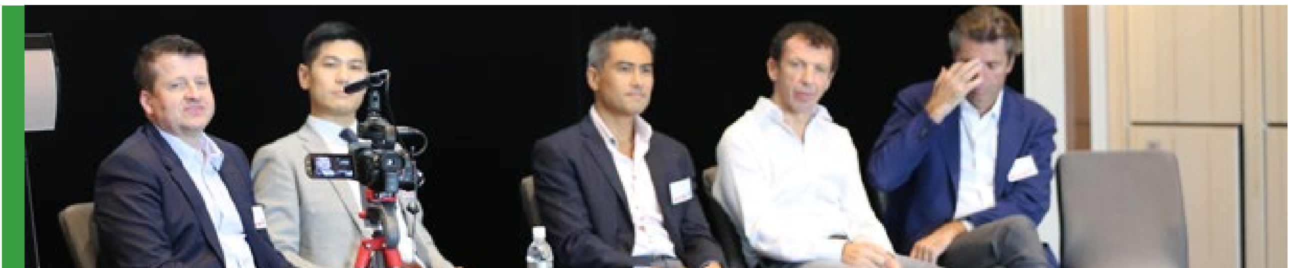

Robo wars

A Singapore advisory start-up is set to tackle the establishment with an innovative new twist to managing money.

As alternative avenues for investment continue to manifest themselves with amazing regularity, it would seem that the role of the robo-advisor in today's market may well be the 'one size fits all' option that could take the investment world by storm.

While a relatively-new concept in Asia, this online business model does have traction in other markets and has been growing as it acclimatises, especially in the US. Technically speaking, the robo-advisor provides users with a customised globally-diversified investment portfolio of ETFs based on goals initially stipulated.

The online investments platform is easy to access and risks are minimised through a monitoring system that governs the allotment of investments, according to the system proponents. Although not yet a crowded house, the space is becoming more popular in Asia as education on its ethos and a relatively low level of financial entry makes it popular with a wider investment community.

"Smartly has developed the investment platform with a parallel gamified educational platform to teach clients the basics of investing using a series of animated videos."

KEIR VESKIVALI
Smartly

Moving into this space is a Singapore start-up aptly name 'Smartly', clearly aimed at the smart investor.

FILLING A GAP

With the promise of making investing easy, affordable and accessible to the greatest possible number of participants, Smartly's co-founders, Keir Veskiväli and Artur Luhaäär decided to move from their native Estonia to Singapore to launch their start-up, with the aim of carving a niche through targeting the millennial sector in this new financial dawn.

This leaves the average investor with little investment opportunities that meet their investment needs, according to Veskiväli.

To fill the gap, Smartly has developed the investment platform with a parallel gamified educational platform to teach clients the basics of investing using a series of animated videos. The series will "complement our investment platform by simplifying, as well as giving clarity and confidence to our users," adds Veskiväli.

"We're tech savvy and want to be in control of our future, so millennials are really the segment where we believe we can most easily tap into with our product."

Smartly is currently supported by a team of eight people geared to building an automated platform for clients with minimum financial knowledge, while providing full transparency.

Average users should be able to invest globally, with relatively small amounts and minimised fees, Veskiväli says.

"Most people have always viewed investing as something complex and risky.

There is limited transparency in the majority of investment products, coupled with high management fees charged by asset managers," he explains. But bringing investing to the masses also requires financial education, with financial literacy being currently weak among the populous.

With that in mind, he aims to turn to his chosen gene pool of potential clients, the 18 to 35-year old age group known as millennials.

"The Singapore investment market has been booming, however, the millennials, who are the bedrock of our future, are not investing," says Veskiväli. "Why are we targeting the millennials? We are a product built by millennials for millennials. If we look at the millennial generation from a broad perspective then millennials were the first generation to born into the rise of technology and internet hence bringing the change across many industries."

"Millenials use all services a lot more differently; we question the banks' motives; we're tech savvy and want to be in control of our future, so millennials are really the segment where we believe we can most easily tap into with our product, and then again, millennials are the gateway to Generation X. This can be seen from adoption patterns of any new technology in the world."

A NEW APPROACH

Smartly adopts a different approach to online investment, aligned with its choice of target investor.

It encourages clients to plan a goal for their eventual investment return, be it a property acquisition, luxury goods, a stepping stone to other investments or even retirement.

In the first instance, the system will assess the risk factors and allot the best portfolio for investment. From there, clients are able to create more investments or even cancel their current options.

Another massive difference in Smartly's favour is that clients can join the game for as low as USD50, and have the freedom to withdraw profit at any time.

Average users should be able to invest globally, with no financial barriers and with minimised fees, says Veskiväli.

"We recommend only portfolios consisting of globally diversified ETFs, whereas the educational platform itself is totally separate. If you don't want to learn but just invest, go ahead. If you don't feel comfortable then you can learn and understand the system and then start investing with virtually any amount of money."

The rise of ETFs has coincided with millennials becoming investors.

"Millennials are more amped up about ETFs than any other generation," according to Heather Fischer, Charles Schwab's vice president of ETF platform management.

"Investors now allocate 22.5% of their total portfolios to the ETFs, compared with 16% in 2012. Among millennials, the average ETF allocation is 35.8%."

She based her assertion on data from Schwab's 2016 ETF Investor Survey, which shows that Schwab is the fifth-largest ETF provider in the US, with USD52 billion in ETF assets, according to ETF.com, and has been involved in an intense fee war in recent years with other big ETF companies, including BlackRock's iShares (USD929 billion), State Street Global Advisors (USD461 billion) and index fund giant Vanguard Group (USD579 billion).

Individual investor adoption of ETFs continues to steadily rise among millennials, Generation X and baby boomers, according to the Schwab survey, which polled more than 1,000 investors between the ages of 25 and 75 with at least USD25,000 in investable assets. But the biggest move to ETFs has been among millennials.

Investors now allocate 22.5% of their total portfolios to the ETFs, compared with 16% in 2012. Among millennials, the average ETF allocation is 35.8%.

Not that Veskiväli sees his start-up rivaling these players in the near future.

But he is happy to see growth and the potential in the market.

"We really are about creating value, which is our only goal. We want people to start asking the right questions from their advisors or from their bank or whatever the firm, so we have combined these two models to demonstrate what we truly believe.

"70% of active fund managers fail to outperform their benchmark after fees are collected. Smartly only charges 0.5% to 1% per year and that is all the customer pays."

"In fact, 70% of active fund managers fail to outperform their benchmark after fees are collected. Smartly only charges 0.5% to 1% per year and that is all the customer pays, as opposed to existing products charging hidden sales charges and annual management fees that can add up to 4% to 5% a year."

Life as a start-up is never easy, but building a fintech start-up that involves angel- and venture capital investors, clients and their cash is much harder, in addition to the regulatory framework, as Veskiväli recognises.

Smartly is in a heavily-regulated environment, which a challenge in any sphere, however Veskiväli takes the highs and lows, maintaining that regulations are there for a reason and that they should be respected but nevertheless questioned.

In order to tackle the regulatory hurdle, Smartly has partnered with VCG Partners, a regional fund manager in Singapore.

"Leveraging on VCG Partners' decades-long experience in the field allows us to show our customers, investors, as well as the regulator that we're a team that sets high standards to quality and trust" says Veskiväli. ■

Bringing a sparkle to portfolios

The launch of the Singapore Diamond Investment Exchange (SDiX) has unlocked this inaccessible economy, bringing a new, alternative asset class to individuals looking to diversify their portfolios.

Diamonds have traditionally been seen as providing a great stock value, but their relative opacity in terms of price discovery has been among the reasons making them difficult for HNW individuals to access as a tool to diversify portfolios.

SDiX is changing this with the world's first commodity exchange in physically-settled diamonds.

The aim of this six-month old platform is to offer investors access to a new, unique asset class with ease in a regulated framework with transparent price discovery.

"We have developed a scalable ecosystem of approved suppliers, broker members, physical vaults, book depository, grading labs and settlement banks that enables us to provide investors with an environment where they can trade with confidence in physically settled diamonds, at a market price driven by real time transactional data," says Linus Koh, chief executive officer of SDiX.

CREDIBILITY

Prior to entering the Malca Amit-operated vaults in which all diamonds listed on the SDiX platform are stored, they are independently verified by the Gemological Institute of America (GIA) and The De Beers Group's International Institute of Diamond Grading and Research (IIDGR).

"This ensures that the integrity of the Exchange and the diamonds listed on the platform is preserved," says Koh. In addition, the vaults themselves are insured.

SDiX offers full price transparency for stones traded on its platform.

Once a stone or fungible basket of stones is sold, an electronic book depositary consigns each to its new owner.

LINUS KOH
SDiX

Stones can either remain securely held in the vaults for future trading or withdrawn for consumption. Once removed from its vault however a stone cannot

relist on the platform until it once again goes through the verification process. “All of this engenders trust,” says Koh.

“We are allowing individual investors to access a previously closed ‘club’ without them needing to be a member of that club,” he adds.

GAINING INTEREST

Over the last 12 to 18 months, investors in gold have been increasingly turning their attention to the potential for better returns from diamonds, and the appeal of their low to negative correlation with other asset classes.

“If you put diamonds in a portfolio it reduces the risk for every return profile, and for every risk profile it delivers a bigger return,” explains Koh.

The stones in the SDiX sweet-spot are those which can be used within the context of a liquid marketplace – for example, trading between USD5,000 and USD25,000 to USD30,000.

“Another advantage of diamonds,” adds Koh, “is that where it might require a large space to store USD1 million worth of gold, a few small diamonds might be valued at the same amount.”

As an efficient physical object or store of value on its own, he adds that diamonds can therefore be considered as more efficient, as reflected in custody cost.

TRANSPARENCY

Of the approximate USD25 billion of diamonds that are manufactured every

“If you put diamonds in a portfolio it reduces the risk for every return profile, and for every risk profile it delivers a bigger return.”

year, possibly only 3% is bought and sold for investment purposes. This compares with 40% out of the USD100 billion equivalent figure for gold.

Furthermore, the same USD25 billion worth of diamonds are valued at USD85 billion by the time they reach retail investors, based simply on the mark-up.

A key part of the SDiX value proposition, therefore, is to offer a platform for investors to access diamonds at wholesale prices without any mark-ups.

At the moment, wholesale prices are inaccessible for most investors; they have to trust that their jeweler or the person selling the stone is giving them the best price.

AML and KYC are also critical to the SDiX proposition.

“We want the regulatory oversight to ensure the trust in the system,” explains Koh.

“We are essentially B2B2C, with the B2B being the exchange aspect and the C only able to get access via a broker or other intermediary, which has to be licensed.”

Most HNW individuals look for the best-quality stones and to ensure the fungibility of the stones traded on the Exchange, SDiX lists only those defined as investment grade.

These are those in the top-five categories of the 4 C’s: colour, clarity, cut and carat. Brightly-coloured and larger stones are more suited to an auction-type environment, the introduction of which is being considered for the Exchange, Koh adds.

DRIVING AN EVOLUTION

In order to continue building liquidity on the platform, SDiX continues to onboard intermediaries such as private banks and direct participants, which in turn will facilitate relationships with potential HNW and UHNW clients.

SDiX currently has brokers in London, Singapore, Hong Kong and Dubai, and hopes next to capture brokers in the US.

Going forward, private banks will also be able to participate in this market via a dedicated diamond fund, based either on physical diamonds or warehouse receipts.

This is in the pipeline, as SDiX is first concentrating on the development of a vibrant spot-trading market to establish the reference price benchmark for diamonds on which a fund could be based. ■

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