HOW TO PROSPER

in the new world of

ASIAN WEALTH MANAGEMENT

A best practice guide

Andrew Crooke

"Understanding the backdrop of wealth management in Asia is critical to understanding how the industry can move forward from here. This book helps experienced practitioners and aspiring advisers alike to do that."

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Singapore Exchange Limited

"The Asian wealth management industry is likely to enter a period of significant change as a result of the global financial crisis. Widely expected to grow substantially, anyone involved in the business would do well to consider the best practice perspectives described in this book that include a unique approach with illustrative case study examples."

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"It's clear that the wealth management market in Asia will play an increasingly important part of any global firm's franchise. But it's proven to be challenging to engage clients in a profitable and sustainable way. This book provides helpful guidance into potential ways to improve the business."

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Merrill Lynch Global Wealth Management

"This book provides timely and useful insight into how Asia's wealth management industry can and should be reshaped to create sustainable value for Asia-based wealthy individuals and families."

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"This book is a good assessment of where the private banking industry is right now, and the crossroads it now finds itself at in deciding the course of action. It provides some good ideas of what challenges are faced and what needs to be considered moving forward."

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– Gary Tiernan, Global Head, Investment Advisory & Fiduciary,
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"The various checklists and suggestions in this book provide important reference material for tackling the many challenges that Asia's wealth management industry faces today."

– Andrew Fung, Head of Treasury & Investment,
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"Anybody interested in a long-term career in wealth management in Asia will learn important lessons from this book."

– Eric Aubin, Deputy Chief Executive Officer - Hong Kong & North Asia,
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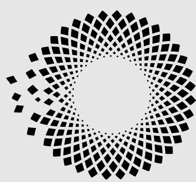

In Asia's rapidly changing wealth management landscape, Hubbis is shaping the future of the industry by providing financial professionals with tools that enable them to offer suitable and trusted advice to clients.

Hubbis has identified the need for targeted, independent, strategic and up-to-date online training; a low-cost, pro-active solution that focuses on soft skills, investment and product knowledge, and the relationship between adviser and client.

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This will ultimately make a positive contribution to the wealth management industry in Asia by helping advisers do their job better and by enhancing the ability of end-investors to make more informed and better-guided investment decisions to ensure their financial health over the long term.

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I am also indebted to those market players, colleagues and family members who provided guidance and constructive criticism during the book's final preparation.

Let me take this opportunity to acknowledge Michael Stanhope for his support, as well as for sharing in the planning, research and editing processes.

Finally, I'd like to thank you, the reader, for taking the time to read the content in this book. Continued open dialogue and debate over the way forward for Asia's wealth management industry is needed to ensure it can develop in a sustainable way that benefits all participants and clients alike.

The context

What is covered in this book, and how to use it

This book is for anybody with a stake in the future prosperity of Asia's wealth management industry who wants to help create a sustainable business that works for both clients and advisers.

It is written for all interested parties – from senior executives of private and retail banks through to relationship managers and other customer-facing staff at those institutions, and from regulators and industry gatekeepers through to the end-clients themselves. The book offers different insights and benefits for each individual, but shares a common goal which all readers should take away: a best practice guide for those responsible for shaping and driving the future of Asian wealth management.

It does this by helping readers understand and put in context how and why the industry developed the way it did, the strategic opportunities and challenges it now faces, and its potential business and revenue models for the future.

To achieve that, the book's main objectives – in terms of what it provides readers – are seven-fold, reflecting the main issues which the industry has been trying to come to grips with:

1. To reveal the approaches that wealth providers and individual advisers in Asia have previously taken to building and managing relationships with clients, and show what lessons can be learned;

2. To analyse how the financial crisis has impacted customers and their requirements, and in turn the implications for the industry's business and advisory models;

3. To understand some of the main regulatory reforms underway post-crisis, and consider how these might drive the direction of the industry in the future;

4. To assess the most appropriate best practice, customer suitability and other systems-related measures required today;

5. To assist industry practitioners in understanding how to rebuild client trust and cater to changing expectations;

6. To pinpoint areas where (and how) training and education of relationship managers need to be improved; and

7. To identify the components of a more sustainable business model, aligned with what clients really want.

To fulfill these objectives while ensuring this book reflects up-to-date industry thinking and the reality of the current market, the research process included lengthy and detailed interviews with 150-plus sources between late-January and mid-April 2009. These individuals comprised chief executives and other senior management at private and consumer banks, senior and junior relationship managers at these institutions, independent wealth advisers, Asian and non-Asian private clients, consultants, academics, regulators and other industry insiders. Two-thirds of the discussions were held face-to-face in Hong Kong, Singapore and Australia, with the remainder via telephone.

All sources spoke openly and frankly on the promise of anonymity, providing readers with unique access to some of the best minds in this space.

How the information is presented

The content is written as a consultative-style summary of the main issues. This is to improve readability as well as create a logical, simple-to-follow progression of the subject matter.

In the process, the book adopts a prescriptive approach. Relationship managers in particular will benefit from the insights revealed into how to regain client confidence by understanding changing requirements and learning the critical steps in the sales cycle. By then setting out the processes advisers must follow and what they should avoid doing, this book provides the framework for them to develop their career in the Asian wealth management space to become much-sought after trusted advisers.

Where relevant, key topics and suggestions are broken down into what are intended to be user-friendly reference lists, charts and other graphics for

management and advisers. These are included to convey specific ideas more concisely as well as enable readers to digest and modify the information on an ongoing basis by applying their own thinking, experience and firm culture.

For convenience and practical use, the main checklists and other useful points of note are duplicated in the Appendix on page 153. The aim is so readers can skim the Appendix to get a flavour of what the book contains, and also have an easy way to recap key areas by turning to it at any point during or after reading. The Appendix further enables readers to identify particular topics of interest to them and then be directed to the applicable chapter.

At the start of each chapter, a snapshot of its highlights serves as a sneak preview to help guide readers to the most relevant and interesting sections for them.

In addition, several case studies pinpoint specific themes and document emerging trends in some of the key areas. This is mainly through question-and-answer-style interviews and working examples of various theories.

One of the most revealing case studies is on page 29. It discloses the findings from a mystery shopping exercise conducted at a wide selection of the best-known and most established wealth managers. The purpose was to be able to provide detailed insight into the practices and processes that a representative sample of relationship managers applies around acquiring new clients. In short, the results are disappointing. Among the key conclusions was that the way in which most of the relationship managers in the research approach and follow up potential new accounts fails in many cases to deliver on what management promises.

Putting this book in perspective

It is important to emphasise at the outset that this book was researched and written during what many practitioners agree has been the most challenging and uncertain time in the history of Asia's wealth management industry. Never before have the banks and their frontline staff – together with regulators and clients – all been so apprehensive, as they strive to redefine the parameters of the market in this new environment, and the way they will operate within it going forward.

To further put the research in perspective and set the boundaries of the book, several points are worth clarifying.

First, the focus is exclusively the business of wealth management in Asia; it is not intended to cover investment trends or strategies.

Secondly, this book looks at the practical, big-picture issues facing the industry, rather than specific opportunities in local markets. It is intended to provide informative insights and analysis for all market players and financial professionals (as well as interested clients) to reflect on in relation to the key trends, opportunities and challenges in wealth management in Asia. While it is expected that senior management will be considering and discussing a lot of these matters already, the content will hopefully serve as useful reference material by helping to reaffirm and frame these issues.

Thirdly, the segments of the industry to which this book mainly refers and are most relevant are: the high-end of affluent retail customers at consumer banks; and high net worth individuals at private banks in the low- to mid-tier millionaire categories (roughly between US$1 million and US$10 million).

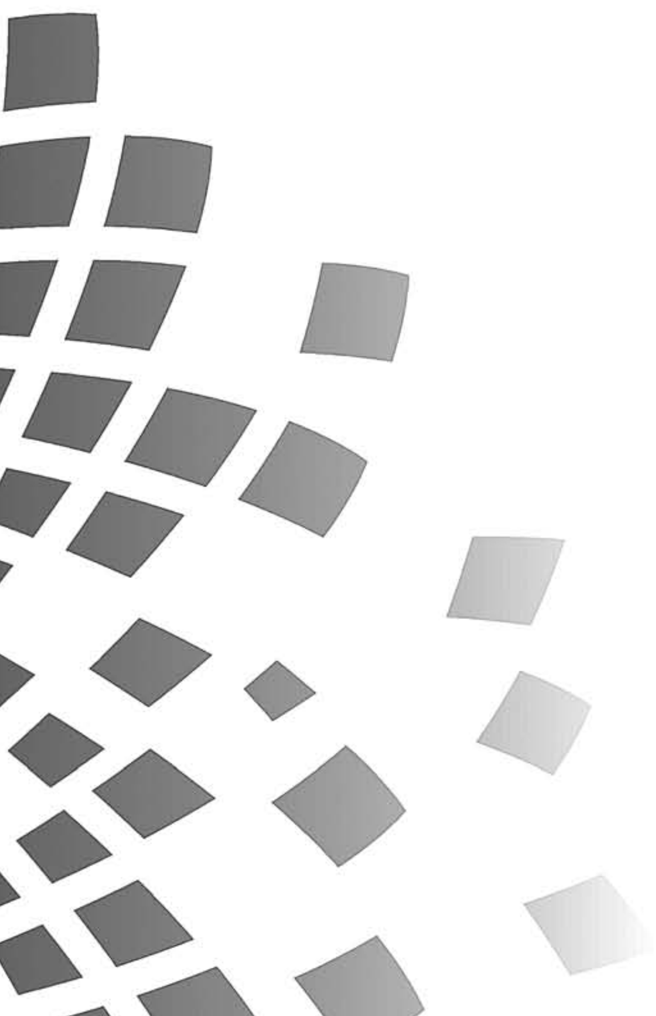
Fourthly, the majority of the research was conducted in the financial hubs of Hong Kong and Singapore, as well as in Australia, given that these markets have led the development of wealth management in the region, and that they are likely to be the drivers of change.

Fifthly, different parts of the book are more relevant to certain sectors of the market than others, and vice versa. There is great diversity in Asia in the levels of country-specific economic development, political stability, regulatory enforcement and financial literacy; in turn, different firms clearly have different strategies and goals for their wealth management businesses. At the same time, the views and ideas reflect the most common and frequently cited trends and issues affecting market players mainly with a regional strategy or outlook for their business, and should be read in that context.

Sixthly, the various suggestions for a reshaped wealth management model are intended to serve as the starting point for the industry to address the strategic challenges it faces, for example in terms of different compensation and fee structures. The book doesn't provide detailed templates for banks to follow since these must be tailored to suit the culture of each firm and its management.

Finally, and perhaps most importantly, readers should not view this book as being excessively critical, or as apportioning blame, or being in anyway

negative about Asian wealth management, either as an entire industry or individual cases. Instead, it is an evaluation of what there is to learn from its background and the way it developed, to be able to understand the reality of the situation today, through highlighting those issues and concerns – as well as potential opportunities – articulated by the many highly-experienced and senior practitioners and other commentators interviewed.



Introduction

Rebuilding trust and creating a business that works for clients and advisers

In this chapter:

- The backdrop for this book, and why it is being written now.
- Big-picture issues and challenges confronting Asia's wealth management industry.
- Highlights of the costs of the global downturn for wealth managers and their clients.
- Critical questions the industry must address before it can shape its future.
- A sneak preview of some of the options available for senior management.

As I write this book, in the second quarter of 2009, the wealth management industry in Asia sits at a crossroads. Some people would call it a precipice.

Many aspects of its current business model, built on bullish assumptions, are now unsustainable. Market participants are grappling with how to re-shape the model for the future and regain client trust in the process. In doing so, management knows it can't forget the lessons from the past, in particular the conflict of interest due to widespread commission-driven remuneration structures which have incentivised advisers to think and act in the short term by selling high-return, high-margin products – ultimately mis-managing both the portfolios and expectations of performance-focused clients. Added to the mix are sweeping, pan-Asian regulatory reforms aimed at protecting investors more vigilantly by ensuring tighter controls over wealth management activities.

Against this backdrop, the book's intention is to provide a combination of thought-provoking content and best practice guidelines to help the industry in Asia move forward.

Bursting a big bubble

Despite impressive market rallies for Asian, European and US stock markets in March and April 2009, the imprints that the global financial crisis has left on the banking, insurance and investment sectors are deep and will be lasting.

Few of us need reminding of the details of the devastation at the hands of what began in mid-2007 as a credit crunch, quickly became a liquidity crisis, too, and later unfolded as the worst global economic downturn since The Great Depression. Perhaps most surprising is that the biggest casualties have been the largest and most high-profile financial services institutions in the US and Western Europe. Certainly the pace at which the many aftershocks kept coming caught everyone off guard. These unpredictable events – and their consequences – have been well-documented. And there is no guarantee the reverberations are over.

One of the many victims is the wealth management industry, globally. It has witnessed an unprecedented shake-up: dramatic falls in the overall net worth of investors as economies weakened and financial markets tumbled; vast movements of client assets between institutions in the search for stability; changes in the hierarchy of market participants on local and interna-

tional scales; and politically-charged domestic and cross-border regulatory and tax crackdowns.

Given that Asia has been home to the world's highest and fastest levels of growth of affluent individuals in recent years, it is critical for anyone with an interest in or commitment to this region's wealth management industry to contemplate its prospects.

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In the four years leading up to the financial crisis, wealth management directly benefited from the surge in Asia's financial markets to emerge as a highly profitable and strategically important business for offshore and domestic banks alike.

By late 2007, on the back of an impressive bull run, the numerous private banks and advisory firms active in the region were making record profits, largely from selling structured products and other alternative investments. Transaction turnover was hitting new peaks as clients scrambled en masse to put on trade after trade of (often leveraged) short-tenor, equity-linked deals whose performance was in sync with the region's rising stock markets.

It is fair to say that for two years from 2005 the concept of diversification fell largely on deaf ears, as many investors and institutions in most segments of the wealth management space had become consumed by structured products – based on the high fees they generated for manufacturers and third-party distributors, and the profits they earned for clients. To keep pace with demand, most of the banks went on hiring binges for more advisers; some of the bigger players almost doubled their headcount in the region from 2005 to 2007, often with highly-ambitious 20-year olds and young 30-year olds in the absence of more experienced practitioners.

On the back of their overwhelming successes, wealth managers were unswerving in their commitment and continued expansion in Asia, seemingly resilient at that time to ever-more tangible signs of the US economic slowdown.

Then the bubble burst.

Within 12 months, and with no market left unaffected by the severity of the financial downturn, these same institutions suddenly faced a bleak out-

look. Advisers have been left shell-shocked and uncertain about what to do, especially with the basic principles of textbook investing thrown into doubt. For clients, confidence and faith in the established advisory process has been shattered.

At the time of writing, the increasing risk aversion in Asia throughout 2008 and into early 2009 was driving banks' fee income ever-lower. Negligible demand for products other than the simplest, direct investments – for which margins are thin – was slashing transaction revenues and commissions. And the large falls in mark-to-market values and widespread depletion of cash reserves and asset bases were hurting bottom lines. As this was happening the already-high fixed costs of the business were on the rise, and the growing regulatory burdens were weighing further on providers.

The private views of several senior private banking executives during the interview process offer colour on the unsustainable nature of that situation: since late 2008 and early 2009 they said they have been lamenting cost bases at (record) 2007 levels with revenue only comparable to that of around 2003 to 2004.

As a result, the stream of announced job losses for wealth advisers and support staff in Asia during the financial crisis has been no surprise, particularly at the largest global firms which grew the fastest. Some of the retrenchment efforts began slowly and quietly in mid-2008, but picked up steam later in the year, and were continuing into the first and second quarters of 2009. In addition, discussions over industry consolidation have been gaining momentum. On the flipside, some firms, notably boutique private banks and asset managers, have seen this as an opportunity to try to differentiate their more conservative or independent advisory style in a bid to attract deposits from clients keen to change their bankers, as well as lure displaced or discontented advisers from larger competitors.

Counting the cost of the crisis

Apart from job losses in the wealth management industry, various reports and figures published in the first few months of 2009 told a story of rapid wealth destruction on a global scale and at previously-unimaginable levels.

According to research from UBS, for example, over US$40 trillion disappeared from household wealth since the height of the property and equity markets in 2007. This meant a decline in the monetary value of global wealth of 30% so far, with predictions at the time of more downside to come.

In terms of that impact on the richest people, *Forbes*' list of the world's billionaires in March 2009 showed their average net worth at US$3 billion, a 23% fall in 12 months. Forbes said at that point there were 793 billionaires, down from 1,125 the year before.

The 10 largest international wealth managers were also badly affected during the first part of the financial crisis. Research published in March 2009 by trade magazine *Private Banker International* said these firms lost nearly US$2.2 trillion in assets under management (AUM) in 2008, equivalent to roughly a 25% decline in total AUM.

Reports in March 2009 from other financial publications quoted industry analysts as saying that wealthy investors moved an estimated US$1 trillion-plus between private banking accounts during 2008. Financial stability had been a prime driver, with boutique players and those global players perceived as safer custodians among the main beneficiaries.

Anecdotally, from a revenue standpoint, after many international private banks in Asia experienced their high points in profitability in the final two quarters of 2007, the first half of 2008 was relatively subdued for most firms, though still showing some signs of life as clients sold or shorted positions. But after Lehman Brothers' collapse, activity in the rest of 2008 virtually came to a standstill as most clients were too nervous to trade. A few brighter notes were being heard during the research for this book in early 2009.

Meanwhile, a Barclays Capital survey (released in April 2009) of wealth managers in Asia with a combined US$5 trillion in AUM showed many practitioners predicting industry revenue to soften significantly for the two years to early 2011.

Of the 123 respondents from 53 asset managers, insurers, private banks, and local and global retail banks in seven countries across non-Japan Asia, only 41% said they expected revenue growth in Asia of more than 5% in the coming 24 months; and 18% predicted negative returns during that period. By contrast, more than 90% of wealth managers in the survey released in early 2008 had tipped revenue growth to be above 5% for the two years to early 2010.

The 2009 survey highlighted the key industry challenge as adapting to the changing regulatory environment. Being able to differentiate from competitors had fallen from the greatest challenge in the previous year's survey to 5th place in 2009. Product innovation was another issue for the industry to address, exacerbated by an overriding trend for clients to seek simpler and more transparent products, as well those which address issuer risk and offer some sort of capital protection.

Back to the drawing board

The all-encompassing nature of the financial crisis was without doubt the catalyst for the problems most firms have suffered in Asia. But local observers, as well as participants themselves, confess that the compensation model and general style of wealth management in the region, combined with the gold-rush mentality of the way that many parts of the market

developed, are at the root of many of the structural issues which need to be addressed before the industry can rebound.

Speaking at the Shorex Wealth Management Forum in Singapore at the end of April 2009, Ng Nam Sin, an executive director at the Monetary Authority of Singapore, said the growing demand from investors for more clarity on the management of their accounts, combined with a more holistic approach to protecting their wealth, suggests a renewed emphasis on building trust, as well as enhancing transparency, and proper risk management and market conduct.

"It brings into sharper focus what should be a long term, sustainable business model within the private wealth management industry," he said. "A brokerage, highly transaction-based model no longer looks sustainable."

In response, firms have been going back to the drawing board. Chief executives and their senior management are re-writing business plans, reviewing best practice, risk management and suitability, devising appropriate client strategies, and streamlining costs and operations.

In the words of a high-profile practitioner in early 2009: "Given the last 12 to 18 months, who in the private banking industry can honestly now say that their model has been successful?"

In short, all banks need to improve and more fully define what they do and the role they want to play in the wealth management space. Even with a rise in risk appetite in the short term – which few people predict will occur in any significant way – firms need to be measured and prudent in how they re-position themselves and retrain frontline staff to meet the challenges of today's changing financial landscape, especially appeasing disgruntled customers.

Demand for advice has never been higher. The traditional advisory process has come under increasing criticism from clients who are trying to understand their financial position and the products in which they are invested, as well as what they should do next. Clients are also seeking second opinions.

In turn, advisers need to revisit how they approach and manage their clients and the relationships they have with them. Part of that requires banks and advisers to better understand the changing psychology of investors to tailor their offering more appropriately.

Regulators in Asia have also been taking a commanding role, crafting reforms to reverse their previous light-touch approach and so dictate exactly what providers can sell, how, and to whom. The tricky part is balancing the need to offer better protection for investors with the continuing desire to foster financial innovation.

Amid these challenges lies the uncertainty for cross-border private banking in the wake of global tax and privacy concerns among governments worldwide.

But there are reasons to be optimistic for Asia. Most notably, many leading economists agree that the region still holds far greater wealth-creation potential than most other geographies, and is expected to bounce back more quickly. Most wealth providers still consider Asia a strategic priority, and there are lucrative opportunities for those firms which can get their blueprint right.

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Despite being at this juncture, there is a limited amount of detailed research and analysis on where the market has come from, where it is now, and where it might be heading.

This book aims to fill some of these gaps. The starting point is identifying the many fundamental questions which management needs to be looking to address in the restructuring phase. These include the following:

- How can the challenges which many banks face due to the unique history and culture of wealth management in Asia be used as lessons from which the industry can learn and move forward?

- How can wealth management firms and their frontline staff win back the confidence and trust of clients?

- Why were many of the problems not identified and tackled sooner? While the industry in Asia hasn't in many cases acted in the best interests of its clients, what reasonable expectations should clients have in the first place?

- Who is really to blame for earlier mistakes and practices? Can the interests of different parties be aligned? Should Asian investors be expected to moderate their investment behaviour? Or should wealth advisers simply manage that behaviour better?

- Will management continue to tolerate inexperienced and ill-equipped relationship managers? Will the banks finally stop paying lip-service to training and use the financial crisis to upgrade the quality of many advisers?

- What are the options for management to change compensation models, to encourage relationship managers to take a longer term view of client relationships?

- Why do clients even want a private bank? Does the service banks offer satisfy and add value for clients? Or does it just serve banks' own interests of generating revenue?

- How are the ways in which clients view and approach their relationships with providers changing? How should advisers address them? What questions must relationship managers now be prepared for from clients?

- What is best practice, and how can industry players achieve it? What processes should be put in place to ensure client suitability? Do clients really understand all the products they buy, and should they even be buying some of them? Do relationship managers adequately understand the products they sell? Are risks understood and being properly monitored and managed?

- How can private banks and wealth management firms make money in the future? What might a successful business model look like? Can the top executives actually resolve the conflict of interests inherent in existing models in Asia?

- Will there be a more mature approach to asset allocation and portfolio construction following the equity concentration up until 2008?

- What is the future for offshore banking centres like Hong Kong and Singapore? How can firms adapt their activities and revenue models given the far-reaching impacts of regulatory and tax reforms? Will scrutiny from authorities across Asia stifle industry growth and profitability?

- Can management more appropriately brand banks? How can they segment and target different types of clients? Can providers meet the previously-neglected needs of wealth owners for tax, estate and succession planning?

- Who will make the biggest strides forward as the pecking order of the different types of provider shifts in light of job losses, industry consolidation and changing client behaviour?

Much of the discussion in this book is framed in the context of the adviser-client relationship. That bond, in whatever form it exists, is the single most important link a bank has with its customer. Yet with many clients in Asia experiencing so much wealth destruction in the last 12 to 18 months, they are inevitably, and understandably, skeptical about their advisers. Some clients have shown their frustration and disappointment by shifting their accounts to other institutions. In worst-case examples, clients have filed lawsuits and other claims against what they allege to be inappropriate sales practices.

One of the biggest questions private clients have been left with is: in whose best interests have my banks and relationship managers been acting? In turn, advisers, together with management, have an urgent responsibility to do whatever is needed to re-establish trust with clients.

For private banks, the priority is finding ways to preserve clients' remaining capital. The previous skew in their model towards flow product with relatively little attention to portfolio diversification and wealth preservation as part of a disciplined asset allocation process has not only created infrastructure which is unsustainable in terms of its cost, but it has also destroyed client faith in many cases.

Consumer banks, on the other hand, must prove to their affluent retail customers that the institution has become product agnostic, again to move from an environment of client distrust to one of an open sharing of ideas and research.

New models needed

So what might a re-shaped Asian wealth management market look like?

The various options, including suggestions on how they can be put into practice, are discussed in later chapters on topics such as regulation, rebuilding trust, training and new business models, as well as in various case studies. But as a quick taster, one of the requirements for a new-look industry is a shift towards long-term and holistic financial planning rather than the transaction-based approach which has existed to date. Tied to that is the need for wealth management firms to be able to offer clients a selection of fee structures for different types of advisory services.

Another area for overhaul is remuneration. Creating more varied and meritocratic salary and bonus structures is an important aim, and would help weed out underperformers and reward loyalty, team-based solutions, and the development of client relationships over time. Going further, staff retention and hiring policies need to become based on which client advisers are proven in adding value. At the same time, relationship managers must be prepared for scrutiny from clients who will be more selective and pay greater attention to due diligence.

For that and other reasons, firms need to move towards full disclosure and transparency in terms of products, advisory fees and commissions, as well as putting in place stricter, more measurable and closely-monitored processes around suitability, risk management and cross-border sales practices. These efforts will also be key in facilitating the highly-anticipated onset of onshore private banking activity in various markets across the region.

Some observers are predicting that the industry will inevitably become more fragmented in Asia, which is more akin to the European style of wealth management, with a larger number of smaller, independent advisers. A re-ordering of the hierarchy of global and regional players is also expected, based on how individual banks have been affected by the financial downturn.

Readers might consider some of the suggestions and proposals in this book to be long overdue in the context of wealth management in Asia. Some of them would be considered fairly straightforward, simply requiring management to tweak existing processes or budgets to the new financial and regulatory realities. Others require significant transformations in the way the business is managed and its financial success measured.

Either way, those firms which act early, swiftly and decisively in committing the time and resources required will emerge most successful – with a sustainable business model positioned to capture opportunities when markets recover, as well as retain client loyalty and maintain a realistic cost base in the long run.

chapter two

Perspective

The unique personality of Asian wealth management

In this chapter:

- An introductory look at why banks, regulators and clients must share responsibility for some of the flaws in Asia's wealth management model.
- A timeline of the trends and growth in global wealth from the mid-1990s to the end of 2007.
- Why Asian investors want a private banking account.
- The 10 main characteristics of Asia's wealth management industry, showing how the rapid accumulation of wealth and subsequent race for client assets have created the framework for the way it developed, in particular how advisers and clients operate and interact.

As the pain for investors from the global downturn grew during 2008, many private banks and wealth management players in Asia were widely criticised, both by clients and market commentators. The same features of their business model which drove their record profits pre-financial crisis had suddenly started to plague them.

Anecdotes of the scale of the wealth destruction for many Asian high net worth clients in the 12 to 18 months leading up to the publication of this book were staggering. Relationship managers and investment advisers were saying it was common for clients heavily invested in leveraged products to have seen around 60% to 70% wiped off the value of their portfolios. A portfolio down 25% to 30% since the start of the financial crisis was deemed to have escaped relatively unscathed.

The biggest culprit was the sales-driven culture at the majority of firms, operated under the guise of an objective advisory service purportedly in the client's best interest. That model had created an inherent conflict of interest, fuelling the widespread product pushing from the relationship manager level upwards, and so satisfying the hunt for revenue and client assets. Rampant leverage exacerbated the situation, and was ultimately the biggest factor why so many Asian clients lost so much of their wealth compared with clients in the US and Europe.

But with many banks making so much money this way, few people questioned the status quo, and it seemed to suppress the better judgement and higher standards expected of any experienced and well-trained relationship manager, investment adviser or senior executive. In the many worst-case examples, as the demand from growth-hungry firms for resources to tap client assets outstripped supply, relationship managers who lacked even basic experience, training and technical know-how were calling the shots on client accounts.

It is easy to blame wealth managers for allowing what have since the financial crisis been highlighted as flaws in the adviser-client relationship to have gone unchecked and been so widespread. But the firms themselves weren't solely responsible.

In many ways they were only responding to the investment psychology of wealthy Asian clients, who were chasing ever-higher and, ultimately unsustainable, returns. They found these achievable in the short term through allying with the banks which were equally hungry for revenue. The same bull-run which lured the banks to Asia also facilitated clients' unrealistic expectations as well as their disregard in most cases to the amount of risk

they were taking. (The importance to the industry going forward of understanding general investment biases and investor psychology is discussed in more detail in the case study on behavioural finance on page 143.)

Meanwhile, supervision by regulators over the industry's sales processes and the attention to client suitability and best practice was overly passive. From this followed mis-selling on some products, for example Lehman Brothers-related Minibonds. Recent and significant reforms in progress at the time of writing in many markets, especially Hong Kong and Singapore, have highlighted the authorities' realisation that more needs to be done in this sector, largely in terms of protecting investors. (The regulatory reforms and related issues are discussed in more detail in the chapter on regulation on page 53.)

This offers a cursory glimpse at the dynamics of the overlapping relationships between wealth providers, clients and regulators. But it also shows why these three protagonists must share responsibility for many of the shortcomings in the industry's structure which got exposed during the financial crisis, and which now pose big hurdles for the architects of new business models to surmount. (These are discussed in the chapter on challenges on page 37.)

Before assessing these shortcomings, it is important to understand how and why the market developed the way it did in the first place.

To help do this, this chapter explores and analyses the role that the history and culture of wealth management in Asia – especially in terms of the adviser-client relationship – have played in fashioning the various features of the industry.

Tracking global wealth: a dynamic decade

The mid-1990s to the end of the bull-run in late 2007 was a dynamic era for global wealth; statistics from the Merrill Lynch/Capgemini World Wealth Reports show the total wealth of high net worth individuals (HNWIs) grew from US$16.6 trillion in 1996 to US$40.7 trillion in 2007.

Since the first version of the Merrill Lynch/Capgemini report in 1996, these studies have documented the many emerging trends, opportunities and challenges, as well as the investment behaviour of HNWIs. A quick look at the timeline of the key messages from these reports provides a feel for the changing nature of the global industry. It also shows the many different cycles in just over a decade; during boom times clients want growth and during recessions they want capital preservation (at the time of writing, the report on trends during 2008 had yet to be published):

1996 Traditional clients were focused on issues such as the preservation of capital, confidentiality, personal service and a close and long relationship. A new breed of client was emerging, characterised by entrepreneurship, and focused on wealth growth, investment performance and higher risk tolerance. Offshore markets were also starting to gain popularity, which led to a need for multi-market and offshore banking in financial centers globally. However, rising fees and different investment pricing approaches were frustrating HNWIs.

1997 Japan and Western Europe were gaining market share as appealing destinations for HNWIs, and investors were looking to shift portfolio allocations to higher-yielding, equity-based investment vehicles. At the same time, home-grown institutions with limited global presence and product capabilities faced rising competition. Mergers and acquisitions helped some firms avoid the costly build-from-scratch process of expansion.

1998 Stock market volatility caused protective shifts in asset allocation and increased dependency on relationship managers. In response, HNWIs were increasingly active in their investments, demanding more information and 24/7 accessibility. Emerging technologies as well as the internet had started to increase client interaction and information distribution. There was also more targeted marketing and segmentation by institutions, as well as new products, channels and delivery systems.

1999 Driven by a prolonged bull market, technology, IPOs and entrepreneurial ventures, the ultra-HNWI population reached 55,000 globally, growing 18% from the previous year. Wealth providers faced high costs to serve this segment, but higher revenues generated by the AUM was the incentive to create substantial profits. Greater expertise in traditional services, as well as concierge assistance, became more widespread.

2000 Structured products and alternative investments became increasingly important and accessible, with many HNWIs using them in the belief that they could help them to diversify investment portfolios, decrease tax burdens and access volatile markets with less risk. Wealth providers were now offering a wider range of products, requiring more training of advisers, and were encouraging product specialists, relationship managers and investment managers to more closely work together.

2001 The needs and profiles of European and North American HNWIs started to converge, incentivising the largest providers in search of a global presence to offer economy-of-scale advantages through research, execution, transac-

tion processing and asset management. The value chain had become increasingly fragmented, making adaptability important, along with the need for outsourcing and open architecture to achieve operational efficiency.

2002 The prevailing bear market conditions were changing HNWI needs, demands and investing attitudes – pushing HNWIs to put more emphasis on wealth preservation and risk management. The approach towards wealth management swung from "managing money *for* me" to "managing money *with* me", requiring client experience framework to outline a provider's ability to integrate products and services with personal interaction.

2003 Investment goals shifted from preservation to wealth growth and accumulation, with clients demanding a structured investment process in the search for financial solutions rather than products. For institutions, providing a consistent workflow and high-touch service delivery to provide HNWIs with platinum treatment became critical. The emphasis was on adviser retention, enhancing skills through training, and recruiting those with a consultative approach.

2004 Portfolios in the mid-tier millionaire segment, which was previously underserved, had become much more complex and difficult to manage, leading these clients to hire additional managers and independent advisers. Providers had to step up and provide family office-type solutions. Costs and privacy concerns had become a concern for wealth providers.

2005 The international awareness of HNWIs was growing significantly, with portfolio allocations increasingly global in composition. A tighter focus on inter-generational wealth transfer was accelerating issues stemming from globalisation. Institutions had to start to improve their portfolio reporting to allow a client to view consolidated performance. The construction of specialist wealth strategy teams gathered momentum to fulfill client desires for enhanced information and tailored products and services.

2006 Service models moved beyond AUM, making the need to create the right service model for each client a priority. This required technology frameworks to support such dynamic service delivery.

2007 HNWIs globally started to retrench to safer and more familiar investments. By this time, aligned service-delivery models were able to drive significant value, with wealth management firms using rightly-sized and -executed IT strategies to reduce risks of entering new growth markets. The war for talent which had been getting more pronounced during the bull-run had intensified to new levels.

Asia's awakening

The consensus among industry practitioners is that the modern version of private banking in Asia is about 20 years old, although the current structure owes much to the rapid wealth accumulation since the turn of this century. As individuals with growing asset-bases sought investment options, an increasing number of wealth managers came in search of this business.

The specific details of the expansion strategies of individual banks are beyond the scope of this book, but in general, the bull markets between 2003 and 2007 accounted for the bulk of the industry's growth. During this time, international private banks with an existing presence in Asia looked to acquire as many resources as possible to take advantage of the opportunities and show their commitment to the region. That in turn drove up salaries to investment banking levels and sometimes beyond. Any offshore private bank without a presence in Hong Kong or Singapore hastily drew up business plans to chart their course to Asia, and as it turned out an ever-shallower talent pool. It had become essential for any foreign firm which regarded itself as a serious player in this sector to secure an Asian base and start acquiring local clients. Domestic banks across the region were also keen not to miss out, so re-branded and heavily marketed their private banking divisions to tap existing and supposedly-loyal customer bases.

The emergence of increasingly affluent and returns-hungry retail customers during this period spurred the expansion of more extensive and sophisticated priority banking operations at international and Asian consumer banks. And as these institutions sought ways to boost fee income, the product range they made available to clients grew wider and more complex – in some cases mirroring what was available for private banking clients – and boosted the popularity and profitability of retail wealth management services.

The premise for all of the above was the expectation of limitless growth in Asian wealth, upon which many firms built their hopes and plans for their regional businesses. By the end of 2007, for example, there were approximately 60 private banks in Singapore, which had become known in industry circles as the "Switzerland of the East".

A few of the headline statistics from the latest Merrill Lynch/Capgemini Asia-Pacific Wealth Report (released in mid-2008) at the time of writing give this growth some perspective:

- Numbers of HNWIs in the region growing by 8.7% in 2007 to 2.8 million, exceeding global HNWI population gains of 6%;

- Regional HNWI wealth expanding by 12.5% in 2007 to US$9.5 trillion, exceeding both the 10.5% rate posted a year earlier and total world wealth growth in 2007 of 9.4%;

- Asia-Pacific being home to 27.8% of the world's HNWI population and 23.3% of global HNWI wealth;

- Five of the world's fastest-growing HNWI populations in 2007 being concentrated in Asia-Pacific; and

- Markets like India, China and Korea posting HNWI population growth rates of 22.7%, 20.3% and 18.9% respectively.

What this meant in terms of assets under management for the banks was startling; at just one of the large international players, for example, AUM had increased from around US$75 billion in 2004 to more than US$200 billion by late 2007.

Why Asian clients want private banking accounts

It is important in the context of this chapter to ask the following question: why do wealthy Asian investors want a private banking account at all? By taking a brief look at the main reasons which clients and their advisers gave during the research for this book, it is possible to help reveal some of their portfolio needs and investment habits.

The first commonly-cited benefit Asian clients derive from having a private bank account is prestige, or at least the perception of prestige. Being able to command the attention and access the luxury concierge-type services of their private banker provides an important feel-good factor for the typical client. This also contributes to giving the client "face" in both business and personal situations.

Secondly, clients value the product access, for example IPO stock, certainly compared with what they have been able to get through their consumer banks. This includes being able to access the research and idea-generating capabilities of private banks. For example, many clients who saw their friends getting richer on a weekly basis from equity-linked accumulators in 2006 and 2007 wanted that too, at the same time showing their herd mentality.

A third reason is that consumer banks are generally unable to provide the breadth and expertise of additional services which private banks offer to clients, for example portfolio administration and risk analysis.

Fourthly, wealthy clients generally don't have the time to manage their own portfolios and investments, and particular to Asian individuals is the fact that they often lack confidence in their own financial experience and education to be self-directed investors.

A fifth, and associated, factor is the ability for a client to take the emotion and subjectivity out of investing their own money if they use a third-party which the client perceives to be an expert. Tied to this is the fact, some advisers say, that clients want and need someone to blame when markets move against them and their portfolios suffer.

To maximise the benefits Asian clients perceive from a private bank, therefore, many of them opened multiple accounts.

Distinguishing features

The industry's knee-jerk reaction to Asia's rapid growth, coupled with the unique investment traits of many local clients, has dictated the way that the style of retail and private wealth management has developed in the region.

The following table shows 10 of the industry's key characteristics (in no particular order):

10 characteristics of Asia's wealth management industry

1	Lacking definition	A lack of definition about what private banking is and what it should be
2	Inexperience	Too many ill-equipped and inexperienced relationship managers for the job
3	Insufficient education	Insufficient consideration and client education about long-term wealth planning
4	Short-term focus	A focus by both relationship managers and clients on maximising short-term revenue and returns
5	Unsuitable products	Inadequate due diligence by clients and relationship managers to determine proper suitability
6	Transaction fee-based	Clients generally preferring to pay transaction fees rather than advisory-based fees, fuelling the lack of transparency in fees and commissions
7	High costs	High cost bases, only justifiable during bull markets
8	Inadequate diversification	A lack of attention to traditional approaches of asset allocation
9	Multiple accounts	Demand from clients for multiple private banks to access more investment tips
10	Distribution mindset	Firms regarded as distribution channels for investment banks

The descriptions below of these distinguishing industry features shed some light on how they came about and their impact on the Asian wealth management landscape.

While they have had some positive impacts on the market – for example product innovation, automated execution for flow trades, and efficiencies in reducing time to market – many of the attributes in the above table have in the wake of the financial crisis led to mis-managed client expectations. Some of them have also been shown to create conflicts of interest for the banks in trying to act in the clients' best interests.

1. A lack of definition about what private banking is and what it should be

The pace at which many private banks and retail wealth providers entered and grew their franchises in Asia has too often been at the expense of properly defining – both for themselves and their clients – what private banking, and more broadly wealth management, means. That has made it difficult for them to clearly define what services they provide and in what style.

In essence, firms haven't defined whether they want to provide long-term planning and wealth preservation from an inter-generational perspective. Or whether they want to adopt the brokerage model and simply offer access to products and ideas.

Private banking has therefore developed different meanings and approaches from one organisation to the next. That has also led to greater misunderstanding for clients in terms of what to expect from their advisers. This has also occurred because of client philosophy and high-risk investment appetite (discussed later in this chapter).

In some cases, there has even been a lack of proper definition to differentiate retail wealth management and private banking for high net worth investors.

2. Too many ill-equipped and inexperienced relationship managers for the job

According to practitioners, around 20 years ago, private banks in Asia were hiring commercial bankers into relationship manager positions because they were at the time one of the few groups of professionals

which understood finance. They were also among the smartest people available, given the remuneration-related lure of financial services over many other industries.

But the rate of expansion in the region's wealth management sector over the last few years has exposed the lack of attention paid in the interim years to tailored education and training to develop the right talent, and enough of it, for the responsibilities that the role of a client adviser entails.

This became ever-clearer as the race between banks to acquire wealthy clients inevitably meant they needed more staff to service those new accounts. Aside from a handful of internal and external training programmes, generally set up too late to make a real difference yet, banks have had few options: poach junior, inexperienced private bankers from rival firms; recruit priority bankers, investment bankers or corporate bankers to be relationship managers; and, in the worst cases, hire individuals from professions as random and disjointed as hairdressing and luxury goods, for example, who had good relationships with wealthy individuals.

Either way, the industry's unchecked expansion has seen firms significantly lower their standards in many cases in terms of the types of individual – and experience level of that person – they have hired to be relationship managers. Plus, many advisers have never worked in a bear market before.

The inexperience of priority bankers has also been noteworthy, largely due to the fast expansion of retail wealth management services.

The consequences in all cases have been that relationship managers tend to lack either the ability, experience or qualities – or all three – to advise on, risk-manage and analyse client portfolios in the way required.

Most banks privately admit that their pursuit of revenue growth and quarterly and yearly targets meant they were unable and unwilling to commit sufficient time and resources to the right type of training for advisers. That even included not ensuring relationship managers followed basic internal protocol to ensure they act consistently in following the firm's culture and processes. As a result, management now accepts that too many of their relationship managers have lacked the right personalities and/or skill-sets, and in many cases experience and training, to be effec-

tive advisers to their clients. The more difficult market environment has put the spotlight on the problem.

3. Insufficient consideration and client education about long-term wealth planning

The pull factors for Asia-based investors to use wealth management services are very different from those for clients in places like the UK, Australia or North America. In these more mature markets, things like the need for detailed tax planning, regulatory-led initiatives such as compulsory retirement savings, estate-related issues like wills, and inter-generational wealth transfer, create compelling reasons for individuals to seek the help of a financial adviser.

By contrast, asset growth is a priority for many Asian investors. Buy-and-hold strategies don't resonate very loudly in the region; instead, investors think that if they invest smartly, then this will give them a retirement income, assuming they are thinking about that.

So advisers don't spend much time offering Western-style financial planning or discretionary account management services. Neither would many of them be trained or experienced enough to do so appropriately, nor are they incentivised to do so, as discussed later in this chapter.

This in turn means clients remain poorly educated, in particular about things like inter-generational wealth transfer, and the importance of, and options for, retirement savings. That perpetuates a client's focus on short-term, higher-risk investments and a relatively undiversified portfolio.

Another pitfall is that the potential for firms to offer and generate revenue from a wider range of services is stifled.

4. A focus by both relationship managers and clients on maximising short-term revenue and returns

The combination of Asia's entrepreneurial culture, which has been responsible for a lot of the wealth creation to date, and the minimal tax and regulatory drivers behind financial planning in Asia (compared with places like Australia, the UK or North America), has given Asian investors a trading mindset. By extension, they generally seek the highest returns in the shortest time possible; put another way, they take the most risk.

Many wealth managers in Asia have tapped this by focusing on selling products manufactured to give clients what they want. With relationship managers incentivised accordingly, by compensation structures which encourage product sales rather than longer term advice, they have focused on selling products which earn the bank the highest margins and thus pay the advisers the largest commissions.

That approach has given the banks the opportunity to fulfill their own objective of trying to maximise revenue and profit, leading to a situation where revenue models are overly reliant on transaction turnover. This is compounded by the minimal amount of discretionary asset management in Asia – possibly about 5% of total AUM in terms of private client assets, according to some executives.

The financial successes for banks from their sales-driven model has led to an increasing focus on accumulating assets over and above what turned out to be in the best interests of their clients.

For many of the private banks linked to a universal banking group, the pressure of quarterly revenue targets for the investment banking division has often led to the most aggressive sales practices to push its products through the private banking channel.

Relationship managers have in most cases paid limited attention to their advisory responsibility and fully understanding the product and its fit with the rest of a client's portfolio – and being accountable for that. That also extended to a culture among many relationship managers of trying to hoard clients and keep their books hidden from the rest of the firm. And as client expectations got higher and higher during the bull-run, this inevitably meant an under-pricing of risk at a time when deals were getting more complex.

Equity accumulators were a prime example of this as the bull-run gathered steam in 2006 and 2007. Some relationship managers leveraged their clients' portfolios to a point where they were significantly bigger than the amount of the client's actual assets, making 300 to 400 basis points in the process. Understanding the risks was not a priority while the banks and clients were, respectively, making record revenue and returns.

5. Inadequate due diligence by clients and relationship managers to determine proper suitability

The short-term nature of wealth management in Asia has proven incompatible with proper due diligence and suitability processes. Neither the banks nor their clients have showed signs of being prudent in the majority of cases, despite the responsibility of both to do so.

From the perspective of the banks, the know-your-client and other best practice and suitability standards have, in retrospect, been too basic and not rigorously-enough enforced to provide enough detail on risk tolerance levels to make them valuable in identifying mis-matches between clients and products.

Relationship managers have been too willing to give clients what they ask for, regardless of whether it is suitable, because they have been chasing commission and have feared the client would otherwise take his or her business to another bank. That has made the "trusted adviser" concept largely absent in the Asian wealth management context compared with its importance in Europe or North America.

On the other side of the table, clients' interests have predominantly been returns, rather than the balance and appropriateness of the investments in their portfolios. That has led them to ask the wrong questions of advisers, or in some cases, no questions at all. It has also led them to spend less time going through and understanding disclosure documents. That has then left fewer reasons for relationship managers to understand products as well as they should have done.

The amount of money that both banks and clients have lost due to the financial crisis offers an unprecedented opportunity to overhaul the approach of both parties to how they analyse the products they buy and why.

6. Clients generally preferring to pay transaction fees rather than advisory-based fees, fuelling the lack of transparency in fees and commissions

The reluctance of Asian investors to pay directly for advice is noteworthy. The view of a senior local industry insider sums this up: "Many Asian consumers are penny smart but pound foolish. They don't want to pay upfront advisory fees, but they don't mind paying high transaction fees instead."

Access for investors to a variety of financial information sources has largely been free and widespread, so typical Asian clients have until now placed little value on information from their advisers. Plus, the bull market lulled

clients into believing that almost any investment choice would go up, and that the risks were minimal. The cost of doing a transaction was never a worry in that environment.

The lack of transparency in how private banks charge clients for their services has also prevented a like-for-like comparison with fee-based advisory services.

Of course, the financial crisis has shaken the complacency of investors in believing they can more-often-than-not select the right investment. Scope for new fee models now exists.

However, many practitioners fear that most investors have short memories, with dissatisfaction often being blown away by the euphoria created by the next bull market.

7. High cost bases, only justifiable during bull markets

In their efforts to compete for their share of a client's wallet, wealth management firms were recruiting ever-larger numbers of advisers and investment specialists from their rivals, in particular between 2004 and 2007. And new players which were entering the market in a hurry didn't have time to train staff internally.

These dynamics, in particular in the private banking sector in Singapore, drove up the cost of staff to levels not previously seen in Asia's wealth management sector, including US$1 million-plus signing-on bonuses for relationship managers in a few instances.

These extra resources were the main reason behind the escalating cost bases in Asia, with compensation for staff in many cases significantly more than 50% of overall costs.

Revenue generation during the bull markets was able to cover high costs, but post-crisis, how quickly the banks can re-align their cost-bases is one of the biggest questions to answer.

8. A lack of attention to traditional approaches of asset allocation

A side-effect of the trading-oriented, shorter-term approach of Asian clients has been the relatively little attention paid by most clients and relationship managers to diversification.

The confluence of the 2003 to 2007 bull-run and the growth in number of wealth managers providing stock tips bolstered client confidence and optimism in picking their investment; the already-limited discussions relationship managers were trying to have with their clients about asset allocation became less and less frequent. Instead, investors have focused on returns and thematic investments, opting for specific products with which they were familiar.

Here also, the inexperience of many relationship managers in being able to articulate the need for and advantages of diversification has been a factor.

As with the potential for fee-based advisory services following the lessons learned from the financial crisis, the possibility that Asian clients will pay greater attention to more balanced asset allocation is greater than ever before. But industry participants are skeptical about whether the momentum will build, and say they worry that clients might revert to taking short-term profits when the next bull-run materialises.

9. Demand from clients for multiple private banks to access more investment tips

A relationship between an adviser and client in the traditional European private banking model typically involves a yearly, maybe twice-yearly, communication. The far greater discretion a client gives to his or her banker allows that to work.

In Asia, wealthy investors want a constant flow of market updates and insight, many times in the form of stock tips. That means private clients have, on average, between three and five accounts with different institutions; some clients had even more during the height of the bull-run.

Clients would then review the investment advice and compare from one bank to the next before they trade. This, clients have felt, gives them a better chance to make the right decision and achieve the highest returns.

Yet spreading their wealth among a number of private banks has made it more difficult for advisers to create a coherent asset allocation strategy for them.

Also, clients are generally secretive about their total wealth in terms of how it is divided between their various accounts and different types of

investments. That has made it difficult for relationship managers to manage a portfolio as they struggle to get a clear and accurate picture of a client's level of diversification or the real risks which need to be addressed.

10. Firms regarded as distribution channels for investment banks

The largely transactional and asset-gathering nature of private and priority banking models in Asia has quenched the thirst of many firms for short-term revenue growth. But that has created a perception that wealth management providers are simply an efficient and lucrative third-party vehicle through which investment banks and fund houses can channel products.

The product manufacturers have responded to the returns-driven appetite of the typical Asian investor by designing a variety of innovative and complex products – especially those which generate higher fees.

The fact that the wealth managers also stood to benefit from earning high fees when selling these products to their clients meant they continued to keep that distribution channel open.

Private banks attached to investment banks through integrated models have faced the added internal political pressure to sell as much of their "own brand" product as possible, despite maintaining a commitment to having an open-architecture approach. In addition, how much value have clients placed on open architecture given their focus on accessing whatever product promised the highest return and then shopping it around in what has been a price-driven market?

Point of interest: the historical roots of private banking

Most practitioners are unaware of the long and noble history of private banking. According to some sources, the first record of a private banking system was at IGIBI Bank of Babylon as early as 2000 BC. Two centuries later, in Greece, private bankers and the government offered services such as money lending, coin changing, letters of credit and interest on deposits. In both Ancient Rome and after the fall of the Roman Empire, banking swung back and forth between being a monopolised industry and being a strictly private enterprise conducted by wealthy individuals.

The growth of trade in the Middle Ages saw banking become a private business to escape the various religious prohibitions and to facilitate foreign trade.

It was about this time that an early use of trusts can be traced. “As knights sought to protect and preserve their estates during their likely lengthy absence, they would transfer the legal ownership of their estate to a third party, such as a close friend, under an agreement whereby it was understood that ownership would be transferred back to the knight upon his return,” says a short overview of the history of trusts on RBC Wealth Management’s website. This transfer of legal title empowered the transferee to manage the estate effectively and to enforce the rights of the estate against all parties while the knight was away.

There were some instances, however, when the knight's “trustee” refused to relinquish ownership after the knight returned, and the agreement was not deemed legally binding under English common law. As disputes over ownership became more prevalent, separate rules of equity developed in parallel with the English common law so that a beneficial interest in property could exist alongside a separate legal interest, says the website. “While the common law rules provided for clarity and certainty of result, the rules of equity applied principles of justice and conscience. Using these new rules, the Court of Chancery began to make a distinction between the legal and equitable ownership of an asset. This meant that it was then possible for one person to legally own and manage an estate in the best interests of other persons, without that owner actually deriving any benefit (financial or otherwise) from the estate himself. This separation is the underlying concept upon which a trust is based.”

In Switzerland, meanwhile, private bankers represented the oldest form of the establishment and were the most important and most influential people in the nation’s banking system before the industrial revolution. Originally wholesalers, brokers or forwarding agents, they specialised in credit business and bills of exchange related to goods trading.

As a precursor of today’s Swiss private bankers, the Swiss Private Bankers Association says it was during the Council of Basle in the 15th century when Cosimo de' Medici set up one of the first banking houses in that city. The Reformation in the 16th century and the emergence of Calvinism caused persecuted protestants from all over Europe (mainly France and Italy) to flock to Geneva, where they found refuge. Among them were a number of bankers, who later deployed their talent.

In its more modern form, private banking is also indebted to Mayer Amschel Rothschild. He began dealing in coins and bills in Frankfurt in the mid- to late-18th century. His sons later opened banks in London, Paris, Vienna and Naples, helping to finance governments during the Napoleonic wars and in the post-war period. Among later activities, the Rothschilds financed railways in France and Austria, acted as bullion broker to the Bank of England and imported newly-discovered gold from California and Australia.

After much turbulence for the industry in the early to mid-20th century as a result of The Great Depression, the post-World War II period saw private banks consolidate their specialisation in stock exchange business and securities trading. This led quickly to the worldwide reputation they now have as specialists in asset management, beyond simply offering a confidential relationship with their clients.

CASE STUDY

Mystery shopper: putting wealth managers to the test

No matter how many clients or market insiders contributed their thoughts to this book, critical to the completeness of the research was testing how a representative sample of relationship managers at private banks and retail wealth management firms try to woo new accounts.

Nothing beats first-hand experience, it seems, when assessing Asia's wealth management industry.

By contacting a variety of institutions in early 2009 and simulating a potential client with US$3 million to US$5 million in cash to open a new account, my aim was to see exactly how the relationship managers approach and manage the process. That would enable me to evaluate the style and effectiveness of an individual adviser. The idea was to be able to judge whether the promises and strategy set by management in relation to value-added service quality and delivery actually percolates down to and is properly executed by frontline staff. Against these findings, I could then see which aspects of this part of the business model management needs to consider revamping.

The outcome? In a nutshell, the overall experience in 11 of the 14 cases was disappointing.

Of course, there were positive signs throughout the research, with a handful of the relationship managers providing sound advice which gave me more confidence, both about them as individuals and also why holding accounts with those firms could benefit a client.

But the reality of my mystery shopping findings was that the relationship managers in most cases seemed primarily to be interested in which products would suit me, rather than talking to me about the role of wealth management in the wider context of my financial well-being and long-term plans. They also found it difficult to explain to me how their service offering differentiated itself from competitors. Even basic soft skills during and after the meeting were poor.

It might be that adopting a cold-call approach rather than relying on a referral isn't a good example of how most relationship managers acquire new clients. Or it might be that many clients have in the past been too forgiving and interested more in product access and returns rather than the value proposition of one bank compared with another. Or it might be that many firms are no longer chasing relatively small accounts unless they can be sure the client will trade actively and therefore generate regular fee income for the bank.

Regardless, this research spotlighted the extent to which the styles, personalities and skill-sets of a sample of relationship managers tally with some of the so-called characteristics of the industry which so many people in earlier interviews labeled as its main weaknesses.

Seeing them in the flesh highlights the extent of the breakdown in relationships between advisers and clients across the board. It also underscores the mis-match between the strategy articulated by senior management and the client engagement on the front line. The fact that this mystery shopping involved an assortment of household names of all sizes in the wealth management space has made it clear just how few, if any, chief executives can be confident that their banks are without these problems.

The research process

It isn't necessary to name individual relationship managers or banks in the findings of this research, but the types of organisations researched comprised:

- Several of the largest and most well-known global institutions;
- Some banks which have a broad regional presence in Asia; and
- A small selection of boutique players.

I chose these firms without preconception or bias, with the intention of creating a representative sample of wealth providers with differing levels of experience in Asia, and with clients throughout the region. All the relationship managers were based in either Hong Kong or Singapore, given that these financial centres have the most developed wealth management industries in Asia.

I conducted all the mystery shopping in February and March 2009. My process involved making initial contact by calling the relevant telephone number advertised on each firm's website and saying I was interested in opening an account. Each firm then assigned an individual relationship manager to my enquiry. That individual contacted me to follow up directly and set up a face-to-face meeting.

In all cases, I had one introductory meeting, which generally lasted around 30 minutes to one hour. During every meeting I clarified that I wanted to understand the benefits of using that firm, as well as the backgrounds and skills of the relationship manager, to help me make a decision on which bank(s) to open an account with.

At the end of every meeting, I asked the relationship manager to send me some follow up information relevant to our discussion, for example details on what a model portfolio might look like for someone with my investment outlook, or some ideas for my portfolio.

Initial contact

At most banks a receptionist or other staff member answered my call to the advertised telephone number and were generally efficient, polite and professional in their approach. In a few instances (and after repeated calls during business hours) I had to leave a voice message. That resulted in a varied response time, as well as a lack of certainty over whether I was going to be contacted.

In the case of two well-known global banks – one full-service firm and one boutique – I am still waiting for them to return my initial message saying that I would like to open a new account.

The level of personal information most bank staff required over the phone before assigning a relationship manager to me differed from one organisation to the next. Three of the (non-US) banks, for example, asked my nationality. One bank even asked for my passport details, which seemed an inappropriate request to make over the phone inside the first two minutes of the call.

Interestingly, two of the three banks whose relationship managers later turned out to be among the most impressive of the sample population, were able to set up an appointment for me immediately. The rest of banks said they would pass my message to an adviser. In those cases, I received a call directly from a relationship manager to set a meeting time and discuss some very basic contact and other personal information. The timeframe for the relationship manager to return my call ranged from 10 minutes to 2 days.

The meeting

One of the first common themes was the lack of attention that any of the relationship managers paid to the basics of approaching and setting out the framework for our meeting. For example, after an initial introduction, they didn't specify what they were intending on achieving during the meeting, they didn't ask what my expectations were, and they didn't clarify how much time the meeting would take. While these are small points, they should be regarded in any sales meeting as an important part of building a positive relationship.

The relationship managers also didn't explain why they had been allocated to meet me, as opposed to another adviser. This suggests that the practice at some banks is whoever takes the call about a potential new account is the relationship manager assigned to that client.

Evidence of that was clear in a second striking feature of at least three of the meetings. In those cases, the relationship managers were unable to communicate clearly with me in English. This led to a stilted conversation riddled with misunderstanding and also uncertainty over whether the relationship manager had adequately understood my financial situation and objectives. As a result, those relationship managers were unable to adequately discuss how they would invest and risk-manage my wealth. That also raised a big concern for me in terms of feeling confident enough to rely on that person to execute my instructions on transactions in the future.

Due to market jitters over government-led tax scrutiny on some private client accounts at certain banks during the time of research, one of the relationship managers asked me specific questions within the first five to 10 minutes of the meeting about the source of my wealth, and even whether I had any reference letters as verification. Her justification for that approach was that she thought it strange that I hadn't been referred by an existing client of that bank, so she wondered why I had been interested in opening an account there. Yet that bank is one of the world's top-five financial brands.

When it came to the advisers' understanding of competitive advantages, the way in which the various relationship managers responded to my questions about how their particular offerings set them and their banks apart turned out to be a differentiating factor in itself.

This was an important part of my research process, given the impact of the financial crisis on banks' financial performances, stability and public profiles. And also given some of the issues which had become evident about the sales practices and short-term revenue approaches of many advisers.

The responses of the relationship managers in many cases didn't reflect well on the banks. Several of them, mainly those at the larger global players, were quick to point to the strength of their parent company's capital position, which they highlighted by showing me various bar graphs and pie charts in their standard pitch book. Not only did that not explain how or why their private banking services were superior to those of their competitors, but the figures tended to be two to three months out of date and, arguably, massaged by whichever measures help support their case.

Another benefit many relationship managers pointed to – again mainly those at the biggest international houses – was the product access which the bank could assure me. At least three of these relationship managers said that the links they have to all asset classes and structures through the group's investment banking division could offer me additional benefits over boutique firms or mid-tier players. One relationship manager was quick to add: "Whatever anyone else offers you, we can get it for you also."

On the flipside, a relationship manager at a boutique bank emphasised the firm's true open architecture approach due to its independence from the pressure of any investment banking ties.

But three of the relationship managers at global institutions were keen to propose various ways I could make money in the near term by focusing on

specific investments, especially structured products, and on one occasion the adviser was heavily pushing notes backed by its investment bank. At another of my introductory meetings, with a smaller global bank, the relationship manager brought along an investment consultant to talk product strategy and options before even discussing my risk profile.

Of much greater comfort to me was the fact that the majority of relationship managers, including some of those who appeared to be pushing their product capabilities, stressed they could only look in detail at what products would be appropriate for me to buy after an assessment of my risk appetite, investment experience and overall portfolio goals. After that profiling, the relationship managers said, they would be able to determine my optimal asset allocation. Even at that stage, risk assessments would be done at most firms for every buying decision.

Risk management in general – including ongoing risk monitoring – was a key way that a few of the relationship managers at the global banks said they could differentiate their offering. But most of them then failed to clarify either what that would involve or the specific risk processes which would be applied to a typical client's portfolio.

A couple of relationship managers highlighted their own personal credentials rather than those of the institution; that created an impression of a single-banker model where my access to the services of other specialists at the bank would be limited.

On this point, relationship managers at some of the larger firms were keen to point to the benefits for my portfolio in terms of investment analysis and risk management by ensuring I had regular access to their internal network of investment counselors or advisers, and in the case of some banks, additional product specialists.

On the other hand, in an enthusiastic effort to emphasise the benefits of this offering, a relationship manager at a leading global private bank said the firm's policy was one investment counselor for every senior relationship manager. But that allegation later proved untrue when during an interview a senior manager from the same bank clarified the ratio is a more realistic six or eight to one, depending on the market.

Some relationship managers used the training commitment of their firms as an important reason why I should feel confident in opening an account with them. This showed a good sign of the intention by wealth providers to

improve internal standards, and at some of the larger private banks, regular access to product and skills-based training via online courses and expert instructors was a positive finding. Yet it also highlighted the relatively minimal amount of training that relationship managers at some of those firms are required to do on an annual basis.

In general, the more impressive relationship managers were able to stand out simply for the way they engaged me in the meeting and also provided frank and more insightful answers to my questions.

This was true of those relationship managers who had more than eight years of experience in the role. The leading relationship managers from the sample were, in general, notable for having had stints in different countries and regions to gain wider knowledge. The most credible relationship manager was a Swiss-bred private banker at a boutique firm who had been educated and spent several years working in Europe.

Also distinguishing about that individual was his ability to discuss the impact of the broader economic and geo-political environment on financial markets and different types of portfolios, as well as the influence of investor psychology. This practical advice put in context our discussion about my investment opportunities and potential future strategies, as well as gave me more insight into the issues which need to be considered for building and managing portfolios over the longer term.

Another of the more noteworthy and engaging relationship managers talked about the importance of estate planning and longer term wealth solutions as part of the way to develop a sustainable relationship. That relationship manager was also among the more honest by more openly explaining the revenue-led compensation structure, yet at the same time strongly recommending that I mainly hold cash for the time being.

During a rare experience at one of the more regionally-focused private banks, the relationship manager provided tips and guidance on the main things I should be looking for when opening a private banking account, and some of the ways to get more value from a private bank in general. This consultative-style approach was effective in revealing some of that firm's attributes as well as engendering a lot more trust.

The follow-up

This final part of my mystery shopping produced much weaker results than I had hoped for and expected.

Two relationship managers – from banks at either end of the size spectrum – sent me an email to follow up and respond to my request for more information on what a typical portfolio might look like for someone with my broad and longer term investment objectives. But neither email included the further clarity I asked for on why or how their banks differentiate themselves.

At the time of writing, I am still waiting for emails from the rest of the relationship managers, some of whom I met 8 weeks earlier.

Not a single relationship manager phoned me to follow up.

chapter three

Challenges

Barriers to a new future

In this chapter:

- A checklist of 12 key challenges confronting Asia's wealth management industry as it looks to learn from the past and develop new models for the future.
- Analysis of each obstacle, to put it in context and understand how and why removing it would benefit market participants.
- The importance of being able to better understand investor traits through the application of behavioural finance techniques.

Earlier insights and anecdotes from market insiders coupled with first-hand experience from the mystery shopping research make it possible to start to gain a clear understanding of the challenges for the wealth management industry in Asia.

Paramount for the banks, from a top-down perspective, is how they can make money in a sustainable way, especially with an investment horizon of fewer transactions, thinner margins, lower leverage, higher costs and heavier compliance burdens. To be able to develop appropriate strategies to achieve that, they must first overcome each of the more specific, individual challenges below.

There are plenty of them. Some follow logically from the same dynamics outlined in chapter two which have shaped the industry's various characteristics; these are re-emphasised below to help clarify the ways in which they present a challenge. Others have sprung from the repercussions of the financial crisis, for example regulatory responses and the reactions of clients.

The intention of this chapter is to provide a list of the most pressing issues for the industry – to give the banks and their relationship managers a template against which they can assess their individual businesses and, in conjunction with the various proposals in later chapters, plan how they can restructure and reinvigorate their revenue models within a new environment.

12 key industry challenges for Asian wealth management

1	Cross-border scrutiny	Conducting cross-border private banking under tighter scrutiny than ever before from regulators and tax authorities
2	Rebuilding trust	Winning back the trust of clients, by restoring their faith that relationship managers will act in the clients' best interest, plus helping them overcome their crisis of confidence about re-entering the markets
3	Best practices	Putting in place more rigorous and measurable risk controls and processes around "know your client" and suitability requirements, minimising the potential for mis-selling claims
4	Training	Upgrading the quality of advisers, to eradicate under-skilled and inexperienced relationship managers
5	Remuneration	Changing compensation structures, to incentivise staff to act in the best interests of clients and build relationships based on more than just short-term revenue and product sales

6	Team solutions	Getting rid of the single-banker model at private banks in favour of a team-based approach, to provide more specialist and tailored advice to clients, as well as to institutionalise relationships
7	Suitability	Re-assessing risk and return to be able to develop and tailor products which better reflect clients' needs and appetites
8	Diversification	Helping to educate clients to take a longer term view of their wealth, including encouraging more diversified portfolios through a more balanced approach to asset allocation
9	Fees	Adapting fee structures to align them with the value-add clients derive from their wealth manager, including offering more flexibility in how firms charge, and how clients pay
10	Segmentation	Devising new ways of segmenting clients, so private banks can maximise the revenue potential of different types of clients, rather than simply servicing them according to account size
11	Costs	Reducing excessive costs and other overheads from the front to the back office to become more efficient
12	Branding	Doing a better job of differentiating private banking branding, to become more sophisticated at engaging clients

1. *Conducting cross-border private banking under tighter scrutiny than ever before from regulators and tax authorities*

The classical private banking business in Asia involves dealing from off-shore centres with clients whose money is held outside their country of residence due to onerous domestic tax regimes and privacy concerns. That model is now under threat.

The UBS tax probe and landmark settlement in late 2008 at the hands of the US authorities was the catalyst for a wholesale shift in how regulators and tax agencies around the world view the conduct of institutions, and individual advisers.

The details of where relationship managers travel on business, how long for, who they meet, and what activities they do or don't undertake, are now being closely watched. In response, banks' legal and compliance teams have to make sweeping changes to internal codes and guidelines to cover business conduct.

At the time of research for this book, for example, one of the largest global private banks was spending significant time and resources on in-depth analysis of the legal requirements and restrictions in 70 countries to where its relationship managers regularly travel. It was seeking an opinion from domestically-qualified lawyers in each country to help it define the scope of the products and services its relationship managers can offer going forward to locally-based clients.

This has also become a real concern for all players given that the debate over potential tax liabilities has emerged as one of the hottest topics for the industry globally. The new philosophy seems to be one of intolerance of anyone who fails to meet their social obligations such as paying the right amount of tax. And with governments likely to be looking to generate as much revenue as they can, taxation is one obvious and effective option.

In turn, it has triggered internal discussions at some banks about the possibility of them setting up onshore operations in some markets. (This is discussed in more detail in the chapter on regulation on page 53.)

2. Winning back the trust of clients, by restoring their faith that relationship managers will act in the clients' best interest, plus helping them overcome their crisis of confidence about re-entering the markets

Since the early days of the financial crisis, it has become increasingly clear that many private and consumer banks were profiting on the back of their clients' transactions, and without much consideration for the financial health of their overall portfolio. Within this context, clients could see that many relationship managers had generally been pushing either their own-brand products or ones which earned them larger commissions.

One of the clearest examples was seen in the second half of 2008 through the mis-selling complaints in Hong Kong and Singapore over Lehman Brothers-backed Minibonds – the highest-profile of several cases across Asia during that year. That led to searching questions being asked of the sales-driven model of wealth managers by regulators and clients alike.

Regardless of whether these practices were as prevalent as some commentators have suggested, many clients have been left with this perception. Inevitably they have lost faith in the wealth management industry in general, and their relationship managers more specifically.

Management can no longer continue to pay lip service to their engagement of and commitment to clients. Senior executives need to establish and monitor new approaches and frameworks for relationship managers to first re-establish and then manage their relationships with clients. And they need to do this in a way that aligns the interests of both parties, requiring relationship managers to look beyond the short-term incentive of the next commission.

The key is working out how to turn the banks into client-centric organisations, and within that model, how relationship managers can communicate frequently with their clients to advise and support them throughout all market cycles and across their entire portfolio, not just when the relationship manager is trying to sell a product. (The various ways the banks and advisers can rebuild trust is discussed in the chapter on page 73.)

Tied to how wealth managers win back client trust is what they can do to address the crisis of confidence which has engulfed investors in the wake of the financial crisis. This effort needs to involve relationship managers along with their investment advisory colleagues in trying to educate clients about various short, medium and long-term opportunities, even if these are in simpler, more direct investments.

Also central to the ability of firms to regain lost faith is being prepared for tougher due diligence by clients before they feel comfortable enough again to take any advice from their relationship manager. Knowing they made their own mistakes from paying too little attention to risk and the types of products they were actually buying, clients are likely to be a lot more knowledgeable and discerning, asking searching questions of advisers to determine how they will approach their investments going forward. (These are outlined in a later chapter on page 73.)

3. Putting in place more rigorous and measurable risk controls and processes around "know your client" and suitability requirements, minimising the potential for mis-selling claims

At the time of writing, many wealth management firms were actively discussing (internally and with the regulators) the nature of the best practices, compliance-related measures, business processes, system infrastructure and support functions they need to put in place and oversee when selling products and managing client portfolios.

Part of the far-reaching challenge in tackling this array of complex and time-consuming operational issues is bridging the large gulfs which have

existed in the approach of different organisations. For example, harmonising standards for things like how much information banks should disclose and discuss with customers, and removing discrepancies in the approaches taken by different banks towards risk management of derivative positions.

Calculating the banks' own risk exposures and quantifying the operational and reputational risks are difficult to do accurately, but now must be priced into business models.

Wealth managers have realised they also need to face up to the task of re-evaluating, re-documenting and monitoring on a regular basis the true needs, goals, ambitions, risk appetites and, ultimately, suitability of each customer. The critical issue of whether clients properly understand the products they buy has been put in the spotlight since the financial crisis, with many industry practitioners privately admitting that many products weren't suitable for the types of clients who bought them, or at least in the volumes they bought them.

One of the traditional ways for advisers to identify basic risk appetite and goals of each client is through a questionnaire. But the tendency since the financial crisis has been for management to adopt a far more conservative approach in their re-evaluation methodology, according to some practitioners whose banks had started using new questionnaires to re-assess clients. This can create a problem as the nature of the questions makes all clients appear to be conservative investors by the time they have completed the questionnaire. Plus, the effects of the crisis are so recent that the responses of most investors might not be reflective of their true outlook.

Settling on which factors determine suitability is another hurdle. Should it be wealth, knowledge of the product, knowledge of the risks, or a combination of these? Is it the client or the bank which decides to buy the product? Could the banks create a discretionary model which would allocate a maximum amount of risk and diversification to a client's portfolio.

The banks also need to work out how best to encourage clients to actually follow the compliance procedures; relationship managers interviewed for this book were complaining that many clients previously didn't want to take the time to read and fully understand the various documents associated with whatever product they were buying.

The key is to create an effective solution which achieves more than simply meeting minimum compliance requirements. But also one which avoids as

far as possible unduly slowing any product launches over the next 12 months.

(A case study on HSBC's retail wealth management business on page 63 analyses the approach it is taking to upgrading best practices, customer suitability and system infrastructure.)

4. Upgrading the quality of advisers, to eradicate under-skilled and inexperienced relationship managers

The need to upgrade the technical abilities, interpersonal skills and experience levels of relationship managers has never been higher. It is a pre-requisite for success in the new wealth management landscape.

This gives firms no choice but to do whatever they can to develop, implement and monitor the right type of training programmes. The aim is helping relationship managers to gain sharper technical knowledge, better people skills, broader portfolio management expertise, the awareness and confidence to handle difficult market conditions, and the ability to work effectively with clients who are generally much older, far wealthier and more experienced than their advisers.

During this process, firms also need to pay particular attention to managing the worst-performing relationship managers, partly to ensure consistency throughout the organisation, and partly to lower the cost base.

Adding to the challenge is the often-overlooked fact that financial planning is not an exact science despite efforts to train advisers and create processes to ensure consistency.

Despite the focus on cost containment in the post-crisis environment, banks need to invest now in their training. Those banks which do so will shine when the markets return.

5. Changing compensation structures, to incentivise staff to act in the best interests of clients and build relationships based on more than just short-term revenue and product sales

Even in early 2009 there was still evidence of revenue-chasing and product-pushing taking place again in the hunt for transaction fees and commissions.

Several industry practitioners said privately that some managers – mainly at those banks widely reported to be under the most pressure to boost profits – were continuing to ask relationship managers to sell as much high-margin product as they could. With high sales targets to meet, the attraction of commissions to boost unsatisfactory annual bonuses, and the fear in some cases of losing their jobs, many relationship managers were doggedly calling their investment advisory colleagues to ask what they could push to their clients.

That was happening despite the losses and distress which clients had already suffered through being too highly leveraged in some products and having a portfolio which was insufficiently diversified. And despite the doubts which clients had started to raise about the sales practices and tactics used by many relationship managers.

From senior executives down to the most junior relationship manager, the fact that this commission-driven culture is so engrained in the business models of most wealth management firms highlights the scale of the challenge these institutions face in changing their compensation structures.

Rather than the focus on quarterly revenue targets driven by product sales and basing compensation on AUM or fees from transaction turnover, management must accept that long-term business relationships and short-term revenue maximisation are generally incompatible. The banks can no longer compete on price.

Instead, they must encourage relationship managers to be more patient and consider how they interact with clients and develop long-term relationships, and then reward them accordingly. Changing bonus structures is an important part of this, with less compensation given to relationship managers up front, and in cash.

This challenge potentially requires management to endure a continued period of financial underperformance, perhaps for as long as one to two years, preceding a return to profitability.

Distancing themselves from their investment banking affiliations (in the case of full service banks), or even the perception of these connections, is a necessary part of the process.

6. Getting rid of the single-banker model at private banks in favour of a team-based approach, to provide more specialist and tailored advice to clients, as well as to institutionalise relationships

A big challenge for the way most private banks approach wealth management is arising from the desire of clients to now get more out of their private banking accounts through more tailored and specialist advice, for example, to address the entire risk aspect of their portfolio.

They want to better understand the many other issues relevant not only to their financial future, but also the wider economic and investment landscape – such as corporate balance sheets, estate planning and trusts, wealth transfer, the requirements of their own businesses going forward, and even geo-political situations and the potential impact on their own positions.

For the banks, this requires overhauling their approach to handling client relationships and account management to create a genuine multi-disciplinary structure which ensures relationship managers work closely with technical staff. As a result, the single-banker model will no longer work because it's impossible for one individual to be an expert in everything the client needs. In institutions where this model already exists, it is rarely used effectively mainly due to internal insecurity and politics within the organisation.

Private bankers will need to develop the in-house resources and tools to make this work and offer the rounded and in-depth service covering various areas of expertise and experience.

By extension, banks also need to change the mindset of relationship managers. They will need to give their colleagues more frequent access to their clients rather than hiding their client books (as they have done in the past) in fear of losing them when the adviser moves to another bank.

7. Re-assessing risk and return to be able to develop and tailor products which better reflect clients' needs and appetites

Alongside the focus on suitability, a lot of attention from clients and regulators has fallen on the type and complexity of products which wealth providers have been selling.

The demand for transparency, simplicity and liquidity has been strong for some time; since mid-2008, for example, many relationship managers have

seen little client interest in anything other than direct investments in equities, bonds and precious metals. But the margins from these types of products are thin, and are a fraction of what the banks were earning during the bull markets from selling less-transparent structured investments backed by derivatives.

This is putting a lot of pressure on the private and consumer banks to develop and offer structures and products which appeal to clients and give them the comfort they have increasingly been looking for. Plus the banks must face the unavoidable fall in revenue while trying to find ways to still make a profit. Banks also need to focus on risk-adjusted returns when building and managing portfolios.

In many cases, a bigger challenge wealth managers face is knowing what investors want at all. Those most badly burned have expressed fear of doing anything other than keeping their money in cash. It is also important for wealth managers to try to understand how their clients think about uncertainty, risk and time horizons.

8. Helping to educate clients to take a longer term view of their wealth, including encouraging more diversified portfolios through a more balanced approach to asset allocation

Wealth managers at most types of firms need to work together with clients to redefine investment strategies and encourage far greater diversification through more traditional asset allocation. They need to use the examples of large portfolio losses which some clients suffered during the financial crisis to show why certain products were, in hindsight, inappropriate, and re-establish more realistic client expectations for the future. The longer term benefit is tempering the high-risk, high-return strategy when bull-markets return.

That sounds straightforward enough. But the danger relationship managers have said they fear is that investors will forget the pain they have suffered in this latest financial crisis; the deep-rooted trading mentality of most Asian investors has proven time after time that once downturns pass and markets rebound, they will seek high and quick returns. If clients don't change, some observers have said that within three to five years' time, 2009 will have looked like 2003, and 2012 or 2013 will look the same as 2006.

At the same time, many of the rules and principles investors have traded by in the past have been shaken. For example, fixed income, especially bonds,

has traditionally been viewed as comprising the safer, more stable part of a portfolio, but in the crisis was proven not to be the case for various issuers on many occasions. The fear of non-payment of dividends also became apparent, and in turn caused the price of many of these instruments to trade at distressed levels.

In addition, for relatively conservative clients whose tendency is to hold a lower allocation to equities, a sector they were previously comfortable with was financial stocks. But now they have seen their biggest losses in this part of their portfolio.

Another shift in the mindset of clients has been in the area of liquidity. Some instruments which were liquid before the financial crisis, and have been perceived therefore as liquid assets, have failed to deliver on that promise. Liquidity risk also needs to be re-examined, and the impact it has on a client's portfolio.

Relationship managers need to understand the impacts that these and other trends are having on client behaviour and attitudes as they restructure their portfolios. Yet the tools for proper portfolio construction are lacking in Asia. And given that caution is needed when considering the last 18 months as any kind of normal market to make assumptions about asset allocation, it makes sense to look at the relativities of each asset class.

The limited amount of inter-generational wealth planning, and therefore of personnel with relevant experience, is also a big part of the challenge for the industry in Asia. By contrast, European clients have a much more family-based, multi-generational approach to their wealth, and that is a core part of their wealth management and private banking relationship.

9. Adapting fee structures to align them with the value-add clients derive from their wealth manager, including offering more flexibility in how firms charge, and how clients pay

The entrepreneurial culture of Asian clients by its nature makes them more fee and value conscious, so they still accept paying transaction fees. Changing this way of thinking will take time, yet needs to be a strategic goal for the wealth management industry.

Some practitioners have suggested that some clients will now pay for certain types of advice up front, if they perceive that they will then receive a better portfolio management service from their advisers, and one which

will also better protect them from downside risks. Access to strategic advice will also become more important for clients, and that will be another way for wealth managers to differentiate themselves. But for advisers, proving the value of these types of things will be challenging.

Clients are also asking more detailed questions about how their wealth managers are charging them, and exactly what they are paying for.

Wealth management firms need to come up with more flexible fee structures which are clearly defined and reflect the real value they are adding for the individual client. The banks will also need to justify the fees to clients through things like improved technology and relationship manager training.

10. Devising new ways of segmenting clients, so private banks can maximise the revenue potential of different types of clients, rather than simply servicing them according to account size

With questions being raised about how private banks can find new ways to generate revenue, management must work out the best and most cost-effective ways to target different groups of clients.

The banks need to be able to determine which clients they target, and in which ways, and then how they allocate their time to these different individuals so they are maximising resources and profitability. At the same time, the banks need to ensure they can meet the expectations of that group of clients.

(Analysis of this challenge and proposed new approach can be read in more detail in a case study on client segmentation on page 139.)

11. Reducing excessive costs and other overheads from the front and back offices to become more efficient

Cutting costs, and then keeping them in check – and doing it quickly – has become an important goal for many wealth providers since mid-2008.

Revenues have fallen fast and dramatically across the board, and early cuts have targeted the low-end producers among the relationship managers, support functions and product units. But highly volatile market conditions and in particular increasing regulatory burdens make it impossible for management to predict with any certainty what the cost-base will look like.

The challenge comes from not knowing how deep to make the cuts, nor from which parts of the organisation, as well as from new compliance requirements as regulators demand greater disclosure and more rigorous risk-assessment and other advisory processes.

The difficult part is finding a balance so that firms are able to justify costs in the short term while being prepared to take advantage of upswings when they come.

Finding a way to classify under-performing relationship managers is also tricky. Banks can review what the relationship managers have actually achieved versus their ambitions and as well as assess the momentum of them building up their portfolio, but tangible and clear measures are needed to make the approach consistent across the organisation.

12. Doing a better job of differentiating private banking branding, to become more sophisticated at engaging clients

Private banks need to overhaul how they brand themselves and develop a more targeted strategy than the awareness-building approach they have pursued to date in Asia. They must find new ways to advertise rather than through placing adverts in the media, for example. Branding to highlight differentiation and engender trust must become a key goal for private banks.

Giving branding a more strategic role in the organisation to be able to drive revenue and earn customer loyalty is part of the challenge, especially in an environment where management is being pulled in so many directions.

(Analysis of this challenge and some of the steps that banks can take to create a brand strategy for Asia can be read in more detail in a case study on page 103.)

Understanding the psychology of Asian investors

An important part of the solution to some of the challenges which private and retail wealth managers face is their ability to understand the mentality of different types of Asian investors, and then tailor the advisory process to that.

The behavioural side of finance – discussed in more detail in a case study on page 143 – is gaining a lot of ground in the US and Europe since the more abstract, quan-

titative models do not describe nor allow for the influence of human behaviour on investment decisions.

In Asia, application of behavioural finance techniques has been limited, but earlier research funded by Citibank and carried out by professors at INSEAD's Asia campus indicated some of the regional characteristics. The aim of the survey, conducted in 2005, was to show how randomly-selected Asian consumers in Hong Kong, Singapore and Taiwan handle risk and uncertainty in the context of hypothetical financial decision-making situations, and then do a comparison with research on US investors.

The findings, said the report, suggested "systematic underlying differences in decision-making under uncertainty [between Asian and US investors] that are likely to have implications for real investment behaviour and for how financial services providers approach investors". While updated research is clearly essential for developing specific client strategies, the 2005 survey is a solid base to work from.

For example, the majority of the 2,600 investors researched in Hong Kong, Singapore and Taiwan were found to be overconfident, highly averse to losses, and prone to allowing fear of regret to impact their investment decisions. Although the survey looked at the whole spectrum of income brackets, the INSEAD professors noted that investment attitudes of high net worth individuals (HNWIs) seemed in line with those of less wealthy investors.

On the notion of regret, US consumers have been shown in earlier studies to exhibit stronger evidence of commission regret, which investors suffer when they invest and lose money. Yet the INSEAD research showed that in the three Asian markets surveyed, consumers were much more upset than their US counterparts about omission regret – when they missed out on an opportunity, for instance where they don't invest but the price later rises.

The most significant type of regret in Asia, according to the survey, was adviser-based commission regret, meaning investors blame their advisers if investments move the wrong way.

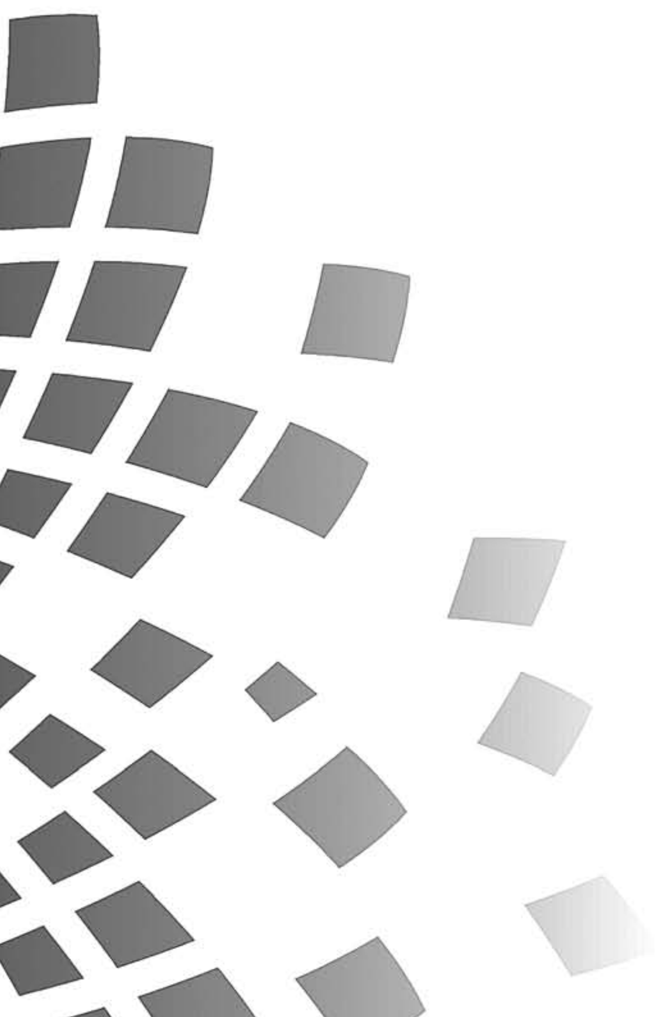
In response, the INSEAD professors suggested that this might be due to the fact that financial advisers play a different role in the three Asian markets compared with the US, for example stock-picking rather than financial planning. Or that it might be due to the fact that the financial advisers are less trusted or not well-embedded in the investment culture in the three Asian countries in comparison with the US.

So why don't clients learn from their investment mistakes? On average, the survey showed that investors in Hong Kong, Singapore and Taiwan exhibited an "extreme" degree of overconfidence in trying to predict uncertain outcomes than investors in the US. Singaporean investors proved to be the most confident in the study, which the authors suggested was perhaps because they are less exposed to uncertainty in day-to-day affairs and in society.

Some academics have later suggested that part of the reason why range accruals became such a popular wealth management instrument in Asia during the bull mar-

ket has been because, as an investment play, clients can see a range and get over-confident about the expected performance of the markets.

Other anecdotal evidence about the impact of the psychology of Asian investors on decision-making can be mapped to the choice of words a wealth manager uses to discuss a client's portfolio. For instance, according to a leading academic, using the word "loss" when discussing investment outcomes and suggesting a client should sell creates too many negative connotations. Instead, a wealth manager could potentially elicit a more favourable reaction by informing a client that his or her portfolio is now worth a certain amount and that if they wanted to transfer that amount into a new investment then there might be a better chance of making a profit.



chapter four

Regulation

A new era of compliance and controls

In this chapter:

- Why regulation will be central to the look and style of Asia's wealth management industry going forward.
- The dangers for offshore private banking models in Asia, and what senior management can do to prepare for the global scrutiny on cross-border practices.
- The potential for private banks to set up domestic operations across the region.
- Details of some of the financial reforms underway in Hong Kong and Singapore, revealing the types of processes that wealth providers must put in place to sell retail investment products.

The response of governments across the world to the weaknesses uncovered in the global financial system and the way it was governed has been swift and determined. It needed to be, and gatherings such as the G20 summit in April 2009 in London have offered opportunities to rethink the entire approach as part of the effort to rebuild trust between regulators and the regulated.

The intention of this chapter, however, is not to consider the future for the broad global financial services landscape, nor review individual measures taken in response to the economic crisis. Instead, and building on earlier commentary, the aim is to assess how the region's wealth managers are likely to fare in the face of new, tighter rules locally in Asia, and tax and privacy crackdowns worldwide.

Almost without exception, those market players interviewed pointed to both changing cross-border and domestic regulations as among the key drivers for the future of wealth management in Asia.

That was already underway as this book was being written. Initial reforms combined with greater regulatory scrutiny had started to lead to changes in policies and sales practices at many private banks and retail wealth managers in Hong Kong and Singapore. And with yet more new guidelines to be issued across many Asian jurisdictions throughout 2009, the industry was bracing itself for what appears to be an inevitable overhaul in the way it does business.

An obvious and unavoidable side-effect to make clear straight away will be significantly higher costs, especially surveillance costs in terms of compliance and training, and at a time when sources of revenue have been hard to find.

For management, therefore, adapting their businesses in line with these changes is critical to being able to create the right framework within which the banks can then overcome the many barriers previously identified to a more sustainable future.

That many regulators have in general taken a relatively light-touch approach since the beginning of the industry's boom makes the scale of the required changes, and subsequent challenges, even bigger. It is also adding to the fears of many industry observers about the possibility of the regulators overshooting as part of their politically-charged efforts to protect investors. After all, the global economic crisis proved that the most regulated markets don't have the fewest problems.

Throwing the offshore model into doubt

Before analysing the impacts of local reforms on the onshore operations of wealth managers in the more developed Asian markets, it is important to understand the global uncertainty at many private banks over the future of their offshore operations.

It started in late 2008 when the US Internal Revenue Service publicly revealed its investigation into private client accounts of US customers of UBS. The future of Swiss banking secrecy laws has been a hotly-debated topic ever since. Under international pressure, Switzerland even agreed in March 2009 to adopt the Organisation for Economic Cooperation and Development's standard on the exchange of information with other countries in cases where individuals are suspected of tax evasion at home.

With other jurisdictions doing similar things, the international focus on banking secrecy and potential tax evasion has raised many questions over the viability of offshore private banking models such as those in Hong Kong and Singapore.

While many Asian countries had previously turned a blind eye to so-called "suitcase bankers" – who fly in purely to service onshore clients and then take assets offshore – that stance has now changed. The cross-border regulatory and tax issues had by early 2009 started to influence what many private banks in Asia were and were not planning in terms of their business and expansion strategies.

Since early 2009, and as highlighted in the chapter on industry challenges, the more prudent wealth managers had started to review legal and compliance requirements on their relationship managers when visiting clients around Asia, leading them to create new internal guidelines.

As more private banks look to do this, they will need to think about the following issues:

- The types and scope of conversations relationship managers are permitted to have with existing and potential clients offshore;

- What documentation relationship managers are allowed to take with them on overseas trips;

- What relationship managers can do with that documentation;

- Whether relationship managers can engage in reverse solicitation in terms of calling clients to follow up on the visit with investment advice at a later point; and

- Whether relationship managers can sign up new accounts during the visit, or whether they have to wait until after their trip and then do it over the phone, or even whether the client has to visit the relationship manager in the offshore centre.

In early April 2009, for example, UBS had even imposed a global travel ban on client-facing advisers undertaking foreign business trips to meet overseas clients while management said it was in the process of reviewing the bank's policy and compliance framework in international wealth management.

Effectively, private banks need to produce a cross-border manual to cover every country where they do business, and they must make sure that relationship managers refer to and follow it by the letter.

Apart from the vast cost incurred in achieving all of the above, Asia's diversity in terms of regulatory regimes from one country to the next makes it a daunting task.

Despite these efforts, the banks still have to contend with the uncertainty over how individual regulators or tax authorities interpret their rules. Any changes to that might throw previously-accepted practices into doubt, regardless of earlier local legal advice. For instance, domestic regulators can at any time check with their immigration authorities to see how many days an individual relationship manager has spent in the country, to determine if that would make the relationship manager fall under the local definition of carrying on a commercial entity and subject the firm's profits to the relevant domestic tax. As a result, conduct manuals and the processes relationship managers follow need to be monitored and updated frequently.

The upshot is a big question-mark over the ability of firms to generate anything like the same levels of revenue as in the past.

Making a move onshore

Given this unprecedented situation, it is difficult to expect anything other than a more fragmented geographical make-up to the industry going forward.

According to many senior private banking executives, the next logical step for their Asian strategies is the domestication of their business. More local operations are expected to emerge across the region to enable advisers to service clients onshore rather than through the offshore centres.

Spurring such views is the desire by governments to have more visibility and oversight over banking activities, as well as to generate more sources of taxable income for their coffers. That is expected to increase regulatory freedom, both for private banks to enter those markets and keep assets onshore, and for wealthy individuals to have their assets managed onshore. Regulators are most likely to achieve this through gradual and incremental reforms to existing laws, rather than a sweeping overhaul or the introduction of new and potentially conflicting legislation.

But even in these cases, banks cannot rely on being able to protect their offshore business with onshore locations.

For example, while some local laws might allow private clients to hold accounts in places like Singapore or Switzerland, providing that the bank maintains all client records in the home country, the client cannot benefit from the secrecy aspects of Singaporean or Swiss banking law. Another downside is that costs will rise significantly, to the point where bankers have said this will automatically create different tiers of domestic providers.

Reduction in product access for onshore clients is another consequence of a move onshore, since the banks cannot offer the same array as they can through their offshore model. One option might be for banks to create a centralised product structuring unit in either Singapore or Hong Kong, for example, which tailors products for specific markets depending on local regulations, and then a team of advisers will sit onshore.

The future of the industry's model will also be directed by what individual Asian clients want in local markets.

Retail overhaul in Hong Kong and Singapore

For consumer banks in the retail wealth management space in Hong Kong and Singapore, far-reaching reforms to the way investment products can be marketed and sold had started to make their impact felt by the first quarter of 2009.

In both markets, there will now be a lot more focus on the roles, responsibilities and actions of the adviser, for example whether clients get proper advice and, where there are fees charged for that advice, whether it is the right advice. New regulations will in general also put a greater onus on management.

None of that is a surprise given that mis-selling complaints over various structured products were the catalyst for changes to the regulatory structures in Hong Kong and Singapore. Customers ended up being sold investments that they didn't fully understand by people who didn't fully understand or disclose the risks.

Minibond madness

The highest-profile of the alleged mis-selling cases in Asia are those related to Lehman Brothers Minibonds – credit-linked notes which dominated local newspaper headlines in late 2008 after effectively becoming worthless following the US investment bank's collapse.

The Hong Kong Monetary Authority (HKMA), for example, had as of May 14, 2009 received nearly 21,000 complaints alleging misconduct in the selling by local retail banks of Lehman Brothers-related investment products. Apart from the 449 cases referred to the Securities and Futures Commission (SFC) by that time for further action, the HKMA said it had formally opened investigations on just under 6,000 complaints and was seeking further information on around 13,700.

Figures collected by the HKMA from the distributing banks as at mid-April 2009 showed that just over 6,000 cases involving Lehman Brothers-related investment products had at the time resulted, or would soon result, in voluntary settlement, including compensation either in part or in full, between the customers and the banks concerned. About US$2 billion worth of Minibonds were sold in Hong Kong.

In precedent-setting moves, two of the distributors at the time of writing had already agreed to purchase all outstanding Lehman Brothers Minibonds bought by eligible clients at a price equal to the principal amount invested. Neither Sun Hung Kai Investment Services nor KGI Asia admitted any liability as part of the process, although the securities regulator had publicly raised concerns with both firms in relation to the following:

- The adequacy of measures implemented to review and evaluate the nature of and risks associated with Lehman Brothers Minibonds;

- The adequacy of training and guidance given to sales staff on Minibonds to enable them to understand the product and all its material risks;

- The record-keeping of investment advice given to eligible clients and any queries raised by them; and
- The adequacy of measures implemented to ensure that sales staff gave reasonably-suitable advice by matching the risk-return profile of Minibonds with the personal circumstances of each client.

The discovery of gaping holes in the sales process at many retail banks triggered much of the regulatory change, which has been focused from the start on strengthening existing regimes and investor protection frameworks.

In Hong Kong, registered institutions were expected to have implemented the majority of various HKMA recommendations by the end of March 2009, or at least created by then a plan to determine how they would implement them, after which they would be subject to onsite examinations by the regulator. The underlying aim seems to be to separate the risk assessment from the sales function and create an audit trail of evidence of client suitability requirements being met.

During interviews for this book, many market practitioners commented that the disclosure and other measures have been intended to be as strict as possible to provide the required protection for retail investors. Regulators have said that they want the full suite of investment products to be fully regulated and for distributors to assume full liability in protecting investors when it comes to suitability, product due diligence, and matching against customer needs and financial ability.

As a result, retail wealth managers must now get to know their customers extremely well, including their amount of total wealth, so there is no chance that an individual product is out of sync with that person's portfolio. Advisers also need to better know the customer's risk profile and how, specifically, this matches either the product being offered or whatever the customer is interested in.

Before any sale is made, a large number of documents must now be signed by customers; plus, disclaimers and disclosures for complex products involving derivatives will have to be as big, bold and obvious as health warnings on cigarette packets.

The regulations also require the banks to set up by September 2009 a dedicated investment corner within branches to make it clear to customers that

they are entering an investment environment; it removes the potential for customers to be unaware of the fact they will be discussing investment products.

Further, three different levels of staff will need to be involved in a single transaction: the relationship manager, who isn't involved in assessing the customer's risk profile; a risk profiler, to go over the customer's needs in terms of risk and disclosure, as well as doing a psychological profile; and, assuming there is a match between product and customer, a third staff member to execute the transaction. At the same time, the regulatory requirements at point of sale include audio recording to ensure adequate records and an audit trail.

Separately, the SFC is encouraging investors to ask for much more information from distributors about the nature and latest status of investment products, especially when structured products are involved. Such time-consuming and costly measures will further add to the wealth manager's burden.

Some commentators have suggested that the Hong Kong regulatory environment has fallen victim to political pressures. For example, when it comes to segregation of securities and deposit-taking businesses within the banks, and the requirements for multiple advisers for a single client, is this in fact the best approach to reduce the threat of mis-selling? Or would it be more effective to use an adviser who knows the customer, to be able to make a better judgement call? Also, despite installing segregation, are most clients educated enough to make the investment decisions without more guidance?

The end result of the new regulatory requirements will be dramatically higher costs for selling investment products at precisely the time when customer demand (as well as return expectations) has shifted to longer maturity and simpler products, for which retail margins are lower. The concept of maximising revenue in such an environment has therefore become distant for many wealth managers in Hong Kong. That is in turn making banks realise they have limited options: either scale back operations or trim product and service offerings. Or even exit the business.

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In Singapore, meanwhile, the Monetary Authority of Singapore (MAS) issued new guidelines in early April 2009 to emphasise the responsibilities

of the board and senior management of financial institutions to deliver fair dealing outcomes when providing financial advisory services and all business practices in its day-to-day dealings with retail customers – not just to ensure mere compliance with regulatory requirements.

These include a deliberate focus on outcomes given customer concerns about whether the investment products and services they buy provide real value. The five fair-dealing outcomes are:

- Customers have confidence that they deal with financial institutions where fair dealing is central to the corporate culture;

- Financial institutions offer products and services that are suitable for their target customer segments;

- Financial institutions have competent representatives who provide customers with quality advice and appropriate recommendations;

- Customers receive clear, relevant and timely information to make informed financial decisions; and

- Financial institutions handle customer complaints in an independent, effective and prompt manner.

At the time of writing, the MAS was also busy compiling and reviewing industry comments received following the mid-March release of proposals to strengthen the regulation of the sale and marketing of unlisted investment products. Practitioners said they expected many of the proposed guidelines to be implemented in mid-2009.

Some of the main proposals required the following:

- Issuers to prepare short, user-friendly "product highlights sheets" to promote more effective disclosure;

- Financial institutions to undertake enhanced product due diligence process before selling new investment products;

- Representatives to enhance the quality of information obtained from customers as well as set out more clearly in a formal document why the products are suitable for them;

- A new category of "complex investment products", with financial institutions only able to sell such products when they give customers advice on whether they are suitable for them; and

- Greater powers for the MAS to investigate and take regulatory action through various measures, including a civil penalty regime under the Financial Advisers Act.

Key for local industry insiders was that the MAS hadn't yet shown signs that it would over-regulate, but rather was looking to encourage more simplicity in terms of disclosure and documentation, and of course making sure that different levels of complexity are properly explained and clearly understood.

For instance, the regulator hadn't proposed segregating risk profiling from sales, saying that it would prefer instead to let the banks show that they have robust processes in place. The regulator had also not stated it would require audio or video trails of conversations with customers.

In both Hong Kong and Singapore, some practitioners have suggested that private banks would start to follow certain recommendations in the interim, not because they are required by law but because of their desire to upgrade some of their practices to give more comfort for cautious customers and in turn satisfy regulatory reviews.

CASE STUDY

HSBC's best-practice approach to the wealth management process

Selling insurance or distributing investment products and unit trusts at the priority banking level is relatively straightforward for most wealth management firms in Asia. The complicated part is putting in place and keeping up-to-date appropriate business processes and system infrastructure which support the bank and create a positive customer experience. This requires best-practice standards and customer suitability measures to be designed, implemented and consistently followed.

That is the critical part of the business model which most wealth managers in Asia underestimate, and have so far failed to address adequately.

Not HSBC. As one of the market leaders in the region's mass affluent segment, and a bank renowned for its conservative style generally, it has spent two years upgrading its processes and technology to try to make them best-in-class. This has included, among other things: producing consistent and more frequent materials and other information for frontline staff as well as end-customers; delivering clear and timely messages, and using multiple channels to do so; more accurately segmenting clients by risk, sophistica-

tion and needs; and applying asset allocation tools as a long-term strategy to help different types of customers understand the directions of their portfolios.

The aim is to build a strong and sustainable infrastructure to differentiate itself in today's new financial environment, and one which is increasingly unforgiving when it comes to any mis-matches over the suitability and expectations of customers and products.

To better understand HSBC's model, Bruno Lee, the bank's head of liabilities business and wealth management in Hong Kong, explains the approach it is taking, the changes it has made and how it is confronting the challenges it still faces. (This interview was conducted in late April 2009.)

Q ***What are the most important things to consider when designing your business processes for selling insurance and investment products to customers?***

A As a distributor we look at how we want to develop our business according to the different customer profiles and channel capabilities we have. There is no point trying to position ourselves incorrectly by offering the same products as a private bank, for example, because our customers in the wealth management division have different levels of net worth and sophistication. Also, our frontline staff has different levels of skill, knowledge and experience than the private bankers.

With our positioning as a retail wealth management business, and given our large customer base, we need to look at the appropriate products we can sell in big volumes. We then have to define the sales processes and streamline them in such a way for us to handle the volume without significant incremental cost. We must also make sure that the level of complexity of every product can be easily understood by both frontline staff and customers.

Volume is key for us. The need to ensure the product appeals to a wide investor base ensures it is kept simple. Also, we can then offer good value to the customer by lowering the cost of developing and distributing the product, as well as through the ongoing performance review and performance management, which are important differentiators in today's market.

While the business models of some wealth managers seem to be focused only on acquiring clients and gaining market share, we are focused on building long-term relationships with our customers. The trust factor is a very important part of this; we can't expect a customer to trust us if we only focus on selling as much of a product as possible to that individual customer.

These are the issues rooted in our mind when we are designing the business process and carrying out the internal training to fulfill these objectives.

Q ***How are you trying to ensure you are following best practices?***

A We have made significant investments in ensuring we achieve best practices over the past two years, with an overall focus on transaction requirements and streamlining decision making.

First, across our many channels, we have been improving our WealthMaster system, our proprietary financial planning portal which is focused on delivering a high quality and relevant decision-support service to the end-customer. For example, in the relevant section of the portal we use a combination of in-house research and third-party information to provide market updates and other relevant information on the macro-economic environment, developments in different asset classes, and also product-specific updates.

Another important aspect of the functionality of the enhanced WealthMaster system is a comprehensive financial planning tool for customers. This is available either online or face-to-face at our branches, and helps our frontline staff more quickly and accurately identify a customer's retirement, educational or other goals. Essentially, it enables staff to calculate any investment or protection gaps, as well as the required rates of return to fill these gaps, to build a tailored investment and overall financial solution for an end-customer based on current situations and life goals.

The next step in the process is critical: to ensure suitability via customer questionnaires followed by interpretation and diagnosis. The product mapping stage is based on this earlier financial analysis. It is not realistic to expect that every customer interaction can go through the full planning process, as some customers might just be testing our service with a lump sum investment, rather than exploring their long-term financial

needs or running a financial health-check based on their current situation and portfolio of investments.

As a result, the WealthMaster is designed to offer either a financial planning tool or facilitate a one-time review and recommendation.

The portal has also been upgraded to offer product search functionality based on asset class and performance.

Many of our initiatives have been piloted in Hong Kong before later being rolled out across Asia and then globally.

Q ***In what ways have your new risk profiling techniques – including the questionnaires – helped ensure customer suitability for products being bought?***

A Our new risk profiling questionnaire ties in with the product mapping process.

We worked closely with The Hong Kong University of Science & Technology to review and redefine our risk profiling questionnaire, so that it covers the appropriate types of questions and assigns appropriate scores to different responses. We can then ensure that the questionnaire provides a reasonable reflection of the different types of customers in the different risk levels.

We then apply a stringent process in assigning risk levels to our products. We look at the different types of risk particular to each product – for example, rolling volatility (among others) for mutual funds, or liquidity and interest rate risks for guaranteed products – and then review the ratings on a regular basis. This is all done internally as I believe our product managers are best placed to continually review the assumptions and rating methodologies.

After product comparisons are made, we use the WealthMaster portal to determine the investment solution for an individual customer and see the key benefits of the appropriate product. We then do straight-through-processing to help the customer and frontline staff to streamline the application process.

Finally, we apply the WealthMaster's portfolio review functionality and provide gain or loss information as part of the performance analysis. That is key to developing long-term relationships with customers.

To monitor the risk profiling, our quality assurance team reviews a sampling to make sure the processes being followed are consistent. The team also listens to recorded tapes to make sure messages are being delivered in way we want.

Q ***What are the ongoing risk profiling and review processes?***

A Within HSBC Premier, we encourage customers to do a minimum of two portfolio and risk reviews a year with their relationship manager.

In addition, we encourage different forms of direct communications between frontline staff and customers to create a better understanding of the changing economic and financial environments, and what action customers might want to consider in terms of their portfolio. These communications include weekly updates on the investment markets as part of our general approach to relationship management and continued after-sales service tool; it is not intended to be a selling tool.

We are wary of customer feelings about other distributors that many firms are only interested in selling products which fit the latest theme, but then have little if any communication with the customer to help them decide when might be a good time to exit that investment, or rebalance their portfolio in some way. We realise that our customers want, and need, to know when the risks have increased.

Q ***How have you incorporated asset allocation tools into your processes?***

A

For clients with more sophisticated financial needs and goals, we have recently developed asset allocation tools in conjunction with so-called optimisation software. We run this technology on a quarterly basis by using the most popular asset classes within our customers' portfolios and applying the tools to each of them, based on different types of risk appetite, profile and needs.

The model portfolios which this process creates are then used as references for different customers according to their relevant categorisation of risk appetite, profile and needs.

We apply this asset allocation as a long-term strategy to help different types of customers understand the directions of their portfolios. We also use this approach to identify gaps in the bank's current product offering for the different customer sets, to help us develop a strategy to cater to them.

Not all customers might be ready to implement this approach, or may not have a sufficient asset base. In these cases, we look to introduce the concept of a packaged product or funds, which are designed to create some form of diversification.

Q ***How do you tailor your processes to the various needs and behaviour of different types of clients?***

A We have designed our product mapping process to help customers as well as frontline staff better select the right product for the right type of customer.

The risk ratings we assign to each product is also based on complexity and matches different styles of investment behaviour for different asset classes, such as growth oriented, speculative or balanced, for example. This provides a framework for matching different products to different customer categories, and also considers their levels of experience, risk appetite or sophistication.

A key part of our process is our internal wealth strategy communication every quarter. While we have strategies and product pipelines to suit different types of customers, being able to communicate the right message in the correct way to customers is challenging. We use multiple channels and we have a large number of wealth advisers, so on a quarterly basis we look at the market environment, our customer holdings, and which products are suitable for different types of customers.

We also have a weekly conference call for between 15 and 30 minutes on a Monday morning, where I speak with all branch and frontline staff to update them on what issues to watch, what to consider and what the risks are with any financial advice they give to customers for the week ahead.

Q ***How have your new processes and the style in which you have implemented them affected the ways relationship managers interface with clients?***

A Feedback from relationship managers over the last year or so is that customer activity and product selection is increasingly following the direction of the advice we are giving – based on the results of our risk profiling and other suitability and product mapping processes. Previously, a lot of customers tended to take an ad hoc approach to their investments, but the more structured methods they are now applying is a positive thing.

Relationship managers have also said that the internal communications and tools we have put in place make them feel more comfortable and confident in offering advice. They can rely less on their own knowledge and experience to interpret and explain changes in the market environment, which means our wealth management model is executed in more consistent way.

The availability of research and interaction is also beneficial when training new staff. Branch management and the heads of sales teams say that they prefer having a more structured roadmap to follow in the coaching process; they can reinforce the message not have to reinvent it.

The WealthMaster has enabled us provide processes for all our people to help them become better and more efficient at their job, rather than rely on those with the most experience, knowledge or individual sales ability to drive business growth.

Q ***What supporting functions have you put in place for these processes?***

A Apart from information and training provided by product manufacturers, we have internalised much of the support for our wealth management business.

For example, we have an investment communication team which coordinates, digests and summarises the views of the market environment, risks, and any relevant trends from our own research, as well as from the various fund houses, investment banks and other parties. We then review this communication in line with what customers are holding in their portfolios, so we can develop appropriate materials for our relationship managers and other frontline staff to communicate with customers. The aim is to help the end-customer make better and more-informed portfolio decisions.

We also have a sales development team. Sales development managers are assigned to cover a small number of branches to disseminate whatever relevant sales information they get quickly and effectively to the frontline, and then coach them in how to use it.

Q ***What are your system infrastructure requirements?***

A In the wealth management business, management often underestimates how much money and time is needed for systems in ensuring speed and reliability.

Our business proposition is to build a volume business, so capacity is a key consideration. So to do this for a stock trading service, for example, where daily orders might happen in bursts, such as just after the market opens of just before it closes, we need excess capacity to handle spikes in activity. We need to constantly review our capacity to re-write programme codes and streamline the process.

Customer experience is another vital component. Any capacity issues with systems must be addressed in combination with maintaining a user-friendly service for customers. We design the front-end screen and portfolio management tools to help customers place orders easily and access the right types and levels of information accordingly.

Q ***What lessons have you learnt about your existing processes from the financial crisis?***

A We have realised that we need to design different processes and strategies to help relationship managers and other frontline staff communicate with customers about the volatility of the market and how to rebalance their portfolios accordingly.

To help us do this, we have seen that we need to use all instruments and channels available to deliver regular and consistent messages to customers, and keep reminding them of the importance of asset allocation and asset protection, rather than just looking at returns. This involves helping the frontline staff as well as the customer to understand the importance of high-quality fixed income product within a portfolio, either issued directly by a borrower with whom the customer is familiar and comfortable, or via a professionally-managed product such as a bond fund.

We need to be pushing harder for diversification and more balanced asset allocation at all times, especially when customers are risk adverse. More than ever before we have grasped our sense of responsibility in helping customers to first make the right investment choices, and secondly be prudent in reviewing those choices, rather than being overwhelmed in the short-run by successes in market performance.

Our key areas of focus now are enhancing our processes around asset allocation and related investments, and encouraging both frontline staff and customers to make longer-term, life goal-specific decisions for their finances.

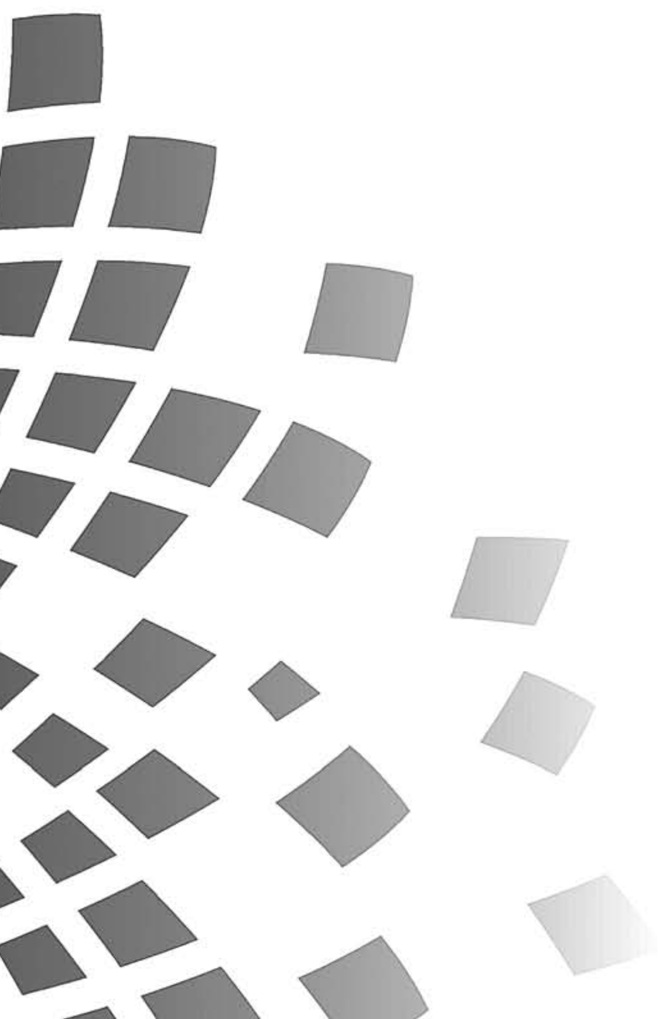
Q ***What process-related challenges does the wealth management industry in Asia still face?***

A For us, we have a large number of customers and a big salesforce, so we must make sure we deliver our message to both groups effectively and efficiently.

The size of our customer base is clearly a strength, but to harness that we need to avoid any mis-understanding and mis-interpretation when we communicate various messages through different people and channels. People learn in different ways, so we need to recognise the limitations of communicating via single sources as these create limitations.

So we need to deliver all of our messages clearly through multiple channels initially, and then try to make sure the end-customer has access to the same information regardless of their preferences. Many customers rely on wealth advisers to make investment decisions, but we must still provide relevant information for them; only they can fully know their comfort levels.

Linked to this is the challenge of minimising the time to market of products or messages. The time it takes to go through the necessary processes to reach the end-customer is critical.



chapter five

Rebuilding trust

How to win back client confidence

In this chapter:

- How the needs of clients are changing – and what they are now looking for from their wealth manager.
- Examples of the types of questions wealth managers should be expecting from clients in this new environment.
- Analysis of 7 key ways for the industry to try to restore client confidence and faith.

Rebuilding – and then retaining – client confidence and trust has become the uppermost objective for Asia's wealth management industry in the aftermath of the financial crisis.

If the banks can do that, it will pave the way for them to earn trusted-adviser status and in turn sustainable revenue streams. If they can't, those firms will cede even more market share to the boutique players and independent managers less severely affected in the global downturn.

By late 2008, and continuing into 2009, concerns over stability and frustrations with product-pushing advisers were leading clients to either move accounts from firms with tarnished reputations, shift the balance of money they held in different accounts, or shun completely those wealth managers whose advice had proven to be lacking in objectivity and inappropriate. Or a combination of the above. While the unprecedented speed at which banks' revenues and asset bases have shrunk since late 2007 has profoundly shaken the industry, the negative impression left in clients' minds threatens to be longer lasting and most damaging if not rectified.

So how can the industry as a whole regain this lost trust? With great difficulty, is the short answer.

Fundamental to being able to achieve it at all in this new environment requires managers and frontline staff to recognise and learn from the mistakes and practices common to many of them in the past, as well as from the changing needs of the clients – all under the watch of more vigilant regulators. Significant changes are needed to the industry's revenue model and cost base; consolidation is inevitable.

"Because Asian investors have lost so much money in this crisis, this is the best opportunity to overhaul the way the industry services clients," said a senior investment advisory specialist at a global private bank during the research process. "This might be the only time for a long time to come when wealth managers can create that type of relationship with their clients and direct them towards taking a proper approach towards asset allocation."

That will require the banks to pursue a compliant and cross-border personal financial planning-led approach with emphasis on transparency, accountability and risk management, so that they are more aligned with what is in the long term interests of their clients. Integral to that is upholding the highest standards of integrity, professionalism and exemplary business conduct, and making sure that investment advice is fair and objective.

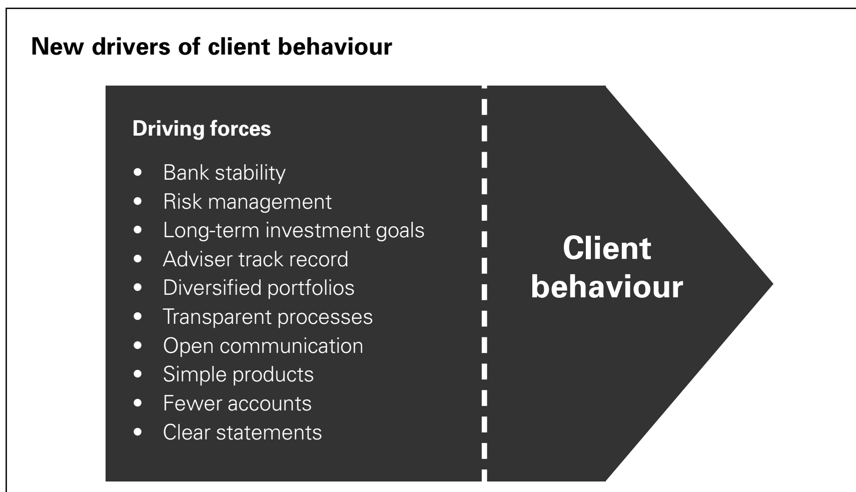
How clients' requirements are changing

Before considering how client's needs and appetites are evolving, it is important to ask what reasonable expectations clients should have had in the first place? And why did they tolerate sub-standard advisers?

The financial incentives which drove advisers to always be selling product – and especially more complex, higher-margin product – were no secret. Clients could also see how young and inexperienced some of their advisers were. And they knew that by chasing ever-higher returns during the bull market they were exposing themselves to increasing levels of risk. Yet they paid scant regard to these issues so long as their bank balances were swelling.

That is now changing. Clients have got smarter about the realities of the wealth management model, and are better educated about what's required in managing their portfolio.

Underpinning this is the fact that clients have in many cases acknowledged that they made some big mistakes pre-2009. They have been trying to take stock of their remaining wealth and exactly what their current situation is. They have also been keen to ensure their wealth at a particular institution is safe. As a result, what's important to clients when choosing a wealth manager, what clients now want from these relationships, and what clients want from the development and delivery of wealth management services, is different from before the crisis.



Seeing how much of their hard-earned cash has been lost, they have become more focused than ever before on understanding the details and risks of individual products they buy as well as the context and appropriateness of their overall investment strategy in relation to their longer term goals. That has also made the market brace itself for a sustained interest from clients in simple, direct, liquid and transparent investment options.

The response from governments and regulators to the financial crisis has also shifted investors' perspectives in terms of the issues for them to be aware of. They are thinking more about the safeguards banks should have in place in terms of practices and processes. In sync with this, clients have said they now expect their advisers to adopt a consultative, partnership style, not just push product and discuss investment tips.

In practice, this means clients will now be asking much more searching questions of their relationship manager. Their expectations have become higher than ever before in terms of what they expect in response and preparedness from their advisers, including seeing how they can add value through a more advanced portfolio management and asset allocation approach.

In line with this, transparency in all aspects of wealth management has become increasingly sought after; clients have started to demand it in terms of products, processes, fees, services and people.

But that works two ways. Asian clients, especially high net worth individuals, must also learn to become less secretive about how much wealth they have in total and how it is distributed between their various private banking accounts. If relationship managers are unable to get a clear image of the nature and scale of a client's other investments, and how they are split by asset class, product, geography and various other key factors, then they are handicapped in giving proper advice from the beginning.

That has also made high net worth clients realise that spreading their wealth across too many private banks can work against them. It means that they are a smaller client of each of those banks, whereas by consolidating their accounts and becoming a more meaningful client at each selected bank they can derive a lot more benefit from their relationships.

Asian investors also seem to have started to learn the value of being more subjective about their investments. A high proportion of those individuals who lost a lot of money during the crisis can now clearly see how they suf-

fered from being too stubborn or optimistic (or both), so delayed covering their loans or selling securities they owned.

Fixing the communication breakdown is an important part of this. Many investors found that for months at a time during the crisis they didn't hear at all from their relationship managers to discuss their portfolios and strategy, especially for private banking clients. That was because advisers were too worried about clients being angry about declining wealth and too inexperienced to manage through difficult periods. But as busy people, and in many cases relatively uneducated investors, these clients need and value having someone to monitor their portfolios, and are worried about continuing to make emotionally-charged decisions. They have been seeking more frequent contact from relationship managers with independent market research and perspectives on the impact of wider economic events.

The spotlight has also been sharpened on the reliability of a bank's transaction execution. How relationship managers have carried out a client's instructions in the past has too often been questioned. Clients have said they want to feel confident in the advisers they use going forward, which requires trades to be handled with minimal fuss and, most of all, accuracy.

Clients have also realised the need to pay much closer attention to things like their account statements. Of course, different clients want different amounts of information, and for these details to be presented in different ways. But the aim is the same: clear, concise and regular reporting on their overall portfolio, including a breakdown of their asset allocation and risk profile in ways which are easy for them to understand.

Key questions clients should now ask their advisers

After conversations with different types of clients, they seem to have realised that greater attention to due diligence as part of their financial planning will help them to avoid repeating earlier mistakes and to identify whom they can trust.

Below are the sorts of questions which advisers should be expecting from their clients as they start to re-engage the financial markets and vet relationship managers to ensure they are competent and looking after the client's best interests:

Track record

- What is your track record as an adviser?
- How did your other clients perform during the financial crisis? What about clients with a similar profile to mine?
- What is your employment history?
- What licences and qualifications do you hold? Which industry associations are you registered with?
- Have you ever been involved in any customer disputes? What about investigations involving disciplinary action by an employer or regulatory body?

Differentiation

- How do you differentiate yourself from other relationship managers at this firm?
- What about from advisers at competitors?
- What is the real value of what you can offer me?
- What was your approach to communicating with clients during the crisis? How often did you speak to and/or meet with your clients?

Experience

- What did you learn from the crisis? Is the way you manage your relationship with clients likely to change as a result?
- How many clients do you have with similar profiles to me? What advice have you given them? How are their portfolios constructed?
- On what basis do you make your investment recommendations and decisions? For example, take your worst investment and evaluate how you made the investment, monitored it and the decisions you made along the way to stick with it or get out?

Expertise

- What is your view of the market and the ways in which various economic and geo-political issues are likely to affect my investment opportunities?
- What are the mark-to-market implications of recent market movements on my portfolio?
- What are the related downside risks for the various products in my portfolio?

- What do you think are the most important factors I should be considering in helping me achieve my investment goals, including specific strategies, benchmarks and products?

Suitability and risk assessment

- In terms of fiduciary responsibility, are you legally bound to act in my best interest? Or are you only required to sell me products that you think are suitable for me?
- What product training do you do on a regular basis? What other training do you do, and how frequently?
- What processes are in place to monitor the accuracy of your execution on my trades?
- What risk analysis will you do on my portfolio? How often will you do this?
- What other checks and balances do you have in place to monitor and assess my investments?
- What are your processes in conducting due diligence on the asset managers and other product manufacturers you recommend me to invest with? Do you have any personal relationships with the individuals, or get kick-backs from referring me?
- What is your process of asset allocation? What type of diversification would you recommend for me? Why?
- What other services do you offer which are relevant and valuable to me?
- How often will you communicate with me about my portfolio? How often will you evaluate my goals and risk tolerance?
- What other experts, support functions and resources can I access at the firm? Can I meet these people, and have ongoing dialogue with them if needed?

Remuneration

- Can you provide a formal, written outline of the services you can provide me, and what fees you will be charging me?
- How are you remunerated? Do you have sales targets to meet?
- For products you earn commission on, what is the commission schedule? Are there any other fees that you will charge me?
- Who else stands to gain from my investments and our relationship in general, for example affiliated brokers or insurance agents? How much will those parties earn from my business?

Product-specific

- What is that product's investment objective?
- Would you buy what you are selling? Why / why not?
- What are the risks of this product? What about the risks in relation to the structure of my portfolio now, as well as to my long-term wealth goals?
- Does the upside justify the downside risks?
- How much leverage is used to generate the returns in that product? Is this appropriate for my real risk appetite?
- Tell me the real cost of the product you are recommending, with the fees/commissions in all such offerings split out?
- How liquid is this product? How could I get my money out if want to in the future? What is the maturity profile? What are the penalties for early redemption?
- Are other clients with a similar profile to me also buying this product? Why / why not?
- How can I protect my downside risks by better allocating my investments and structuring my longer term portfolio?
- What research and other information can you provide me with so I can access as much information as possible to make my decisions?
- Are there any additional legal, regulatory or tax considerations?

Restoring faith

Only by being receptive and responsive to the changes in the perception, outlook, needs and behaviour of clients do wealth managers stand a chance at regaining some of the lost trust.

The obvious place to start is listening to clients and trying to fully grasp what they want and how they want it delivered. And then offering that in a simple but practical way.

At the time of writing, senior executives and advisers at many private banks had already begun the long and arduous process of meeting with clients to gauge their reactions and intentions for their accounts. The entry point for practitioners to get talking with clients again has been to try to help them restructure their portfolios; by first figuring out the client's new risk tolerance, investment objectives and long-term needs, wealth managers can then agree on what products, if any, and the style of delivering those products, are most suitable for each client.

Critical for the banks to succeed is for them to be able to tailor each of the various aspects of their business model so their service style meets the changing needs of clients (and regulators), including: the competency of relationship managers; the sales and advisory process; suitability processes, documentation and supervision of general dealing terms; risk management and disclosure; compensation and frequency of reviews of margins; transparency on fees, commissions and reporting; the way they manage client expectations; and the use of behavioural finance techniques (which is discussed in a case study on page 143).

Senior practitioners have outlined some of the inter-related measures which are critical for management to adopt and implement in helping rebuild trust with clients – these are discussed further below:

7 ways to restore client trust

1	Aligning interests	Aligning the interests of the bank and the client
2	Education	Educating clients properly
3	Communication	Improving the level and type of communication between advisers and clients
4	Psychology	Changing the psychology of relationship managers
5	Personality	Matching the experience, skill-set and personality of an adviser to an individual client's needs
6	Best practice	Enhancing and tailoring business processes to improve transparency and fully understand and cater to the needs and objectives of each client
7	Transparency	Providing full disclosure and transparency in terms of products, fees and commissions

1. Aligning the interests of the bank and the client

The first step in rebuilding trust is bringing the needs and goals of the client into line with those of the bank.

That needs to start with a high-level management commitment to making sure the philosophy of acting in the client's best interest runs throughout the firm. It needs to be stated as an overriding objective for everything the bank does on a yearly, quarterly, monthly, weekly and daily basis – from the start of the year in strategy and business development planning, to regular investment advisory initiatives, to morning sales meetings.

A rule of thumb that some practitioners suggested is for advisers to not sell anything they wouldn't buy themselves in theory. Until now, that hasn't been the case at many institutions, where the best thing for the bank in general hasn't been the best thing for the client. From management right through to frontline staff the focus has typically been maximising revenue – increasing transaction volume and earning more fees by providing whichever products will help achieve that, as well as through expanding the network to increase sales.

Discussions to figure out which "idea of the day" relationship managers should be trying to sell their clients need to be replaced by a willingness to do whatever is necessary to educate clients and offer them a product which moves them closer to hitting their goals and puts the clients' ability to make money first. A more consultative approach from relationship managers would help this advisory process (which is discussed later in this chapter).

An important part of putting this into practice is overhauling the revenue model at most firms, so that relationship managers aren't incentivised to sell large quantities of products, and are instead rewarded for developing long-term relationships. (This is discussed in more detail in a later chapter on business models on page 125.)

2. Educating clients properly

Since late 2008, wealth providers have said they have been spending a lot more time and money educating clients on all aspects of their portfolio management. That has included teaching them about different asset classes and how to understand what their risk appetite means for their strategic and tactical asset allocation.

Much more time and effort is required to be spent on education, not just now because of the repercussions from the financial crisis, but on a consistent basis. This needs to be done by relationship managers and investment advisers in person one-on-one with clients, in small tailored workshops on specific topics, via hard- or soft-copy educational materials such as newsletters and client memos, and by online seminars, training and other presentations, including trying to test for understanding.

The banks must show their commitment by allocating more resources than previously to the educational process, for example, sending investment consultants to join relationship managers at client meetings to dis-

cuss topics such as diversification, or investing in a less product-centric way.

Some private banks have also launched initiatives where they are paying clients to attend theoretical finance classes at local universities, for instance to help those clients become better-placed to understand a relationship manager's motivations behind recommending certain products. Such an approach is good marketing at times of economic suffering and uncertainty.

Banks also need to work out what education clients need on a long-term basis. For instance, the performance focus of clients has in many cases led to a poor level of education about the benefits of and options for wealth preservation and inter-generational transfer.

There is also a need to have honest conversations by teaching them about some of the lessons that banks themselves have learned about leverage, product-pushing and other issues which arose from the financial crisis.

Further, education about a particular bank's franchise and what that institution can do for its clients is one of the key planks of new business models. The mystery shopping experience described earlier clearly shows that this is not happening. So no trust can be established in the first place.

3. Improving the level and type of communication between relationship managers and clients

Wealth managers must be able to provide constant direction to clients on both the performance of their investments as well as the wider portfolio implications and options.

Practitioners said that previously, and especially during the downturn, many relationship managers have offered very little guidance to clients about how products they sold them were performing, either on their own or in the context of the client's portfolio. As a result, it was very difficult for the client to make an educated decision over whether to take profits or losses, and when, and over how to plan for the future.

This communication is also related to the clarity of statements which banks send their clients. Clients have often complained that they don't understand what they get sent, making it the responsibility of the relationship manager to explain it clearly, as well as the bank to tailor the information suitably.

According to an *Asian Banker Research* survey in late 2008, two-thirds of the 40 banking industry professionals in Hong Kong and Singapore polled, including bank chief operating officers, heads of retail and wealth management, senior product managers and relationship managers, said they recognised the need for increasing the level of communication with clients to forge mutually rewarding relationships. Forty-three percent of the respondents admitted the inadequacy of customer communication in their institutions.

The survey also found that while banks have been reaching out to customers across multiple channels, this has mostly been too impersonal. For example, e-mail was the most frequent method, according to the survey, accounting for 69% of communication, suggesting need for more face-to-face communications with clients. At the same time, 40% of survey respondents indicated that administrative hassles are the barriers to improving communication, followed by performance targets (38%) and service fulfillment (35%).

The three most important areas the survey identified for improving the quality and documentation of customer communication were risk profiling (33%), information disclosure (30%) and analysis reviews (28%).

4. Changing the psychology of relationship managers

Tied to the need for more communication is the requirement for management to fix the psychology of frontline staff, to make sure clients are kept abreast of the reality of their situation – in essence, contacting them regularly when market movements impact their investments and overall portfolio, especially if in a negative way.

That problem was most acute during the volatile times of falling markets and valuations in 2008. Yet advisers were too inexperienced and too afraid to talk to unhappy clients and know what to say. That was in stark contrast to the relationship with clients during bullish markets, when advisers were in weekly, and sometimes daily, contact with clients to offer stock tips and push product.

Key to reforming their approach to clients, whether during good or bad markets, is demonstrating more empathy and accountability with the fact that they are dealing with large chunks of an individual's wealth. That in practice means regular reviews of portfolios with clients, with the frequency dictated by the type of portfolio and investment behaviour of the individual clients.

By staying in contact with clients during tough times, advisers can learn more about how their client behaves in those conditions and start to better understand how their needs and goals might be changing for the long term. Such knowledge can be used to tailor their products and services in the future. Even if that type of approach results in encouraging clients to close loss-making positions, if done in a consultative way then an adviser can strengthen his or her relationship over the long run.

An important part of the psychology of wealth managers is being confident enough to advise against certain investments a client might want to make.

While it is likely to take investors longer to start looking again at complex or innovative products than following previous financial downturns, by their nature Asian clients want the next hottest thing, especially if it offers the potential for high returns. This makes it imperative for advisers to develop a much better understanding of clients' investment psychology and the techniques to manage certain behavioural tendencies (examples of how this can be done are outlined in the behavioural finance case study on page 143). In short, relationship managers need to stand firm when advising a client against buying a particular product if there is a mis-match with that client's risk appetite or his or her overall portfolio mix.

Pre-financial crisis, the asset-grabbing mentality of wealth managers in many cases led an adviser to only quietly warn a client against a certain investment, rather than forgoing a sale if the client said he or she was going to do it anyway through another bank. Now, advisers must be willing to not simply give clients what they ask for, but to try to persuade them what is in their best interests.

5. Matching the experience, skill-set and personality of an adviser to an individual client's needs

Given the urgent need in Asia's wealth management industry for providers to be more responsive to the individual needs of clients, finding a suitable adviser for each client is critical for developing the right type of personal relationship, especially at the private banking level. Gone are the days when inexperienced relationship managers were given product fact sheets, a call list of clients and a script.

Too often overlooked in the past was the importance of growing relationships by getting to know clients in a way that is more similar to the traditional approach taken in private banking in Europe.

This will depend on many factors, such as the risk tolerance, product preferences, time horizon, and short-, medium- and long-term investment needs and objectives of a client, so the individual personality, experience and skill-set of advisers must be carefully assessed to create the best fit.

Age is an obvious example where providers have paid too little attention to matching the right type of adviser to the client. And as second generation clients increasingly take a more prominent role in managing their family wealth, they are far less comfortable trusting a private banker who is a similar age to them; they prefer to deal with advisers who they can see have had more life experience and have gone through financial downturns, for example, so that they are more likely to be composed enough to think of common sense strategies to weather such periods.

Being able to do this effectively will also rely on management hiring the right types of personalities in the first place. New hires need to know what it means to invest hard-earned money: the satisfaction of good performance as well as the fear of losing it.

Being humble yet driven, for example, will make a big difference to the adviser wanting to do the best job possible for the client. Advisers also need to invest time and personal emotion into making every relationship work; such emotion became lost in the race for revenue, and adviser-client relationships suffered as a result.

Clients have learnt from the financial crisis how to better judge the reliability and quality of their bankers, so more accurately tell who has the personality to remain resolute in a financial crisis.

Creating a multi-disciplinary, team-based approach will help firms meet the different needs of each client. With relationship managers trying in the past in many cases to hide their client books by being protective over their relationship, clients have realised that they have been getting less value than they should have. Ensuring clients have a broader relationship with the institution is necessary to be able to fully service a client and know how to advise on his or her best interests in all aspects of their wealth.

6. Enhancing and tailoring business processes to improve transparency and fully understand and cater to the needs and objectives of each client

By putting proper, tailored processes in place to vet clients, and fully understanding and documenting their risk tolerance and level of sophistication, wealth providers can more accurately identify mis-matches between client and product, in turn meeting the requests of clients for more suitable product with much greater transparency and clearer documentation.

In line with this, banks must also be able to identify the difference between a client's "real" risk appetite and his or her stated risk appetite – that tends to only get exposed when losses start being incurred.

By early 2009, some banks had started to use updated versions of existing questionnaires, for example, to try to highlight clients' needs, goals and ambitions, and in particular how this might have changed.

Better risk profiling will help banks spell out more explicitly what something like "moderate" or "speculative" actually means, and what impact that has on a client's portfolio, overall risk appetite and investment strategy. This is also important where a client deviates from this classification and is deemed to be taking more risk than his or her profile parameters dictate.

The banks need to be able to show a reliable audit trail of the following types of things: the conversation with the client, and that it was the right type of conversation held in an appropriate way, and that the client understood what he or she was doing, and that the risks were fully and clearly explained.

Important to suitability and general business processes is also making sure the banks show clients how the wealth manager intends to service them going forward. Part of that will require advisers to go back to basics and explain to clients the entire process, including aspects such as how the banks collect and hold their deposits, how they are looked after, what they will do with them, what the level of disclosure will be, how they will churn out a reasonable risk-return, how they will monitor and assess the portfolio, how they will charge clients, and how they will provide feedback.

7. Providing full disclosure and transparency in terms of products, fees and commissions

Banks should keep in mind that a brokerage-style sales model is not a bad thing in itself; the key is maintaining transparency over the fees and commissions, and ensuring clients know what they are buying and why they are buying it for their portfolio.

In the absence of investor confidence and risk appetite, wealth managers need to provide the simpler, more transparent products which their clients are asking for.

With that comes a responsibility to ensure all relevant information is disclosed and clients understand the product, how it fits within that individual's portfolio from a suitability perspective, and the cost of that product. The key is to show that there are neither hidden fees nor unidentified risks which are beyond the client's tolerance level.

The Madoff and Stanford frauds in the US highlight the unwelcome outcomes when asset managers fail to adhere to the basic principles of fairness, transparency and ethical conduct. It is hard to defend those parties which essentially allow a fund manager to act as his or her own custodian, fund administrator and broker. Yet Madoff fooled not just the typical retail investor but also so-called professional investors.

Disclosure of remuneration is already part of the regulatory reforms underway in the Singapore retail wealth management space, courtesy of the Monetary Authority of Singapore's (MAS') proposals in its review of the regulatory regime for the sale and marketing of unlisted investment products.

One of the proposals is that in addition to the disclosure of the remuneration received by the company, including any commission, fee or other benefit, for selling investment products, representatives should also disclose the remuneration they receive from the sale. "There are concerns that representatives may be financially motivated to sell particular products that may not be suitable for the customer," said the MAS.

The regulator did recognise the practical implementation issues with requiring such disclosure, especially that there is no standard way in which firms remunerate representatives for advising and selling investment products.

With the industry heading it that direction, it bodes well for proponents of products such as exchange-traded funds (ETFs). While the size and scope of infrastructure in markets like Germany for these products dwarfs what exists in Asia, ETFs have a lot of potential in the region. There has been an increasing focus on exchange-traded products due to transparency, cost reduction and liquidity. At the same time as product trends in Asia are likely be regulatory driven going forward, that will help in banks' efforts to rebuild client confidence.

CASE STUDY

Making transparency and long-term relationships pay

Since it was set up in mid-2003, Javelin Wealth Management has challenged the typical business model of the private banking industry in Asia.

In delivering what it describes as a combination of wealth management, private banking and asset management services to clients with US$250,000 or more to invest, the approach of this Singapore-licensed firm includes: charging clients for its advice; providing full transparency in terms of fees and costs; and offering impartial and objective financial counsel through being wholly employee-owned, rather than tied to any product provider.

This way of doing business, more akin to the style and structure of financial advisory services in Australia than Singapore or Hong Kong, is rooted in the personal views – and investing experience – of chief executive officer Stephen Davies. He is adamant that the industry in Asia has largely failed investors in terms of objective product advice, technical knowledge, customer service and fee disclosure.

"Most private banks and wealth management firms have been operating a sales-driven model," explains Davies. "That model has therefore meant that private banks have primarily focused on asset accumulation." Many Asian clients had excessive expectations of returns, which led to an under-pricing of risk, he adds, but clarifies that many private banks and wealth managers appeared to encourage this approach through, for instance, the use of leverage, which was counted as incremental AUM growth by many private banks and was therefore used in setting targets.

More closely aligning the interests of the client and the service provider is an important lesson for all parties to learn from the financial crisis, says Davies. "There also needs to be a stronger focus on risk-adjusted returns when building and managing portfolios, as well as making sure clients understand the full measure of risks being incurred. And it must be properly understood that long-term business relationships and short-term revenue maximisation are not always compatible."

A consultative approach

Having already identified some of the shortcomings of the existing wealth management model well before the recent bull-run, Davies wanted to create a business which fills the cracks, and sacrifices short-term revenue for longer-term goals.

"We started from scratch by building our model from the client's perspective, which meant using our own mis-adventures as private banking clients as a means of how not to do things," he explains. "We did not inherit a legacy structure of high costs. As a private company we have no revenue targets to meet and therefore adopt a business development approach that will measure its success over a period of years, rather than the next quarter."

There are six steps to Javelin's advisory process:

> **1. Listening** – to the potential client's requirements. Davies says that to be sure Javelin can provide the consistent quality and appropriateness of advice it promotes, it has become a requirement for the firm to turn some clients away. "The objectives of some accounts are incompatible with what we do," he explains. "While we aim to help whenever we can, there may be occasions on which the fit is not right, in which case we will do our best to recommend sensible alternatives." For example, he says, some trading styles or requests for information are not cost-effective for the firm to provide, for either party. Instead, Javelin can be

more valuable by looking after that client's pool of assets which they might not want to take as much risk with.

2. Understanding – the client's financial circumstances, risk profile and investment objectives. The firm has devised an extensive questionnaire to cover all aspects of a client's financial life, both in terms of current commitments, such as salary, savings and loans, as well as future aspirations, for instance children's education, retirement plans and estate planning. Such an extensive needs-based financial review process takes a lot longer than a client might experience at many traditional wealth management providers. Davies makes no apologies: "Our clients will not see a product recommendation from us until this process has been completed. It's impossible to recommend anything until we know whether it's either appropriate or necessary."

3. Evaluating – the client's attitude to risk as well as their capacity to take on risk. Davies says Javelin also needs to be sure that its clients are able to accept the risks that go with investing and are comfortable with the concept. "For instance, is there a full understanding that returns are seldom guaranteed and that higher returns are usually only achieved through and acceptance of higher risk, and the possibility of losses that go with that?"

4. Reporting – the results of the questionnaire in a detailed analysis for the client, including a list of investment and/or other product recommendations together with the costs and fees involved.

5. Transacting – on the basis of the client accepting the report's recommendations and signing a terms of engagement letter. "This details the fully disclosed fee and commission agreed with the client, the scope of our service and its duration," says Davies, adding that this commitment means the clients know exactly what the firm receives on any product it recommends. In addition, the client is the one who decides the fee and commission structure they are most comfortable with, subject to the basic tariff schedule – anything from an upfront commission at one end of the spectrum through to an annual fee at the other. Billing is either made by prior arrangement with the product provider, where clients arrange for providers to pay Javelin direct from the client's account with them. Or Javelin invoices clients directly. By negotiating fees and commissions at the outset, clients know exactly what they are paying for. "We deliberately do not have high, early-exit penalties, which shows our clients that if they want to

take their money away, they can. Our job is to ensure that they remain happy with what we're doing so that they stay with us for the long term."

6. Monitoring – the client's account on an ongoing basis as the basis of building a long-term relationship. "We monitor all client investments and ensure that all active clients receive monthly statements from Javelin and updates on the performance of their investments," says Davies. He adds that he is quick to tell new customers that he is as focused, if not more, on the 50th or 100th engagement with an individual client as he is on the first.

For those clients who complete the advisory process, most end up holding their tailored investments in a "wrap" style portfolio account. This helps to minimise establishment and ongoing charges, and to maximise administrative convenience, says Davies. "In all cases, cost minimisation and transparency is of critical importance. We make extensive use of exchange-traded funds and index funds for this reason: low cost, high liquidity and optimal use for asset allocation purposes."

Resisting some of the opportunities in 2006 and 2007 to sell sought-after investment products for short-term revenue was easy for Javelin. "If it didn't meet our criteria for simplicity and transparency, we didn't recommend it," says Davies. "In addition, we also have a self-imposed restriction on not selling any fund or product that does not have a minimum 12- to 18-month track record, which avoids a 'flavour of the month' sales-oriented approach."

He adds that Javelin is always mindful that it has to stand by its recommendations to clients and often backs up recommendations by co-investing alongside clients. "A case in point was that in 2004, we reviewed a feeder fund-of-funds which had a great track record," says Davies. "Unfortunately, because they would not allow us to do any due diligence on the underlying manager, we decided against recommending it to our clients. It turned out that the underlying manager was Bernard Madoff."

Winning clients' trust

Advice on pension planning, savings plans, life, medical and critical illness policies, and on disability protection schemes, is also part of the package. But the firm also admits its limitations, promoting its relationships with a number of specialist wealth management and advisory partners which pro-

vide advice on specialist issues such as tax and estate planning, trusts and related legal issues.

In fact, Davies says that lacking the infrastructure of big institutions, for example research departments or access to experts in certain areas, is a positive and means Javelin can source larger institutions which complement what the firm does. "Clients like that their account can therefore be structured in ways that suits them, rather than structured to fit the service range of one specific institution," he says.

Javelin remains a small operation, with just three advisers. Rather than private banking backgrounds, their combination of many years of experience in the financial markets and personal investing creates a different philosophy in terms of how they look to develop the business. Plus clients can work with an adviser who has lived and worked through market cycles.

To date, Javelin has grown as a result of continued support of clients who have valued the difference the firm offers. Most new business comes from referrals from existing clients.

Throughout the financial crisis, Davies says he and his colleagues were intent on maintaining regular dialogue with clients, to work with them to manage their portfolios. "We continued to send the client tailored monthly statements, including a specific, written comment from us on the performance of their portfolio and any accompanying recommendations," he explains. This is a radically different approach from the computer-generated statements churned out by many private banks. Realistically the banks couldn't do this for procedural and compliance reasons, but Davies says it is an example of an important area in which it pays to be small and flexible.

He says that most of Javelin's client portfolios declined by an average of 15% to 18% in 2008. "And this may be overstating the decline since we encouraged clients to take their cash out of their accounts with us if they could get higher yields elsewhere," he adds. "We know this money will come back at some stage even if, on a short-term basis, we are apparently encouraging AUM to go elsewhere." As at end August 2008, the firm's average portfolio was less than 25% exposed to equities and nearly 40% in cash.

Davies says the firm experienced no client defections during the financial crisis.

Catching on

Davies says Javelin's biggest competitive disadvantage two years ago was its lack of size, scale, brand and reputation. The market shake-up in 2008 showed, however, that all of these previous positives which private banks could tout to clients had in many cases become disadvantages. "By being small and (hopefully) beautiful, we have avoided all of this," he says. "We now have a clear track record and a reputation that speaks for itself. The only scale-related issue we still face is in getting our story more widely known amongst our target client base."

At present, he says it's too early to tell whether clients who have seen large chunks of their wealth destroyed in the last 12 to 18 months will demand a change in approach on the part of their advisers, or whether inertia will mean that relatively little happens.

In general, Asian clients remain wary of fee-based advisory services, as they regard these as a "second layer of fees", says Davies. "They have not yet moved to comparing like with like, primarily due to the lack of full transparency on the all-inclusive private banking charging model, where the real cost is often built into larger bid/offer spreads or longer lock-up periods."

To date, Davies says those clients who place most value in fee-based services have tended to be individuals with more of an international background and therefore a global view. They have come to realise more specifically that price is what they pay and value is what they get, with the former a function of the latter.

A small but slowly growing number of private bankers have started to move in the direction of transparency and tailored advice, says Davies. Some have left former employers during the crisis and set up fee-based, quasi-family office structures with a handful of clients with them.

Regardless of how business models and service styles do adapt in today's new financial landscape, Davies says that fuller transparency in fees and commissions is critical for the industry to rebuild client trust.

chapter six

Sales framework

How to become a trusted adviser

In this chapter:

- The 6 key questions advisers must constantly ask themselves.
- 23 success tips to help advisers build long-term, sustainable relationships with clients.
- The sales cycle: a step-by-step guide for advisers before, during and after a meeting with existing and potential clients.

Most of the proven ways for wealth advisers to build and protect their relationships with clients is based on quality service and flawless execution.

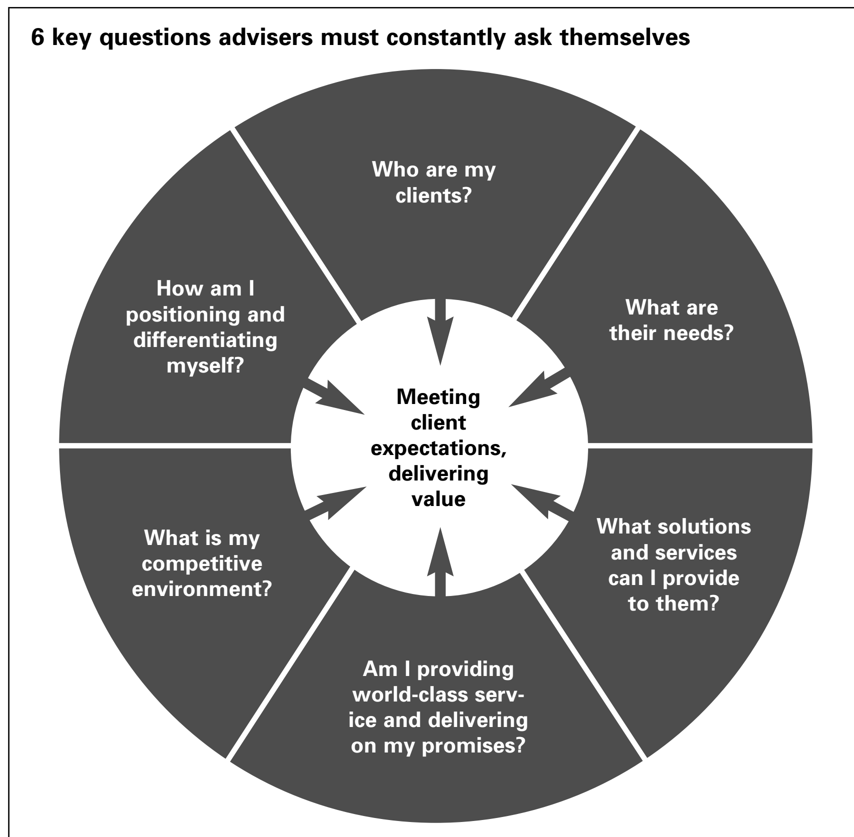
The sales process is key to that, and this chapter draws from countless conversations and experiences to help advisers acquire, retain, cultivate and manage first-class relationships with clients – with the ultimate goal of evolving from a “talking advert” to a trusted adviser.

Don’t forget the basics

Clients are the best salespeople any adviser has, whereas unhappy clients will rapidly tarnish an adviser’s reputation as well as the bank’s franchise.

Given that it’s significantly more difficult to win new business than retain existing clients, advisers need to do the following on a daily basis to manage and meet expectations, as well as deliver value:

6 key questions advisers must constantly ask themselves



Positioning and differentiation are critical for any relationship manager. Positioning refers to the way an adviser's clients think and talk about the adviser and the bank when they are not there. The position that the adviser holds in the client's mind determines all of his or her reactions and interactions with the adviser.

In this new environment, the adviser's position determines whether the client transacts at all, whether he or she trades frequently, and whether he or she refers others to the adviser.

Integrating project management, sales and marketing efforts is essential to engaging clients, but advisers must bear in mind the 23 insights and tips below if they want to succeed in the sales cycle outlined later in this chapter.

Many of the things in the list below seem obvious, but are rarely applied, so those advisers who want a successful career in wealth management in Asia have an opportunity in today's market to stand apart from the crowd:

1. 20% of salespeople in any organisation generate 80% of the revenue.

2. Ask for more business from existing clients.

3. Don't wait for referrals; be proactive in seeking out ways to meet new potential clients.

4. Under-promise and over-deliver.

5. Never appear desperate for a sale, and never burn bridges.

6. Remember, you can never ask enough questions.

7. Think about what motivates your clients and what they are most likely to respond to in a sales pitch, for example making money, or not wanting to miss out on an opportunity.

8. Clients don't forgive advisers who waste their time.

9. Don't lie about what you or the firm can offer.

10. Don't be distracted by internal politics or anything which isn't relevant to your responsibilities and role as a relationship manager; spend most of your time helping clients.

11. Don't ever be afraid to ask stupid questions.

12. Building positive relationships with clients is only ever going to be achieved by having regular face-to-face meetings with them.

13. Try to be realistic about where your relationship with your client is at, which can be achieved by asking the client that question.

14. Don't make assumptions about your relationship with your clients and take it for granted; ask them regularly questions such as how you are getting on, whether there is anything you should be doing which you might not be, and how you can add more value to them.

15. Relationships with clients either get better or worse with every interaction, they never stand still.

16. Everything that an adviser does with regard to his or her client affects the way the client thinks about the adviser.

17. Make the effort and do the research to create a positive first impression in your client acquisition process; it is almost impossible to recover from a bad first experience.

18. Remember that there are two ways to make a positive impression: making a positive impression, and not making a negative impression.

19. Follow up meetings with clients with a phone call and an email.

20. Don't take on a client where you feel that your style and the firm culture are not aligned with the interests of that client.

21. Make a written plan for every hour of every day, and stick to it; it you don't have one you are setting yourself up to fail.

22. Create blocks of time when you can focus on getting important tasks achieved, and then complete those tasks one at a time.

23. Don't waste time with clients who you don't think will ever earn the firm – or you – much money; make sure that everyone you deal with is aligned with the goals of being a profitable wealth manager.

The sales cycle

The starting point of the sales process for advisers is to find clients they can add value to who represent long-term and profitable growth opportunities and then for the advisers to differentiate themselves from their competition.

Once that is done, advisers can follow the step-by-step process below to maximise sales and minimise wasted effort when dealing with clients. (Much of what is discussed below applies to both existing and potential clients, although advisers will need to tailor those parts which are clearly more relevant to one group or the other.)

Arranging the meeting

- First impressions count for everything.
- Once as much research as possible has been conducted based on what is already known about that client, then the client should be engaged in the most direct and courteous way.
- It's important to sell the meeting, and not get drawn into selling to them on the phone.
- Once a potential client has a negative impression, then it is hard to recover.
- Send a confirmation email for the meeting; and send a re-confirmation for the meeting the day before.
- Always build a positive relationship with a client's assistants and other associates who act as gatekeepers.
- Ensure a client's contact information is correct from day one.

Before the meeting

- Research as much as possible about the client, and try to identify existing clients with similar demographics. If it is a new referral, research the existing client.
- Understand what products and services might be relevant to add-value to the client before the meeting, based on whatever demographics are already known.
- If what the bank can do for this client isn't clear, then be sure to identify how to get that information in the meeting so that the client's time isn't wasted.
- Send a short outline prior to the meeting of the format of the meeting, what will be discussed, what the aim of the meeting is, and what will

be required from the client. This saves time, manages expectations in advance and means that the meeting will be focused.
- Prepare for questions from clients.
- Remember: that the fact the client has agreed to meet means he or she is likely to be interested in opening an account or doing a transaction.

The meeting

- Turn up ahead of time.
- Never talk about the client immediately before or after the meeting; who knows who might be listening?
- Inside the meeting room, prepare everything that is needed for the meeting.
- Don't sit down before the client arrives or sits down.
- Do the introductions in a clear and confident manner.
- Confirm how much time the client has for the meeting.
- Clearly tell the client what the intentions and expectations are for the meeting.
- Ask permission to ask questions and take notes. These will be very important to keep an accurate record of what was discussed as well as creating a clearer picture of the client and his or her needs over time.
- Talk 20% of the time; listen 80% of the time.
- Always be positive.
- Never disagree with a client. If they say negative things, use this as a positive opportunity to dig deeper and ask more questions. Don't even react, and never look miserable.
- Be clear about the style and approach of the bank towards wealth management, and explain clearly why it does or doesn't provide certain products and services.
- Never comment on the competition. If drawn into this question the best response is: "I never comment on them, because I know they never comment on us". Comment generally on how the bank differentiates itself in the market.
- Never lie in response to a difficult question from a client. Instead, promise to get back to them with the best person to answer that query rather than not providing the fullest answer possible.
- Don't be obsessed on selling one product; be open to a client's suggestions on what they are interested in as part of their wider wealth goals and needs as this might lead to more business , and over a longer period of time.
- Ask permission to send the client a follow-up or proposal.

The key to a successful meeting is to ask smart and proactive questions (and listen to the answers), for example: what the client is trying to achieve in the context of their wealth; what their expectations are; what financial education needs they might have; what experiences they might have had with other wealth managers; what problems, issues or concerns they have about their financial situation and future; what help they think they might need with their wealth management; and what they want from a long-term relationship with a wealth manager.

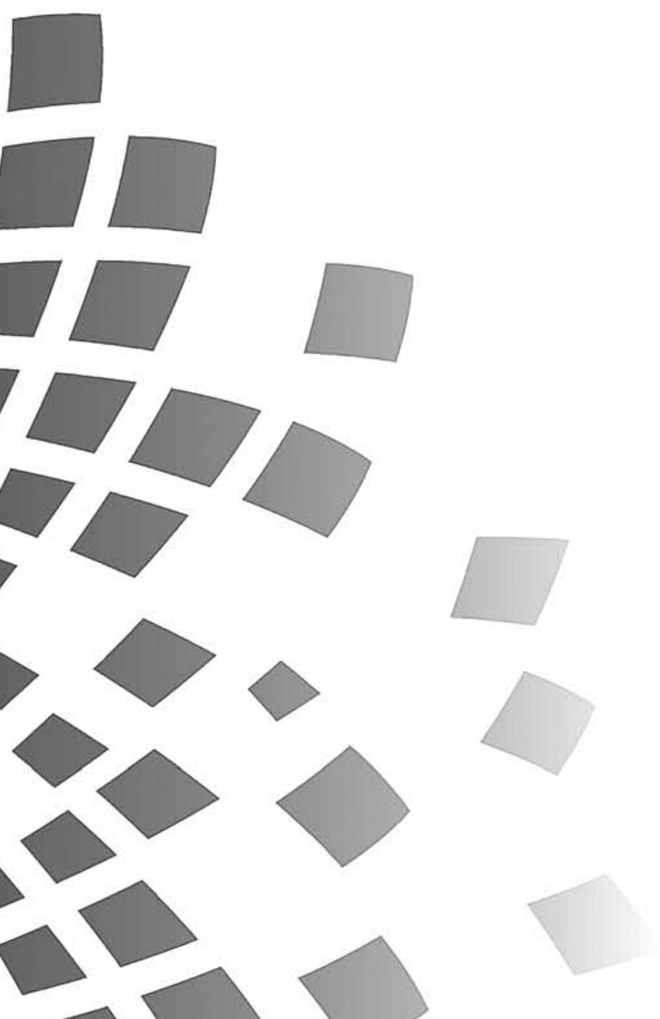
After the meeting

- Send a hand written "thank you" note the same day.
- Evaluate the client in terms of attitude to risk and overall goals, to see which product and service recommendations are appropriate.
- Set a timeframe for a decision.
- Arrange a time for the client to meet with other advisers and consultants within your firm if necessary.

After the sale

- Remember that the sale is easy compared with managing the expectations of the client and delivering on promises.
- Not delivering the promised outcome to a client will result in them not coming back to trade again, and potentially commenting negatively to family, friends and colleagues.
- Every written communication to a client must be clear and correct.
- Arrange regular times and dates, which suit the client, to follow up and review investments and the overall portfolio objectives.
- Send regular updates on market trends and any broader economic or geo-political developments which are relevant to the client's interests.
- Depending on the needs of each client, arrange to do a regular review of their risk appetite, needs and goals to more effectively monitor the suitability of their portfolio.

The longer the sales cycle, the less chance advisers have of closing the sale. This is based on the fact that clients have a short focus, plus there is a lot of competition.



CASE STUDY

A 9-step brand strategy for Asia

The approach private banks have taken towards their branding in Asia to date has largely focused on creating awareness of who they are and what they do, rather than highlighting how they differentiate themselves.

"The way this industry has branded itself in Asia reminds me of the early days of the mobile phone sector," notes business and brand expert Martin Roll, chief executive officer of strategic advisory firm VentureRepublic and author of global bestseller *Asian Brand Strategy*. "Much of the adverting at that stage showed a businessperson in a striking pinstripe suit boldly using an expensive mobile handset."

The branding challenge for private banks has stemmed from the relative youth of the industry in the region. Governments themselves have only gotten in on the branding game relatively recently, witnessed by Singapore's efforts to become Asia's wealth management hub.

Roll admits that awareness-building was important in the early stages for the many European and North American private banks wanting to

show their commitment to the region by putting people, systems and technology on the ground, rather than being seen as suitcase bankers. They also used that strategy to get closer to investors, to better understand local cultures, investment traits and wealth goals. "A lot of wealthy individuals and families in Asia managed their own money previously, getting advice in less formal ways from their lawyers and other trusted advisers," says Roll.

But placing large adverts in newspapers and magazines, for example, or expensive commercials on television, doesn't differentiate one institution from the next, making it difficult for many wealthy individuals to choose rationally which private bank to use. Particular to Asian clients also, says Roll, even more than European or North American clients, is the focus on building relationships based on trust.

"Private banks simply need to move on and make brand-building and sustaining their brands more strategic tasks," he says.

Given the pressing need for private banks to re-establish trust with clients and differentiate themselves, Roll suggests 9 practical steps private banks can take to create an effective brand strategy in Asia:

1. Elevate the marketing function

According to Roll, many consumer industries have seen benefits to the value of corporate brands by giving the marketing officer (or whoever is responsible for branding) a more prominent role in strategic decision making. "Singapore Airlines, Aman Resorts and Mandarin Oriental Hotels are three of the leading brands in Asia which cater well to affluent customers, and where branding plays a pivotal role in their success," he says. "Branding in those cases is led by the boardroom."

By making the transformation and elevating branding to that level, led by a chief marketing officer, and delivering it throughout the entire organisation, Roll says private banks can also use branding to drive revenue and earn customer loyalty. "Branding is very tactical in many organisations and is viewed as advertising and promotion. Instead, branding needs to be seen as long term and very strategic; it has to be guarded carefully by the chief executive officer."

Delegating such an important function to someone outside of the management team will result in empty advertising messages as it is far less likely

that they would have earned the required buy-in at board level to make them effective.

Delivering on the promises of the organisation's various touch points can only be done by the commitment and direction of management. In practice, that is a result of the way the organisation's policies related to hiring, training and developing staff, and its overall processes, are implemented. That is challenge for any brand, says Roll, and most brands fail to achieve that.

2. Take a long-term approach to client relationships

Private banks need to clearly state – and then prove – their intentions to be a mentor and coach to their clients, says Roll.

This is a difficult thing to do, especially since it cannot be achieved in the first few years. But their branding needs to emphasise and re-emphasise this, he advises, so that while clients might initially just regard their adviser as a functional banker, the adviser will slowly win their trust.

3. Create an emotional attachment with the client

Roll says most well-established brands have two key attributes which attract clients: rational and emotional. Rationality is more readily achievable in Asia, he explains, as local clients take a very practical, logical approach to their investments in terms of their focus on outcomes and returns. Yet long-term bonds between client and institution are rare in private banking in Asia.

Roll says the industry's infancy is part of the reason, linked to the younger age and inexperience of many advisers. Another important factor, he adds, is that the private banking brands have been unable to develop their own personalities. So connections between clients and their bankers lack the necessary emotional drivers. While the products that institutions sell fulfill the tangible, functional needs of their brand, the emotional side is linked to feelings of partnership, which go beyond product and market cycles.

Paying more attention in the branding message to a client's family and transition issues, and the nature of relationships with sons, daughters and other relevant individuals, is an important part of this process, says Roll.

4. Develop one-on-one relationships

In Roll's view, the essence of private banking boils down to one-on-one relationships.

This means branding efforts should be more sophisticated in the ways they show clients how and why they get more value and personal attention by using a particular bank's services as opposed to a competitor. This again will take time, he says, but should be a consistent message.

5. Focus on client touch-points

Since a private banking client has many interfaces with the brand, the organisation needs to get each touch-point right, advises Roll.

Private banking only exists in the moments of interaction between the adviser and the client, he explains, whether on the phone, at a client educational workshop or playing golf. What matters, says Roll, is that during any interaction, the adviser can extract more knowledge and insight into the client and his or her needs. For example, he says, using airline brands as a benchmark, they control every moment of a customer's experience of them when they are in the air, so this is an opportunity to get to know them better and interfere in a positive way with the customer.

For private banks, understanding a client's family-related issues and his or her perspective on that is core to the entire relationship, often being the strongest promise a bank can make, says Roll.

6. Deliver on promises

Faced with intense competition, private banks in Asia must avoid making promises in the way they brand themselves about offering better pricing, services or products unless they can fully deliver on those, says Roll.

The banks need to understand that their brand is not built purely on their physical offering, but also on the mutual trust in their relationships with their clients, he explains. It is better for them to get a small fraction of a client's business initially, and then prove they can fulfill their expectations and do a better job than a competitor.

Singapore Airlines is a good example of an Asian brand which delivers on its promise to give customers "A Great Way to Fly", says Roll. That could

easily become an empty promise, he explains, but because the company lives up to its word and delivers on this touch point, it leads to very effective branding.

7. Redesign products and services

Roll says private banks must look more closely at the structures of their products and their related risk profiles to see how they can be tailored to the changing tastes of different client types.

He points to the example of certain consumer brands, especially clothing and fashion labels, which lost their connection with their markets in the 1990s because they fell out of touch with changing tastes and appetites. Rectifying that involved those companies having to be innovative in their product development and being savvy in how they marketed these new products.

Private banks can also learn from Asia's penchant for prestigious brands, says Roll. "Asian consumers are picky, so private banks need to tailor their offerings carefully. Consumers are used to very sophisticated brands from the West, so private banks need to step up and deliver at their best."

8. Measure the outcome

Being able to measure the outcome of a branding campaign, or of a client's response to delivered promises, is key to understanding the strength of the brand and how strong it can become, says Roll.

Private banks must therefore develop appropriate brand metrics to assess the effectiveness of their branding efforts, and analyse and adapt them accordingly. Some useful metrics could be: customer lifetime value; brand awareness metrics; preference metrics; market share; price premium; transaction value; and growth rates.

Roll says that private banks can construct their own brand equity systems in order to benchmark and track their brand progression over time versus competing brands.

9. Increase minimum account sizes

In the race to acquire new clients, market share and assets under management, many private banks in recent years lowered the minimum thresholds for account size.

However, to protect its profile by more closely aligning its branding message with the types of client it wants to have, a private bank should be looking to raise account thresholds to levels in sync with those target clients, says Roll.

chapter seven

Training & education

A race to raise standards

In this chapter:

- Why improving the current standards of training and education is vital for a sustainable wealth management industry in Asia.
- Some of the training initiatives to date, highlighting areas where talent development, skills enhancement and competency assessment have been lacking.
- Suggestions for how training and education for wealth managers can be improved.

Improving the skills of advisers so they can provide relevant and trusted advice is the crux of overcoming many of the challenges to rebuild client confidence and achieve many of the goals of Asian's wealth managers.

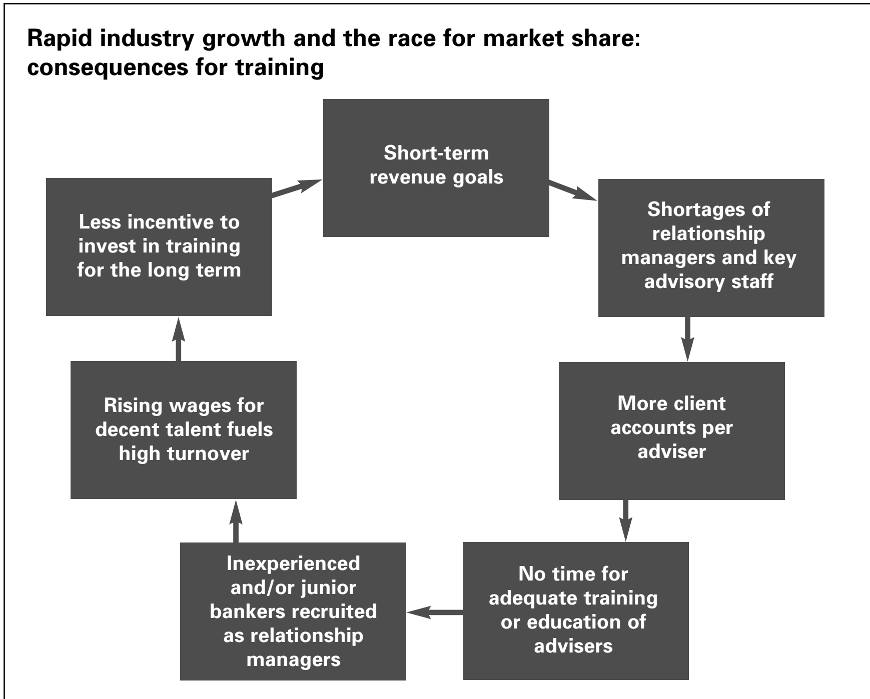
The industry has failed in the majority of cases to build a strong pipeline of new but competent people. Regulators in Singapore and Hong Kong have essentially said as much, requiring a revamp in the way client advisers and salespeople are trained.

Despite various government and market-led programmes and campuses being set up in Asia in recent years – predominantly in Singapore – the rate of industry growth has far exceeded the existing infrastructure to cope with the number of relationship managers and other key staff which need both in-depth education as well as continuous professional development.

The war for talent, which began in 2004 and got more pronounced until mid-2007, fuelled wage spirals which have proven unsustainable, as well as leading to the wrong type of talent being hired. Service quality also suffered as wealth providers tried to plug the resource gap by increasing the number of client accounts each relationship manager had to look after. Plus, training to date has failed to adequately upgrade advisers' soft skills; practitioners have said that attempts in these areas have largely translated into sales training for individual products rather than learning on how to address clients' needs or manage client relationships.

All this is a legacy of the bull-run. With no time for anything other than writing sales tickets and processing trades, banks looked to expand their operations at the expense of training; they didn't have time set up effective programmes for new recruits, or to take existing relationship managers out of action for days at a time to educate them on things which didn't affect their ability to sell the product of the week. Neither did the advisers themselves feel the need.

The fluidity of client advisers in Asia has also been a big part of the problem. As salaries and bonuses soared in line with the intensity of competition for frontline staff across the region, high turnover of relationship managers caused banks to re-think how much money they were investing in training these individuals. The emphasis on training at the management level grew weaker as a result.



By contrast, according to a private bank chief executive, a typical relationship manager in the US has to train for around six to nine months before dealing with any clients.

The lack of regulatory oversight in the private banking industry in general in Asia has also meant that training has remained below par.

How to raise standards

How the region's private and consumer banks upgrade their focus on training and education in response will be closely watched going forward.

The need for a high level of competence is even more acute given current challenges in the financial sector. And financial sector professionals who have learnt their skills during the boom years may now need a very different skill-set to manage risks brought about by this unprecedented financial crisis.

Practitioners agree that higher standards across the industry in the following areas are critical going forward:

- Product knowledge;
- Technical know-how (such as asset allocation and risk management);
- Sales practices;
- Critical thinking;
- Problem solving;
- People skills; and
- Risk management.

Harmonising the quality of education is another important goal. Firms which can achieve this, and then retain their relationship managers, stand to gain from the significant increases in productivity and employee loyalty which are inevitable.

That will help banks ensure their frontline staff have a better chance of providing the right type and level of service, especially in difficult market conditions, to meet the needs of clients of all ages and levels of market experience, as well as being in a position to educate them.

Efforts to cut costs out of the advisory process where possible will also rely to some extent on improving the competency of client advisers. Having a relationship manager who specialises in certain areas might mean that fewer product experts and other staff will need to support that individual. Those banks which have until now adopted a structure where a generalist relationship manager needs to be supported by multiple product and other specialists might find the higher costs associated with employing so many people harder to justify in this environment.

For the banks, this means making sure appropriate in-house training programmes are in place as well as accessing external resources. In all cases, they must ensure the training is specific, measurable and tailored to the bank's culture.

Even in cases where banks such as UBS, Credit Suisse and Citi set up their own training schools in Singapore in a bid to tackle the incessant poaching of staff from competitors, these efforts turned out to be too little, too late.

Given the ever-sharper regulatory spotlight on sales practices at the time of writing, as well as the potential in Hong Kong and Singapore for the introduction of UK-style central registries of advisers in breach of industry codes of conduct, banks have a limited amount of time to put in place the processes to get their training right.

Limited training options

Formal training for wealth managers was largely absent in Asia until around 2003. In September of that year, the Government of Singapore Investment Corporation and Temasek Holdings, with the support of the industry groups, launched the Wealth Management Institute (WMI), Asia's first centre of excellence for wealth management education.

For this and other initiatives, the driver has been recognition of the need for skilled manpower to help Singapore achieve its goal of becoming Asia's wealth management hub. In line with this, the government wanted to make sure that as a people-centric business built on trusted advice and deep relationships, wealth managers would be able to develop the right talent as a key differentiator with which to compete for clients.

The WMI has been aiming to do this in recent years for both senior and junior practitioners through a variety of courses combining academic learning and practical experience, taught by a mix of local and overseas professors and senior industry practitioners (more details are in the box below).

What's on offer in Singapore?

The Master of Science in Wealth Management is the WMI's flagship programme, developed in collaboration with the Singapore Management University and the Swiss Finance Institute. The WMI's website says that the Institute has tailored the 12-month programme to meet the educational needs of post-graduate students wanting to work in wealth management, as well as existing industry practitioners who want to enhance their academic and professional credentials. The programme, which encompasses both asset management and private banking, combines on-campus residential studies and distance learning to teach students the following: the technology that underpins the products used in asset management and private banking; the process of investment management; security analysis; portfolio diversification; valuation and risk management. Those students wanting to specialise in the client relationship aspect of private banking will find the courses on international wealth planning, life-cycle wealth management and managing client relationships very relevant.

The WMI Advanced Wealth Management Programme is designed in line with the FICS and is accredited by the Institute of Banking and Finance in the areas of relationship management – high net worth, and investment advisory services. The programme was developed with key inputs from an advisory committee comprising senior representatives from the major private banks. According to the WMI, the modular structure of the programme provides flexibility for working professionals,

since it targets relationship managers and investment advisers with at least three years of experience, as well as other financial professionals wanting to improve their knowledge and skills in wealth management. The modules cover key areas of wealth management advice, international wealth planning, client management skills, investment products and cutting-edge solutions.

The WMI Certificate in Private Banking is a unique programme designed for individuals keen to pursue a career in private banking. It consists of two modules, each spanning about one month and covering the technical aspects as well as the sales, relationship and advisory aspects of the private banking business. This programme is organised to provide participants with the relevant knowledge and skills to become trusted advisers in approaching, nurturing, servicing and retaining private banking clients. The programme counts for FICS accreditation for training and assessment in the area of relationship management – high net worth.

The WMI Certificate in Trust Services is specially designed for individuals in the trust services industry who want to deepen their understanding of trust administration and trust and estate planning, and for individuals who are keen to pursue a career in these areas. This programme is FICS-accredited for training and assessment in the areas of trust administration and trust and estate planning under the wealth management segment.

In addition, the WMI website says that it has responded to the strong demand for training of asset managers, private bankers and "mass affluent" consumer bankers by providing opportunities for individuals via short courses to upgrade their skills and competence, and at the same time receive some form of accreditation. These courses aim to teach the basics of the professions, including product knowledge, finance/banking, asset allocation, ethics, compliance and legal issues, and client relationship management skills.

The market slowdown has also presented a good opportunity to invest in upgrading skills. The Monetary Authority of Singapore (MAS), for example, has continued to encourage the financial industry to invest in training during the economic downturn by increasing available funding until the end of 2010.

The regulator announced in late 2008 that for those institutions which send their staff for training, it will increase the funding support for training fees from 50% to 70% under the Financial Training Scheme. For training programmes accredited under the Financial Industry Competency Standards (FICS), a higher grant support of 90% will be provided. The regulator also pledged to make funding available to institutions which develop in-house FICS-accredited programmes. For individuals not sponsored by institutions and who pay for their own training, MAS said it will also provide 90% grant support when they attend and complete FICS-accredited programmes.

The case study immediately following this chapter (page 119) further covers some of the background to Singapore's training initiatives, as well as the emerging needs for the wealth management sector.

Yet it is important to state here that despite the value and quality of courses such as those run by the WMI, many industry insiders said there are flaws with such training. These problems can also apply to many of the other programmes offered by private training and education companies.

For example, the WMI has trained 350 individuals per year since inception. Yet to help the industry meet its challenge of increasing the number of qualified and appropriate relationship managers – not just in Singapore but across Asia also – training programmes clearly need to boost intakes significantly. Finding enough qualified people to train the new breed of wealth managers is another challenge in itself.

At the same time, the limited range of bespoke programmes for individual banks has meant that much of the training isn't customised, so the transfer of knowledge from the student back into his or her organisation following the training is easily lost. That can happen since the cultures, advisory styles and best practices at each firm tend to be different, so relationship managers have found it difficult to align the training with his or her bank's goals and processes. Also, their line managers have generally not done the courses. This has made it difficult to create a concrete, practical way to make the training stick at the forefront of an adviser's mind so that it can be regularly used.

As a result, training needs to introduce concepts and vocabulary which the advisers can take away from the courses and then introduce internally.

Part of the challenge arises because although the MAS encourages banks to meet FICS, the banks ultimately develop their own versions and training programmes.

More broadly in the financial planning industry in Asia, efforts by various industry bodies have focused on providing consistent standards and ongoing education through things like the Certified Financial Planner (CFP) designation.

While this isn't compulsory for most financial services practitioners in Asia, it is increasingly seen as a way for advisers to benchmark themselves against their peers, as well as a way for them to potentially differentiate

themselves. However, by not being mandatory, a relatively small percentage of CFPs exist in the region in comparison with the number of individuals selling insurance and financial products.

Noteworthy in the current economic climate has been the generally reduced interest from some Asian students in financial services as a career.

Some of the staff at training and academic institutions said when interviewed that they had witnessed a combination of a loss of "prestige" associated with the sector in the minds of university students, as well as lower potential pay-packets following talk of structural changes in remuneration. That has led to fewer enrollments in general financial courses for 2009 intakes, in comparison with the year before. Interested in 2009 had also shifted to more specific areas of finance, for example quantitative finance, rather than pursuing more general careers in financial advisory roles.

This was coinciding with a reduced number of applications among financial professionals in the CFP qualification in Hong Kong, for example, which those people interviewed for this book attributed to lost confidence in the industry for various reasons.

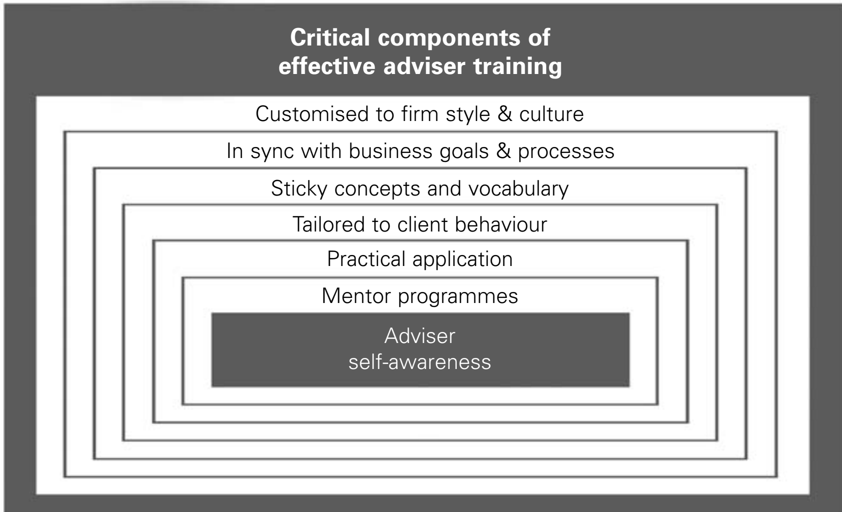
New approaches to training and education

So what approaches towards education and training are most appropriate for wealth managers in Asia today to become better qualified to give the sort of advice investors need and expect?

Regardless of which training programmes and accreditation courses are available within the industry, the effect of the financial crisis on the adviser-client relationship has proved that nothing beats experience of living through market cycles. Plus, with any qualification, it is difficult to assess how the adviser applies the skills and knowledge in reality.

Tackling these challenges is a big task, but creating a learning environment where advisers can learn from each other and from the firm's clients is the first step in this direction.

Practitioners interviewed said that management needs to incorporate into the education process a skew towards the bank's particular culture and style, as well as its business strategies – rather than rely on more general



academic programmes for training their relationship managers in anything other than industry basics.

Relationship managers also need to be trained to be able to do a total re-assessment of how they interact with clients. Advisers need to know their clients properly to help create an appropriate portfolio, strategy and product-set for them. The days of relying on a systematic approach to knowing them through a tick-box mentality are over. That will involve them working on and developing skills such as account planning, client interaction, providing regular assessments, and being able to determine whether a certain product, idea or strategy is right for a particular client, or whether the client should invest a much smaller amount than desired. Working initially with advisers to get them to create such financial plans based on different scenarios would help them put everything into practice.

First-hand experience from seasoned bankers is another important part of the process. For wealth managers already in the job, they have realised that they have a lot of missing parts to their skill-set which cannot be taught through academic-style training.

Being coached on getting to know themselves better in terms of their aspirations and individual personalities would help wealth managers develop more relevant experience to deal with clients. That would also help them understand how they react in certain situations and how to empathise with clients.

Each financial institution also needs to review and fine-tune its own human resources policies to focus on proactive employee retention programmes that go beyond dollars and cents. People management that offers staff opportunities for personal and professional growth is critical to that success.

Whatever approach banks take, now is the time they have to step up and properly train their staff. Said one private bank chief executive during an interview: “It will be a shame to let this crisis go to waste in terms of not taking the opportunity to reinvent and upgrade the training and quality of our frontline staff.”

CASE STUDY

Customising Singapore's training commitment

The wealth management sector in Singapore has registered double-digit growth over the past few years. The pro-business environment enables different players in the wealth management community to tap this growth without compromising on high professional standards. To date, Singapore has attracted the world's top 20 private banks and more than 30 of the 50 leading US and European fund managers. Other factors contributing to this growth have included political stability, a sound regulatory environment and good connectivity. These are reflected in international rankings, for example:

- Joint 4th cleanest nation by Transparency International in its 2008 global corruption rankings;
- 1st in Asia by the Political and Economic Risk Consultancy (PERC) for its legal system, quality of judiciary, quality of political leadership and personal security; and
- 3rd in the Global Financial Centres Index (GFCI) by a City of London report released in March 2009.

Apart from good infrastructure and sound fundamentals, Singapore's government has also been cognisant of the need for skilled manpower to continue propelling the wealth management industry forward, as discussed in the previous chapter. Efforts have been made to build the talent pool in two broad ways: first, by focusing on the pipeline of talent flowing into the industry; and secondly, by raising the capabilities of our existing talent stock.

On the second point, efforts have moved beyond establishing a vibrant and self-sustaining training and education hub to inculcate a systematic and institutionalised approach to up-skill the capabilities of its financial sector workforce.

With this in mind, the Institute of Banking and Finance (IBF), with the support of the Monetary Authority of Singapore (MAS), the Workforce Development Agency, and the industry, launched the Financial Industry Competency Standards (FICS) in September 2005 to benchmark competency standards of financial professionals, including wealth managers, to international best practice. Wealth management was identified as a key component of the initiative, and competency standards have been established for the full range of job families in the industry – from relationship management to product development to trusts and estate planning.

To add momentum to these efforts, various funding schemes were introduced to support the investment by financial institutions in training under the FICS framework since June 2006.

The need for a high level of competence has become even more acute given current challenges in the financial industry. Financial institutions must continue to invest in upgrading skills. Industry professionals who have learnt their skills during the boom years may now need to develop new dimensions of skills to navigate the challenges brought about by the current global economic developments.

Against this backdrop, IBF deputy director Rachie Hui shares her thoughts about the new training needs in Singapore's wealth management sector. (This interview was conducted in late April 2009.)

Q ***What were some of the key successes in talent development, skill enhancement and competency assessment in Singapore's wealth management sector pre-financial crisis?***

A The Wealth Management Institute (WMI) was established in 2003 as a dedicated training centre to cater to the educational needs of the sector. It has attracted a good number of enrolments and helped to train new entrants for the private banks.

In addition, a number of top-tier private banks, such as UBS and Credit Suisse, have set up corporate training centres in Singapore to cater to the talent development, skill enhancement and competency assessment needs of their Asian operations.

Q ***In which particular aspects of these initiatives has the financial crisis exposed flaws?***

A Rather than flaws, the crisis has highlighted some new dimensions of the skills required for advisers.

Q ***What are these skills that advisers need for today's market?***

A The increasing complexity of financial products in the market played a role in the current crisis, in turn reducing clients' appetite for those products. Considering that, advisers need to develop a better understanding of complex products, the ability to better gauge the risk tolerance level of their clients and the ability to stress test clients' investment portfolios based on extreme market conditions, such as the systemic risk that we are currently facing.

Q ***In what ways will regulation drive new training efforts?***

A We can expect higher standards for those individuals who wish to advise on or distribute complex products. This could involve additional regulatory examination requirements.

Financial institutions would also be expected to ensure that adequate training is provided for their relationship managers before they start marketing any complex financial products.

Q ***How can the adviser-client relationship, and especially client trust, be re-established through new training programmes?***

A Client trust can be restored when clients feel that the relationship managers serving them are competent in giving appropriate advice, and able to disclose the inherent risks in layman's terms.

For example, the IBF introduced the FICS in September 2005 to provide job-specific and practical training and assessment for financial practitioners in the industry. For wealth management, the FICS has standards for relationship management which go beyond product knowledge to address practical skills required for advisers to do comprehensive needs analysis of their clients, including their financial situation, current asset holdings and risk tolerance level.

In addition, the FICS provides training on how to perform ongoing monitoring of client portfolios based on the market conditions, and initiate crucial discussions with clients on how to re-balance their portfolios.

Q ***What are the characteristics of a true trusted adviser in the current economic climate?***

A A true trusted adviser should have integrity and competence, and possess commitment to continuing professional development. Given the current economic climate where the market sentiment is volatile, a trusted adviser should be in regular communication with clients about how market movements and events could affect the clients' financial situation.

Q ***How important in the context of the increasing need for measurable and effective training is it to be able to design and implement bespoke programmes for firms and client advisers?***

A It is very important to adopt a customised approach to training, to cater to the specific needs of different wealth management business models and the differing experience levels of advisers. For example, firms which target clients in a particular industry segment would expect their advisers to develop intimate knowledge of that industry segment to provide better advice to that client.

Having said that, considering there is a huge need to restore client confidence at the industry level, there is also a great need for an industry-wide standard which all players in the market should adhere to. That is why the FICS does not prescribe the training approach and content for our accredited providers.

Different financial institutions can design the programmes to cater to their unique needs as long as the minimum curriculum standards are met.

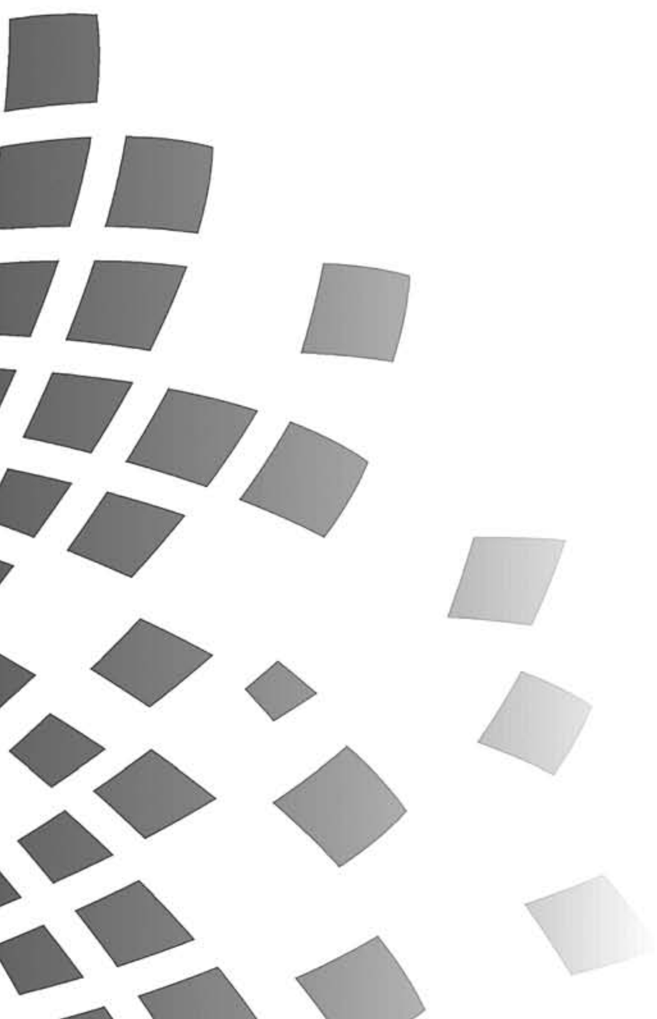
Q ***Apart from more training and qualifications for advisers, what can be done going forward to more effectively assess how they apply their skills and knowledge in reality?***

A To effectively assess how the adviser applies his or her skills and knowledge in reality, the assessment should either be done on the job or in simulated work conditions.

For example, under the FICS framework, a person is assessed to be competent only after he or she has demonstrated the required knowledge and skills through a combination of different assessment methods, including written tests, role plays, interviews and case studies. In addition, the adviser needs testimony from his or her employer to having adequate industry experience before being certified.

Q ***To what extent will you encourage wealth management firms to develop their own internal initiatives, both to train relationship managers and educate clients?***

A It is definitely important for wealth management firms to develop their own internal initiatives to train their own staff, as well as educate clients, to signal the importance that they attach to ensuring the quality of their advisers. However, small firms might not have the resources to sustain a fully-fledged programme in-house. They could leverage on external competency-based programmes and augment that effort with one-on-one coaching by more senior bankers.



chapter eight

Business models

Creating a sustainable future for wealth managers

In this chapter:

- A recap of how the dynamics and key features of Asia's wealth management industry are already changing.
- The potential for banks to introduce new, flexible fee structures for different client services.
- How banks can create more varied, and meritocratic, compensation structures for frontline staff, to weed out underperformers and reward the development of longer-term relationships.
- The benefits for long-term profitability of providing services such as tactical asset allocation, estate planning and inter-generational wealth transfer for clients.
- The rise of self-directed investors.

Throughout the research for this book, Asia's wealth management leaders have echoed the same resounding message: the way the industry has been run now needs to change.

Clearly not all private and retail wealth managers were lured into the trap where commission rather than client needs appear to have been the main motivation behind many product sales. But the prevalence of this approach for so many years has tainted clients' perceptions of the industry as a whole.

So what are the components of a more sustainable business model, where everyone's interests are aligned? And how can the banks make money that way?

Some of the answers have appeared in earlier discussions and case studies related to the regulatory drivers of change in the industry; developing best practices and appropriate suitability processes; understanding investment behaviour; rebuilding client trust; and improving training and education.

This chapter attempts to provide more detail on the potential advisory, fee and remuneration structures which senior management – especially in private banks – can consider putting in place going forward as it looks to transform its organisations.

Change already underway

Before analysing these in detail, it is important to recap some of the relevant changes already taking place in the Asian wealth management landscape.

Among these is a push-back from clients towards the brokerage-style, transaction-based model in favour of a more holistic, advisory-led approach to created structured wealth solutions. The risk side of the investment equation of a client's portfolios is becoming very important to the customer, as is the focus on simpler products and more diversification, leading to lower return expectations which in turn means clients having to take on less risk to achieve their target. In line with this, leverage at the private banking level has been significantly reduced, and for many banks and clients will remain a thing of the past. Fee structures are also changing as some clients are seeing more value in certain types of advice.

In general, suitability and professionalism of advice have become two of the big drivers for the wealth management industry in Asia. That in turn

has made private banks in particular realise that continuing to compete on price is incompatible with generating long-term revenues or the clients' best interests.

In fact, prices of certain products and services will need to rise. Banks can no longer count on the high, hidden fees which came from the sale of large volumes of structured products during the bull market. Plus, they will need to maintain higher quality of staff to deliver the necessary advice, support functions and back-end infrastructure.

Coupled with changing client requirements, rising costs are spurring a sharper focus on segmenting the client base to cater to different needs and according to per-client profitability. For example, management is starting to do cost-benefit analysis to re-assess the investments that firms have been making in the different sales channels, which is helping to determine target revenues for different types of clients.

Yet the number of people who choose private or priority banking as their career is falling, either because they are uncertain about the outlook for remuneration, or because higher standards are leaving no room for inadequacies.

At the same time, niche private banking players which aren't focused on size, nor offering the lowest price for their products and services, are expected to emerge in better shape. The reduction in the overall size of the post-crisis industry in Asia – in terms of assets under management, revenue, staff headcount and clients – is encouraging a few firms to try to increase their market share by hiring new advisers at more affordable prices.

But for those large and high-profile private banking enterprises with dented reputations, many business decisions and marketing strategies which affect their immediate future are being dictated by head offices in Switzerland, North America, the UK or elsewhere in Europe – where there is no second to cost controlling, risk management and transparency.

There is also some evidence of a move towards the Javelin Wealth Management advisory style (seen earlier in the case study on page 89) as some of the displaced wealth advisers realise the benefits in the current environment of working in smaller, more nimble operations which can provide more transparency and tailored advice – assuming that business model can be made to work.

At the other extreme, the largest private banking players are looking at how they might be able to work with independent parties to share operational costs, show greater objectivity and create more integrated product and investment research platforms.

While debates continue over the pros and cons of large versus smaller firms, few industry players interviewed said they think there is much room for medium-sized firms to be profitable.

Part of adapting to the new environment also requires wealth managers to be prepared for a more litigious investor base. Asia, until the recent financial crisis, hasn't had a litigious culture, in part since so many clients want to avoid exposing the fact that they made the wrong investment decisions, or that their wealth has shrunk. But with so many problems and so much wealth destroyed during 2008, clients changed their stance. That will mean the banks need to be careful about implementing effective disclosure processes and audit trails for their own safety, not simply because of regulatory requirements.

Making advice pay

Prominent industry commentators are united in their views that this is a window of opportunity for wealth providers to get their business models right, but only if management is prepared to make fundamental changes.

Against the backdrop of the changes already underway, how fees are structured and charged is a critical part of the future of Asia's private banking industry.

Despite the reluctance of most Asian clients to pay fees for anything other than transaction execution, wealth managers need to be able to offer clients a selection of fee structures for different types of advice. Achieving that is vital as they strive to develop new revenue streams in light of falling fee income from the reduced demand for transactions, coupled with the interest in simpler, more liquid products, from which the bank earns less. Plus, wealth managers can no longer be seen as pushing product.

Firms will have to be patient as clients emerge from painful losses from previous investments. Consumer education also has a role to play, whether through articles in newspapers, or working with the regulators and using their education channels to teach people about investments and retirement planning.

Flexible fee structures would help to facilitate a change in mindset, with different charges for specific services that suits what an individual client needs – and values. Fees for transactions, custody, discretionary accounts, or asset allocation, for example, need to reflect factors such as the types of client, size of accounts, trading volume, frequency of communication with the client, and types of products held in the portfolio. The banks will also need to justify the fees to clients in tangible ways such as improved technology or better-trained relationship managers.

To be able to charge advisory-based fees, relationship managers first need to adopt the traditional values of private bankers in Europe, where they develop a much deeper understanding of the factors built into different categories of products. In addition, frequent calls to clients with insight into market trends and their impacts on client portfolios, which clearly puts their needs and interest first, would also show a level of strategic thinking that clients are likely to value.

Segmenting clients is one of the offshoots within a flexible fee structure. Some private banks will want to shift their focus to high-bracket business with those wealthier clients which require an overall more holistic approach to managing their wealth, and which the bank can therefore offer a range of services at different fee levels (again assuming a higher quality of advice than in the past).

In this model, clients with smaller account sizes would receive a more standardised offering for a different (lower) fee. That would entail a more discretionary, portfolio management service with a more limited product set and capital preservation as the priority. Client-adviser communication might only be on a quarterly or half-yearly basis. With the bank needing to spend less time and resources on that client – in line with the lower revenue the bank earns – it is more feasible to charge less for the service.

At the other end of the scale, for more self-directed or trading-oriented clients, banks would charge realistic transaction fees. That approach might indeed mean more clients would question the benefit of having a private banking account, but product access, prestige and research are expected to remain important pull factors for wealthy clients in the long run.

The way private banks charge their clients fees in Australia provides some templates to consider for the rest of Asia. These are all service fees, and the bank clearly defines what the client gets for the fee paid.

For example, an active client who is a self-driven investor would get charged 40 to 50 basis points on his or her portfolio, plus a transaction fee for each execution. For the 40 to 50 basis-point fee, the client gets the custody service, statements and access to research if wanted. Since the client doesn't need much else from the bank, transaction fees would be charged; that is the minimum fee standard.

At the other end of the spectrum is the maximum fee standard. This is levied on discretionary accounts, with the charge scaling up to 1.5% per year on a client's portfolio if he or she is largely invested in equities, for example, and therefore requires much more active management. If the client's portfolio is mainly composed of fixed income products such as bonds, then the bank might charge 50 to 60 basis points instead on their portfolio. It is done on a client-by-client basis.

In Australia these types of approach are more feasible because there is a fee-for-service culture, so it is possible and acceptable for banks to charge clients.

Nevertheless, the volatility, uncertainty and real wealth destruction which clients have experienced first-hand since the start of the downturn has made them realise the value of getting the right advice.

As a result, wealth managers will need to tailor their resources and expertise to those specialist and strategic issues of most concern to clients. For example, one senior private banking practitioner said at the time of writing that one of his clients had just flown to Singapore for a three-hour, one-on-one discussion about the use of credit default swaps to mitigate risks on his portfolio. Such acts were unheard of before now, but shows, said the source, that clients don't mind paying for an adviser's time in some cases.

Being able to provide analysis that is relevant to an individual client will help wealth managers differentiate themselves, and in turn justify charging for that advice.

The introduction of a multi-disciplinary, team-based approach to advising clients is also an important part of the longer term strategy to charging clients fees in different ways.

By institutionalising the role of the relationship manager and delivering specialist advice to the client across a variety of areas from different parts of the organisation, banks can throw out the counter-productive, single-banker model. Clients can then derive the value of the entire firm.

The moment private banks overhaul their approach to managing client relationships and portfolios in this fashion and start having the sort of strategic and long-term risk management discussions clients are seeking, it is a step towards re-engaging clients in the right way, better managing their expectations and increasing the level of trust.

Now that clients realise it is a lot more challenging to generate endless positive returns on their portfolio, and that there is a real need to protect them from downside risks, they will be less resistant to paying advisers for that type of strategic advice which they might not be able to get elsewhere to the same level of sophistication.

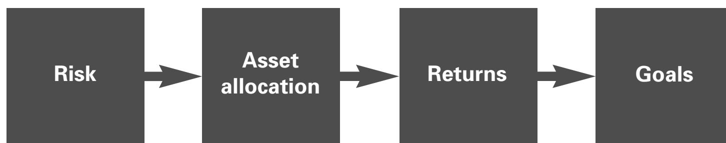
It is key for banks that they realise an AUM growth-driven strategy results in clients, and ultimately the bank, being exposed to a greater level of risk than may have been originally intended.

A new advisory process

An important way to help advisers change their mindset and be able to charge fees for the advice they give is to prove to them that it is indeed their advice to clients which adds the real value.

Yet the traditional model in any financial services business is product led; that has had the effect of externalising the advisory process to the point where the adviser has regarded the product's features and benefits as being the thing which adds value. The established advisory process in Asian wealth management has reinforced that:

A product-led advisory process

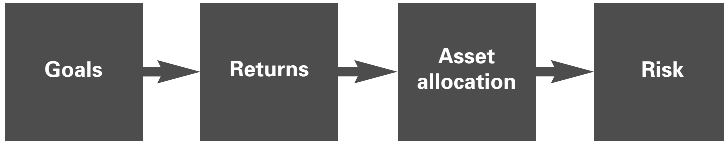


Private and retail banks have sought to identify which products they can sell to each client, and therefore maximise their fee income from transaction revenues, by trying to understand a client's risk appetite first and foremost.

Only after that has happened have advisers looked at the various returns of the different products and how they fit with what the client says are his or her investment goals.

However, that process is skewed towards product sales. Instead, wealth managers need to flip the advisory process around to put clients first and more effectively cater to their needs; such an offering will also create a new revenue stream for the banks by enabling providers to justify charging a fee for their advice.

The 4 parts of a fee-for-service advisory model



Making this new approach work relies on advisers being motivated and retrained to be competent at facilitating discussions with clients about their goals at the start of the advisory process and before anything else is discussed. That requires a more consultative approach along with the ability to understand the client's individual situation and needs before identifying the best way forward for that client.

If an adviser can map out a client's goals in an accurate way, it then becomes easier to determine what returns are needed – and are realistic – to reach these objectives. It makes it possible for the adviser to find an appropriate asset allocation for the client. The risk discussion can then be held in the context of a client's goals, and his or her options for achieving those goals.

This requires a lot more adviser skill and judgement throughout, and enables the client to make more informed decisions about his or her real risk appetite and therefore their investment strategy.

New incentives

How, and how much, relationship managers get paid has been another hotly-debated topic in the Asian wealth management industry; creating more varied, and meritocratic, remuneration structures is central to a sustainable business model.

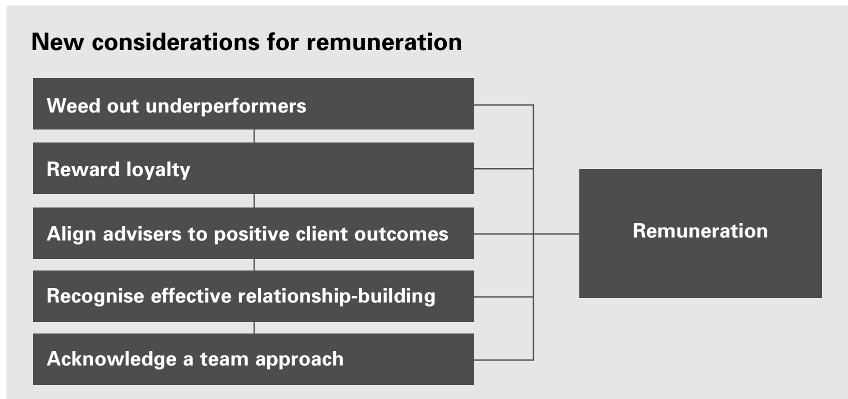
The goal is to create salary and bonus structures which weed out underperformers, reward loyalty and incentivise staff to act in the best interests of clients, and build longer-term relationships. That would also speed up efforts to rebuild client trust.

Of course, remunerating frontline staff based on sales and bringing in new client assets is an essential part of their pay structure. But compensation must be based on a variety of factors, not purely product sales revenue and

AUM. For example, many practitioners said that advisers need to also be rewarded going forward to reflect skill, experience, knowledge and responsibility levels.

Compensation should also be based on softer targets such as the quality of an adviser's client relationships. This is open to interpretation at different banks, but needs to be consistent and measurable. It needs to consider factors such as whether the relationship manager has contributed to the brand image of the firm through activities like helping to organise an event.

Making compensation structures more meritocratic will also help identify those bankers who are overly-reliant on product-pushing and cannot be converted into the more rounded relationship managers of the future.



Management objectives underlying the compensation structures should be wide-ranging, for example: driving company and individual performance; balancing short-term and long-term performance demands; retaining key talent and protecting the company's interests; avoiding unnecessary or excessive risk taking; aligning executive and client interests; and competing effectively for key talent.

One of the options for ensuring a fair pay structure is to reward the efforts of the team which services a particular client, from the most junior assistant to the most experienced investment and client advisers. That is an important factor in encouraging an approach which is more aligned with what the client needs. To make it work, management needs to pair together the right personalities.

Each team member would have a basic salary. Any revenue generated from one of its clients goes into a central system for that team and they are rewarded based on that revenue. If the team can maintain a long-term relationship with that client, the revenue for each member as well as the bank will be consistent for a sustained period of time.

Another benefit, which is also critical in making such a structure work, is that it encourages relationship managers to work in a unit rather than silos. The internal working system and style which the team members will need to work together effectively will in turn improve the way they manage client portfolios and relationships.

Already by early 2009, bonuses being paid by some wealth managers across Europe, Asia and the US for performances in 2008 had started to reflect a new management stance which hinted at more widespread changes in the approach to compensation. It has also been effective at reinforcing the aim to shift towards a longer-term mindset, both in terms of advisers staying loyal to the firm and acting in its best interests, as well as looking after the interests of their client's portfolios.

In general, upfront cash payments were lower, with the remainder being paid in cash and restricted stock over a three- to five-year period and under defined performance parameters for the individual, as well as the firm. For example, client relationships might have to remain profitable. Other arrangements included bonus claw-backs over a period of three years if risks taken fail to deliver.

This was in line with the views of some senior executives and other industry observers during the research for this book. They agreed that the bonus part of adviser salaries should place a much heavier emphasis on equity

with a longer vesting period rather than cash, and requiring the adviser to forfeit unvested portions if they leave to join rival firms.

A longer term outlook

Being able to provide a wider range of services to wealthy clients such as tactical asset allocation, estate planning and inter-generational wealth transfer will be essential for long-term profitability of both private banks and retail wealth managers.

That will be possible in line with the necessary client education combined with the focus on generating well-trained advisers who are incentivised to meet clients' needs rather than purely short-term revenue.

Industry practitioners have said that while still slow, an extension of the increased appetite among clients for better-managed portfolios has seen a desire for asset allocation advice start to build. In particular, some clients saw the protection that diversified portfolios gave them in comparison with leveraged investments; although nobody went without suffering losses, those investors who had managed their risk positions and spread investments have lost far less.

These clients have since the worst of the crisis been much more open to asset allocation and portfolio construction in their drive for capital preservation.

Making this a more important part of the client education process is the only way banks can make it a key part of their business. Another problem for the industry has been that it has lacked people who see the continuum and are able to look into what would be the best asset allocation strategy over the medium to long term. Only by adopting more of the European-style of private banking can advisers start to take a more structured approach to a client's portfolio.

Senior private banking executives are also in agreement that the industry needs to increase its focus on a wider advisory role by offering services such as estate planning and insurance. At the same time, the financial crisis has accelerated the transition and transfer of wealth to the next generation; that in turn has the potential to change the nature of the way clients think about and use their wealth.

Second- and third-generation clients seem to take a more balanced approach to investing, and are more technically-minded, so might prefer

to go back to basics and use different approaches to managing their wealth.

Some estimates from industry observers suggest that anything up to 30% of first-generation wealth has been wiped out due to sloppy transfers through, for example, using nominees rather than more sophisticated approaches common in the US and Europe.

As wealth transfer becomes an ever-important part of the private banking offering in Asia, banks can make money in several ways:

- Through their trust business by setting up trusts for discretionary portfolios;
- From the fees involved in transitioning money in the most secure and protected way to the next generation;
- By selling relevant insurance products; and
- Because of the need to provide a more comprehensive analysis of the whole portfolio for the new generation, to provide risk assessment and look at the appropriate strategies going forward.

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Two other important ways in which private banks can make their business models more sustainable over the long term are both covered in detail in the case studies following this chapter. They are: first, segmentation clients according to their needs and revenue-generating potential (on page 139); and secondly, creating an effective branding strategy to differentiate the firm (on page 103).

Going alone

Disappointment with the service they were getting from their banks and relationship managers has led an increasing number of private clients down the route of becoming self-directed investors.

These have tended to be more experienced investors who possess the technical know-how to read, interpret and act on market movements across asset classes. As a result, they avoid paying what to them have seemed like exces-

sive transaction fees on their private banking account, given that they have largely used their relationship manager to trade, rather than seek advice (which they have said they have found little value in).

Being self-directed, they now benefit from cut-price fees through doing all their trading execution via their online broking accounts.

Many of these wealthy investors are also turning to online peer-to-peer networking groups to help with their financial advice.

They run products past fellow, supposedly savvy, investors rather than having to rely on what they regard as largely under-qualified relationship managers. Getting feedback and stories from like-minded people with real-life experiences is invaluable for disenchanted investors as they look to make smarter decisions.

This mobilisation of wealth individuals has been most popular in the US and Europe, but little similar has been available in Asia to date.

Clearly, however, internet-based advice isn't sufficient for all an individual investors' needs, plus it wouldn't be the only source of information for a sophisticated investor.

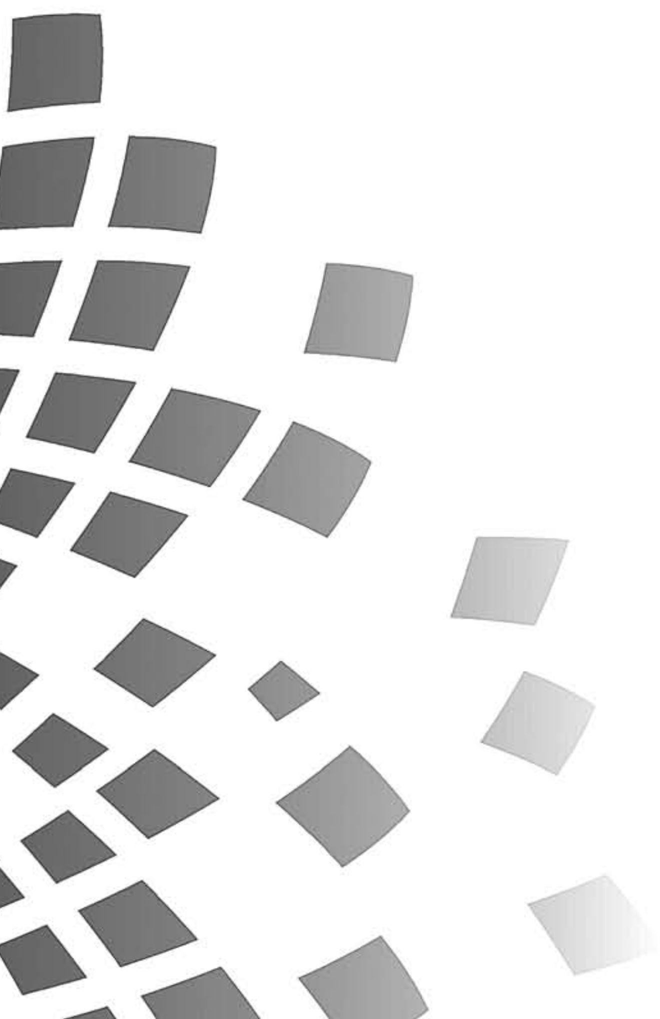
As a result, some industry observers have suggested that instead of using the investment advisory model of private banks, self-directed investors will start to create networks of independent advisers with expertise in specific asset classes and investment types, so that they can get objective, best-in-class advice.

In these cases investors won't mind paying an advisory-based fee, given that they value the information that the particular adviser is providing them with.

How Asia's wealth management industry is restructured and managed going forward is critical for how it will effectively handle its growing responsibility over the next 20 to 30 years – as wealth transfer and longer term planning become more entwined with the Asian culture. Apart from the relatively small numbers of self-directed investors, typical clients in the region are dependent on financial advisers to give them objective and comprehensive guidance on managing and preserving their wealth.

Without clearly defined business models and revenue structures for their Asian operations, therefore, wealth managers will struggle to survive.

At this stage, no strategy is definitive; far from it. But pivotal to the industry's long-term well-being is a far higher level of understanding of the customers' needs coupled with awareness that, ultimately, the client also has to make money in a sustainable way.



CASE STUDY

A new slant on segmenting private clients

With questions being raised among senior private banking executives about how to generate sustainable revenue in a tougher business environment, one of the options is to focus on new ways to target different segments of clients.

Until now, segmentation has been based on account size. Yet individuals within the same "tiers" of net worth exhibit diverse behaviour and have varying needs, regardless of their levels of wealth, says Gary Tiernan, global head of investment advisory and fiduciary at The Standard Chartered Private Bank. "If private banks are cognisant of the issues of a specific client type, relationship managers can then help those clients to get to the right place more easily in terms of their portfolio."

Private banks will want to identify those clients which are more likely to generate higher revenue streams for the bank and actually need the services of a private bank to build and preserve their wealth.

Given that different banks have different capabilities and strengths, it might not be possible for them to service all prospective client types. For example, a small boutique private bank might not be able to offer the same access to specialised capital market products as a larger private bank which is connected to a global investment bank. While many private banks target clients above a certain asset size, the banks should also think about whether or not they can meet the expectations of the clients. “It is neither possible nor desirable to be all things to all clients,” says Tiernan.

One of the ways in which The Standard Chartered Private Bank, for example, has used segmentation has been to target the many private clients who are living outside their home countries – by creating propositions for certain expatriate populations, such as Indians, Australians and Koreans. Put simply, that means providing wealth management services in India, Australia or Korea to nationals of those countries who are living offshore, as well as looking after their international needs.

“These are individuals who have a global outlook but their approach and their needs are shaped by their roots in their home country,” says Tiernan. “The services we provide are designed to recognise their global, local and home-country perspective. To do this effectively requires deep and ongoing knowledge of the client and the home country so that not only can the initial decisions be taken properly but they can be regularly reviewed to ensure that any future changes are taken into account.”

From a geographical perspective, he says it can be more effective in some cases to handle clients from a relevant central point rather an as part of the local, onshore operations.

Making segmentation profitable

Being smarter at client segmentation is something which is often talked about at the management level of many private banks, but rarely acted on. When it has been implemented, efforts to put in place a clear strategy have tended to yield results which are far less effective than they should be.

“The consumer industries can teach the private banks a lot in terms of how to segment clients and then cater to their needs,” says Tiernan. For example, a lot of research done in consumer industries has indicated that it is much more cost effective to concentrate on improving service for existing customers than to chase new ones.

"The benefits are seen in terms of greater product penetration and more referrals," explains Tiernan. "It may cost as much as six times more to sell a product to a new customer as to an existing one. Many industries divide the population into segments and then determine which ones they will target, and more importantly which ones they will not."

Private banks should decide which client segments they want to cater to and then work on delivering the best service and advice that these segments require. "While it may be appealing to open an account for any wealthy individual, the bank must consider the extent to which it is capable of understanding and catering to the needs of that particular client," adds Tiernan. The desire to raise assets under management may sometimes override that, but banks must remember that if it accepts a particular client and then disappoints him or her, this client will become disgruntled and might spread negative views on the bank because of that. "Sometimes it is better not to take on a relationship if you understand that you cannot provide the necessary service," he says.

Making segmentation successful requires private banks to be clear about their brand proposition and their values. "By understanding the clients that they can service best, they will also have more clarity on those prospective clients that will not be best serviced by them," says Tiernan. "Being honest about this will lead to clients/prospects making the decisions that are best for them." Those clients/prospects who decide their needs are better serviced by a different institution, will allow the bank to focus more time and resources on servicing the existing clients that are most suited to it.

Clients of all industries and professions recognise that they get what they pay for, and private banking customers need to realise they are no different.

"If a client is relatively inactive and does not require very regular interaction with a banker then there are different ways to use technology so that the client has enough information to match his or her needs while remaining cost effective for the bank," explains Tiernan. "There are also clearly portfolio management services which are directed to less active clients. These can meet the investment requirements of the client and still generate revenue for the bank."

There are many different ways for private banks to look at demographics; there are also groupings that could be made by lifestyle or by desire to use new IT. "The challenge with any approach to segmentation," says Tiernan,

"is to identify a homogeneous group that can be readily identified and which is of sufficient scale to be able to be profitably serviced. Account size is only one variable in looking at clients. A successful business will not restrict itself to looking at clients through a one-dimensional lens."

CASE STUDY

Behavioural finance: staying rational when clients aren't

A key reason why many Asian clients lost so much of their net worth during 2008 was because they shunned opportunities to crystallise their losses in the hope that equity markets would quickly stabilise before rebounding (which of course they didn't).

It isn't surprising to see this type of behaviour in Asia, begging the following question: why, in such a heavily trading-oriented region, has behavioural finance played such a minimal role in investor decision-making – and in many instances no role at all?

Why behavioural finance matters

This book has already touched on the importance of understanding how and why investors behave and make decisions under certain conditions. While many advisers have so far shunned this type of analysis as having little or no value, the fact is that as the science behind wealth management continues to develop, behavioural finance is a key way for wealth managers in Asia to develop their business models for the future.

In short, this relatively new field of research, which involves the application of psychology to investing, provides a useful framework within which financial advice can be tailored to individual clients. At the same time, a lot of the measures outlined earlier to help wealth managers rebuild client trust go to the heart of understanding client behaviour.

Behavioural finance can reveal cognitive and emotional biases, which are effectively common traps which investors of all types can fall into when making decisions. Over- and under-reactions of investors to market trends and developments – especially bubbles and crashes – as a result of things like limited investor attention, over-confidence or over-optimism, imitation and "noise" trading, lead to inefficiencies, in turn affecting prices and returns.

In theory, behavioural finance might be considered the perfect know-your-client tool. And being able to interpret and work with emotions such as fear, greed, loathing, panic, disbelief and capitulation, for example, is a powerful weapon for an adviser to use in acquiring and retaining clients, particularly since many of the previous approaches to relationship-building have been proven to fall short.

Yet while behavioural finance is gaining more and more steam across the globe, many advisers are needlessly struggling with how to apply it to their practices.

The purpose of this section is not to explain in detail the origins or theoretical and technical aspects of behavioural finance. Rather to highlight its relevance as well as some potential benefits in helping wealth managers develop closer, more productive and ultimately more profitable relationships with their clients.

Applying behavioural finance in practice

Michael M. Pompian, Chartered Financial Analyst (CFA) and investment consultant to wealthy US families, has made the process of understanding and applying behavioural finance much easier for financial advisers. In his book, *Behavioral Finance and Wealth Management* (Wiley 2006), he reviews 20 of the most common behavioural biases advisers are likely to encounter with their clients.

Pompian has designed the following case study, involving a hypothetical investor, Mrs Lee, to demonstrate how advisers can apply behavioural

finance in practice. (Details such as names, financial figures, asset classes and other investment-related information are chosen for illustration purposes only.)

Many advisers misunderstand the motivations of their clients and wrongly assume that poor investment results are to blame for a poor working relationship. “This is not usually the case,” says Pompian. “The biggest failure is not getting inside the head of the client enough to build a solid working relationship.”

He says advisers should strive to answer four key questions in determining what asset allocation is most appropriate:

1. Which biases does the client show evidence of?
2. What affect do the client’s biases have on the asset allocation decision?
3. What action should the adviser take – adapt to these biases or attempt to change (regulate) them?
4. What is the best practical allocation for each client?

In the real world of investing, each client and each adviser is different, and therefore this case study should not be taken as *the* way to diagnose and devise strategies for behavioural biased clients. Rather, Pompian asks readers to imagine they are Mr Chang (the adviser in the case study) or that the client scenarios are theirs; in other words, the intention is for readers to analyse these cases with an eye toward how they would treat the given situation, and so how Mr Chang should approach the issues presented.

The case study contains the following format, which is a simulation of the approach that Pompian says advisers might take with a client:

- Introductory description of the case;
- Identification of behavioural finance biases;
- Effect of biases on asset allocation decision;
- Action to be taken in response to identified biases (regulate or adapt); and
- Recommendation of the behaviourally-adjusted asset allocation (best practical allocation).

Capital markets assumptions: For each of the case studies, assume that the year is 2006. Stock markets have been rising since 2003, but haven’t peaked yet, and interest rates have been rising, but also haven’t peaked yet.

For simplicity, the case study will assume that the investor in the case study will be limited to investing in three asset classes: stocks, bonds and cash.

Let's meet the client. Mrs Lee is a widowed, 65 year-old from Singapore with a modest lifestyle and no income beyond what her investment portfolio of S$1.5 million generates (about S$90,000 per year).

Her adviser, Mr Chang, has known Mrs Lee for about five years. He is about 40 years old, works for a small private banking firm and has been working with private clients for about 10 years. He has recently learned of the benefits of behavioural finance and is incorporating what he is learning into the practice of advising clients.

Although Mrs Lee did not clearly articulate her investment goals when Mr Chang first started working with her in 1997, over the last few years Charlie has learned that his client's primary investment goals are: first, to not lose money; and secondly, to maintain the purchasing power of her assets after any fees and charges. Her desire to not lose money stems from the fact that she recalls that her relatives lost money in some of the earlier market crashes.

Mr Chang has been challenged by the fact that Mrs Lee is quite stubborn in her opinions, and rarely, if ever, listens to him when he recommends that she change her way of thinking about her investment portfolio allocation. Her knowledge of financial concepts is limited, but she is willing to meet regularly and discuss issues with Mr Chang over tea. He is concerned that she is too conservative in her approach and will not accomplish one of her key goals – keeping her purchasing power – because she only invests in government bonds and cash. By taking this approach, her portfolio will probably not keep up with her spending after inflation and other fees in the long run, and therefore she is putting herself at risk to outlive her assets.

As Mr Chang reflects one day on his relationship with Mrs Lee and realises that the only recommendations she has accepted is to buy corporate bonds to increase her returns slightly. Mr Chang suspects that behavioural biases are influencing her and not permitting her to feel comfortable with changing her portfolio. He asks her if she will take a 30-question test to examine her investor personality. She tells him that she does not have the patience for such a long test, but she agrees to a 10-minute test.

Mr Chang decides the best course of action is to ask Mrs Lee diagnostic questions on the three biases that he suspects she has, namely loss aver-

sion, anchoring and status quo bias. He provides her with questions on these three biases as below; Mrs Lee's answers to these questions are in bold.

Anchoring-bias diagnostic

Question 1: Suppose you own a three-bedroom house and have decided it's time to "downsize" to a smaller home that you have wanted for several years. You are not in a panic to sell your house, but your outgoings are eating into your monthly cash flow and you want to unload your house as soon as possible. Your real estate agent, whom you have known for many years, priced your home at S$500,000, and you can't believe it. You only paid S$125,000 10 years ago so you are thrilled. The house has been on the market for several months and you haven't had any serious offers. One day, you get a phone call from your agent, and he says he needs to come over right away. When he arrives, he tells you that several local companies have just declared bankruptcy and thousands of people are out of work. He has been in meetings all week with his colleagues and they estimate that real estate prices are down about 10% across all types of homes in your area. He says that you must decide at what price you want to list your home based on this new information. You tell him that you will think it over and get back to him shortly. Please select one of the following that would be your answer to your real estate agent:

A. You decide to keep your home on the market for S$500,000;
B. You decide to lower your price by 5% to S$475,000;
C. You decide to lower your price by 10% to S$450,000; or
D. You decide to lower your price to S$400,000 because you want to be sure you get a bid on the house.

Analysis: Mrs Lee chose answer "B", meaning she is likely to be subject to anchoring bias. The test-taker was given clear instructions that if she wanted to sell her home, she would have to lower her price by 10%. Mrs Lee demonstrated that she was "anchored" to S$500,000 and would not adjust to the updated information. Implications for anchoring bias on the asset allocation decision will be discussed later.

Status quo-bias diagnostic test

Question 1: Your investment portfolio contains ABC Inc. high-quality corporate bond which pays 7% interest annually. The bond has been providing income for you, and you are happy with it. Your financial

adviser analyses your bond holdings and recommends that you replace the corporate bond with another bond, from Malaysia, of comparable quality, estimating that you will obtain 1% net annual return increase. You aren't familiar with the Malaysian company but you trust your adviser. What is your most likely response?

A. I will sell the corporate bond and purchase the municipal bond; or
B. I will keep things as they are.

Question 2: Suppose you have inherited a fully liquid investment in a South African gold mine from your Uncle Paul who you used to visit every year and were very fond of. The goldmine investment now represents 20% of your investment portfolio. You discuss the situation with your financial adviser and he concludes that your portfolio already contains enough gold and commodities. Uncle Paul's bequest, more importantly, isn't a diversified asset. Your adviser recommends selling most or all of it and replacing it with more diversified investments. What is your most likely course of action?

A. I will sell it, as recommended by my financial adviser; or
B. I will hold onto the gold-mine interest, because I adored Uncle Paul and holding the investment will make me feel like Uncle Paul and I are still connected.

Analysis: Mrs Lee decided to keep things the way they are in question 1 and hold the gold-mine interest in question 2. Therefore she is subject to status quo bias.

<u>Scoring guidelines</u>
Question 1: Mrs Lee selected "B". People who select "B" are more likely to suffer from status quo bias than people who select "A". Option "A" probably offers higher returns, but option "B" is, alas, the status quo. Choosing to remain in a steady state versus taking action is irrational when higher returns are the likely outcome.

Question 2: In this situation, most people would behave as depicted in "B", even when lacking any cogent rationale for holding the asset. "B" suggests status quo bias; "A" does not. Mrs Lee needs to be counseled on her irrational behaviour.

Loss aversion diagnostic test

Question 1: Suppose you are presented with the following investment choices. You are asked to choose between the following two outcomes:

A. An assured gain of S$400; or
B. A 25% chance of gaining S$2,000, and a 75% chance of gaining nothing.

Question 2: You are then asked to choose between the following two outcomes:

A. An assured loss of S$400; or
B. A 50% chance of losing S$1,000, and a 50% chance of losing nothing.

Scoring guidelines
Question 1: The rational response is "B" because the expected value of B is S$500 and the value of A is only S$400. Loss-averse investors are likely to opt for the assurance of a profit in "A".

Question 2: The rational response is "A" because the expected value in "B" is S$500 and the loss in A is only S$400. Loss-averse investors are more likely to select "B".

The test results confirm Mr Chang's suspicions. Mrs Lee is subject to:

- Loss aversion bias (the tendency to feel the pain of losses more acutely than the pleasure of gains);
- Anchoring and adjustment bias (the tendency to believe that current market levels are "right", and up or down directional estimates are made from the current level); and
- Status quo bias (the tendency to want to keep things "as is").

As part of the original asset allocation process, Mr Chang also administered a risk tolerance questionnaire to Mrs Lee for the purpose of generating a mean-variance optimisation portfolio recommendation.

When Mr Chang did this, Mrs Lee's "rational" asset allocation was 70% bonds, 20% stocks, 10% cash, while her actual allocation is 100% bonds. Since Mr Chang knows that Mrs Lee has the risk tolerance to handle a riskier portfolio than the one she currently has, he is further convinced that her

behavioural biases are the problem. His job is now to answer the following three questions:

1. What effect do Mrs Lee's biases have on the asset allocation decision?
2. Should Mr Chang regulate or adapt to her biases?
3. What is the best practical allocation for Mrs Lee?

Solutions to Mrs Lee's case study

Effect of biases

Mrs Lee's biases are consistent and demonstrate to her adviser a clear allocation preference for bonds. Because Mrs Lee does not want to put her principal at risk (which is manifested by loss aversion bias) and does not like change (status quo bias), she would naturally prefer the safe and secure asset allocation of 100% bonds that she now has. Additionally, since the stock market has dropped recently, she will likely make irrational conclusions about what the "right" level of the overall stock market should be (anchoring bias); as a result she will be wary of any exposure to equities. Thus, if Mr Chang as her adviser presented her with an allocation of 100% bonds, she would be likely to immediately agree with that recommendation. However, Mr Chang understands that she has a bias toward such an allocation.

Regulate or adapt?

Given Mrs Lee's level of wealth – which, while not low, is also not high – if Mr Chang adapts to her biases and recommends an allocation of 100% bonds, his financial planning software tells him that Mrs Lee runs the risk of outliving her assets, a clearly unacceptable outcome. Additionally, her biases are principally emotional (status quo; loss aversion), and these types of biases are difficult to correct with education and advice. However, Mr Chang needs to help her understand that she would be at risk if she accepted a 100% bond portfolio. He now has the following information with which to make the following table. For Mrs Lee, the best course of action is a regulate *and* adapt recommendation.

Mr Chang decides that indeed the correct course of action is to regulate and adapt to her bias preferences, so recommends that she accept some risk in her portfolio. His reasons that a complete regulation of her biases would be the rational allocation of 70% bonds, 20% equity and 10% cash mean-variance output recommendation, and a compete adaptation to her biases would be leaving her portfolio 100% in bonds. Thus, Mr Chang's regulate and adapt recommendation is a fall between these two allocations.

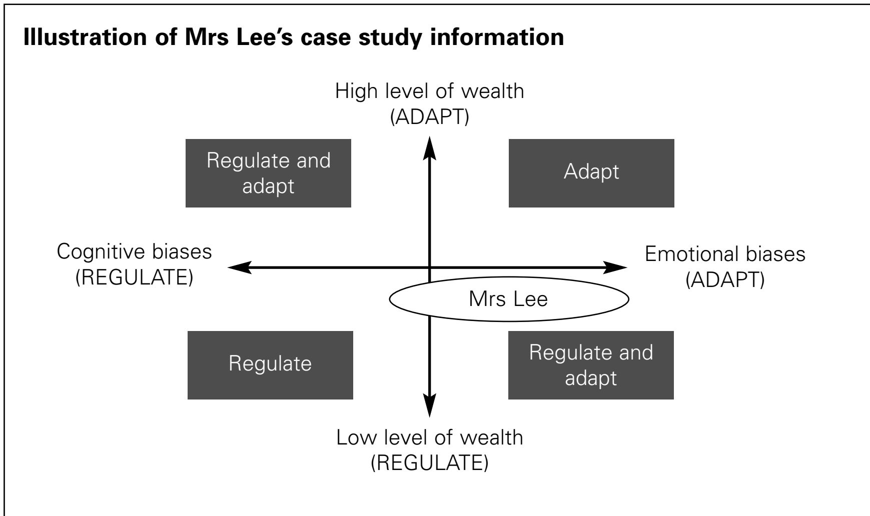


Illustration of Mrs Lee's case study information

Best practical allocation decision

As Mr Chang decided to regulate and adapt to Mrs Lee's biases, the best practical allocation is the allocation that is tilted toward the one which the mean-variance optimiser provided – 80% bonds, 10% stocks, 10% cash. The first thing Mr Chang does is to check his financial planning software to make sure that this allocation will statistically ensure that Mrs Lee will not outlive her money. Indeed, the software shows that is an acceptable allocation and he proceeds with the recommendation.

Appendix

Best practice reference tools

This section provides a duplicate of the most useful checklists, concepts, ideas and tips presented in this book, to serve as a simple reference resource before, during and after reading.

Fundamental questions which management needs to be looking to address in the restructuring of wealth management businesses (chapter 1)

- How can the challenges which many banks face due to the unique history and culture of wealth management in Asia be used as lessons from which the industry can learn and move forward?
- How can wealth management firms and their frontline staff win back the confidence and trust of clients?
- Why were many of the problems not identified and tackled sooner? While the industry in Asia hasn't in many cases acted in the best interests of its clients, what reasonable expectations should clients have in the first place?
- Who is really to blame for earlier mistakes and practices? Can the interests of different parties be aligned? Should Asian investors be expected to moderate their investment behaviour? Or should wealth advisers simply manage it better?
- Will management continue to tolerate inexperienced and ill-equipped relationship managers? Will the banks finally stop paying lip-service to training and use the financial crisis to upgrade the quality of many advisers?
- What are the options for management to change compensation models, to encourage relationship managers to take a longer term view of client relationships?

- Why do clients even want a private bank? Does what banks offer satisfy and add value for clients? Or does it just serve banks' own interests of generating revenue?

- How are the ways in which clients view and approach their relationships with providers changing? How should advisers address them? What questions must relationship managers now be prepared for from clients?

- What is best practice, and how can industry players achieve it? What processes should be put in place to ensure client suitability? Do clients really understand all the products they buy, and should they even be buying some of them? Do relationship managers adequately understand the products they sell? Are risks being properly monitored and managed?

- How can private banks and wealth management firms make money in the future? What might a successful business model look like? Can the top executives actually resolve the conflict of interests inherent in existing models in Asia?

- Will there be a more mature approach to asset allocation following the equity concentration up until 2008?

- What is the future for offshore banking centres like Hong Kong and Singapore? How can firms adapt their activities and revenue models given the far-reaching impacts of regulatory and tax reforms? Will scrutiny from authorities across Asia stifle industry growth and profitability?

- Can management more appropriately brand banks? How can they segment and target different types of clients? Can providers meet the previously-neglected needs of wealth owners for tax, estate and succession planning?

- Who will make the biggest strides forward as the pecking order of the different types of provider shifts in light of job losses, industry consolidation and changing client behaviour?

Why Asian clients want private banking accounts (chapter 2)

- Prestige.
- Product access.
- Perceived expert services and advice.
- Lack of time.
- Remove subjectivity / someone to blame.

10 characteristics of Asia's wealth management industry (chapter 2)

1. A lack of definition about what private banking is and what it should be.

2. Too many ill-equipped and inexperienced relationship managers for the job.

3. Insufficient consideration and client education about long-term wealth planning.

4. A focus by both relationship managers and clients on maximising short-term revenue and returns.

5. Inadequate due diligence by clients and relationship managers to determine proper suitability.

6. Clients generally preferring to pay transaction fees rather than advisory-based fees, fuelling the lack of transparency in fees and commissions.

7. High cost bases, only justifiable during bull markets.

8. A lack of attention to traditional approaches of asset allocation.

9. Demand from clients for multiple private banks to access more investment tips.

10. Firms regarded as distribution channels for investment banks.

12 key industry challenges for Asian wealth management (chapter 3)

1. Conducting cross-border private banking under tighter scrutiny than ever before from regulators and tax authorities.

2. Winning back the trust of clients, by restoring their faith that relationship managers will act in the clients' best interest, plus helping them overcome their crisis of confidence about re-entering the markets.

3. Putting in place more rigorous and measurable risk controls and processes around "know your client" and suitability requirements, minimising the potential for mis-selling claims.

4. Upgrading the quality of advisers, to eradicate under-skilled and inexperienced relationship managers.

5. Changing compensation structures, to incentivise staff to act in the best interests of clients and build relationships based on more than just short-term revenue and product sales.

6. Getting rid of the single-banker model at private banks in favour of a team-based approach, to provide more specialist and tailored advice to clients, as well as to institutionalise relationships.

7. Re-assessing risk and return to be able to develop and tailor products which better reflect clients' needs and appetites.

8. Helping to educate clients to take a longer term view of their wealth, including encouraging more diversified portfolios through a more balanced approach to asset allocation.

9. Adapting fee structures to align them with the value-add clients derive from their wealth manager, including offering more flexibility in how firms charge, and how clients pay.

10. Devising new ways of segmenting clients, so private banks can maximise the revenue potential of different types of clients, rather than simply servicing them according to account size.

11. Reducing excessive costs and other overheads from the front and back offices to become more efficient.

12. Doing a better job of differentiating private banking branding, to become more sophisticated at engaging clients.

Issues private banks need to consider as they create compliance manuals for their cross-border private banking businesses (chapter 4)

- The types and scope of conversations relationship managers are permitted to have with existing and potential clients offshore.
- What documentation relationship managers are allowed to take with them on overseas trips.
- What relationship managers can do with that documentation.
- Whether relationship managers can engage in reverse solicitation in terms of calling clients to follow up on the visit with investment advice at a later point.
- Whether relationship managers can sign up new accounts during the visit, or whether they have to wait until after their trip and then do it over the phone, or even whether the client has to visit the relationship manager in the offshore centre.

Changing client requirements: new drivers of behaviour (chapter 5)

- Bank stability.
- Risk management.
- Long-term investment goals.
- Adviser track record.
- Diversified portfolios.
- Transparent processes.
- Open communication.
- Simple products.
- Fewer accounts.
- Clear statements.

Key questions clients should now ask their advisers (chapter 5)

Track record

- What is your track record as an adviser?
- How did your other clients perform during the financial crisis? What about clients with a similar profile to mine?
- What is your employment history?
- What licences and qualifications do you hold? Which industry associations are you registered with?
- Have you ever been involved in any customer disputes? What about investigations involving disciplinary action by an employer or regulatory body?

Differentiation

- How do you differentiate yourself from other relationship managers at this firm?
- What about from advisers at competitors?
- What is the real value of what you can offer me?
- What was your approach to communicating with clients during the crisis? How often did you speak to and/or meet with your clients?

Experience

- What did you learn from the crisis? Is the way you manage your relationship with clients likely to change as a result?
- How many clients do you have with similar profiles to me? What advice have you given them? How are their portfolios constructed?
- On what basis do you make your investment recommendations and decisions? For example, take your worst investment and evaluate how you made the investment, monitored it and the decisions you made along the way to stick with it or get out?

Expertise

- What is your view of the market and the ways in which various economic and geo-political issues are likely to affect my investment opportunities?
- What are the mark-to-market implications of recent market movements on my portfolio?
- What are the related downside risks for the various products in my portfolio?
- What do you think are the most important factors I should be considering in helping me achieve my investment goals, including specific strategies, benchmarks and products?

Suitability and risk assessment

- In terms of fiduciary responsibility, are you legally bound to act in my best interest? Or are you only required to sell me products that you think are suitable for me?
- What product training do you do on a regular basis? What other training do you do, and how frequently?
- What processes are in place to monitor the accuracy of your execution on my trades?
- What risk analysis will you do on my portfolio? How often will you do this?
- What other checks and balances do you have in place to monitor and assess my investments?
- What are your processes in conducting due diligence on the asset managers and other product manufacturers you recommend me to invest with? Do you have any personal relationships with the individuals, or get kick-backs from referring me?
- What is your process of asset allocation? What type of diversification would you recommend for me? Why?
- What other services do you offer which are relevant and valuable to me?
- How often will you communicate with me about my portfolio? How often will you evaluate my goals and risk tolerance?
- What other experts, support functions and resources can I access at the firm? Can I meet these people, and have ongoing dialogue with them if needed?

Remuneration

- Can you provide a formal, written outline of the services you can provide me, and what fees you will be charging me?
- How are you remunerated? Do you have sales targets to meet?
- For products you earn commission on, what is the commission schedule? Are there any other fees that you will charge me?
- Who else stands to gain from my investments and our relationship in general, for example affiliated brokers or insurance agents? How much will those parties earn from my business?

Product-specific

- What is that product's investment objective?
- Would you buy what you are selling? Why / why not?
- What are the risks of this product? What about the risks in relation to the structure of my portfolio now, as well as to my long-term wealth goals?
- Does the upside justify the downside risks?
- How much leverage is used to generate the returns in that product? Is this appropriate for my real risk appetite?
- Tell me the real cost of the product you are recommending, with the fees/commissions in all such offerings split out?
- How liquid is this product? How could I get my money out if want to in the future? What is the maturity profile? What are the penalties for early redemption?
- Are other clients with a similar profile to me also buying this product? Why / why not?
- How can I protect my downside risks by better allocating my investments and structuring my longer term portfolio?
- What research and other information can you provide me with so I can access as much information as possible to make my decisions?
- Are there any additional legal, regulatory or tax considerations?

7 ways to restore client trust (chapter 5)

1. Aligning the interests of the bank and the client.

2. Educating clients properly.

3. Improving the level and type of communication between advisers and clients.

4. Changing the psychology of relationship managers.

5. Matching the experience, skill-set and personality of an adviser to an individual client's needs.

6. Enhancing and tailoring business processes to improve transparency and fully understand and cater to the needs and objectives of each client.

7. Providing full disclosure and transparency in terms of products, fees and commissions.

6 key questions advisers must constantly ask themselves (chapter 6)

1. Who are my clients?
2. What are their needs?
3. What solutions and services can I provide to help them?
4. Am I providing world-class service and delivering on my promises to them?
5. What is my competitive environment?
6. How am I positioning and differentiating myself?

23 success tips to help advisers build long-term, sustainable relationships with clients (chapter 6)

1. 20% of salespeople in any organisation generate 80% of the revenue.

2. Ask for more business from existing clients.

3. Don't wait for referrals; be proactive in seeking out ways to meet new potential clients.

4. Under-promise and over-deliver.

5. Never appear desperate for a sale, and never burn bridges.

6. Remember, you can never ask enough questions.

7. Think about what motivates your clients and what they are most likely to respond to in a sales pitch, for example making money, or not wanting to miss out on an opportunity.

8. Clients don't forgive advisers who waste their time.

9. Don't lie about what you or the firm can offer.

10. Don't be distracted by internal politics or anything which isn't relevant to your responsibilities and role as a relationship manager; spend most of your time helping clients.

11. Don't ever be afraid to ask stupid questions.

12. Building positive relationships with clients is only ever going to be achieved by having regular face-to-face meetings with them.

13. Try to be realistic about where your relationship with your client is at, which can be achieved by asking the client that question.

14. Don't make assumptions about your relationship with your clients and take it for granted; ask them regularly questions such as how you are getting on, whether there is anything you should be doing which you might not be, and how you can add more value to them.

15. Relationships with clients either get better or worse with every interaction, they never stand still.

16. Everything that an adviser does with regard to his or her client affects the way the client thinks about the adviser.

17. Make the effort and do the research to create a positive first impression in your client acquisition process; it is almost impossible to recover from a bad first experience.

18. Remember that there are two ways to make a positive impression: making a positive impression, and not making a negative impression.

19. Follow up meetings with clients with a phone call and an email.

20. Don't take on a client where you feel that your style and the firm culture are not aligned with the interests of that client.

21. Make a written plan for every hour of every day, and stick to it; it you don't have one you are setting yourself up to fail.

22. Create blocks of time when you can focus on getting important tasks achieved, and then complete those tasks one at a time.

23. Don't waste time with clients who you don't think will ever earn the firm – or you – much money; make sure that everyone you deal with is aligned with the goals of being a profitable wealth manager.

The sales cycle (chapter 6)

Arranging the meeting

- First impressions count for everything.
- Once as much research as possible has been conducted based on what is already known about that client, then the client should be engaged in the most direct and courteous way.
- It's important to sell the meeting, and not get drawn into selling to them on the phone.
- Once a potential client has a negative impression, then it is hard to recover.
- Send a confirmation email for the meeting; and send a re-confirmation for the meeting the day before.
- Always build a positive relationship with a client's assistants and other associates who act as gatekeepers.
- Ensure a client's contact information is correct from day one.

Before the meeting

- Research as much as possible about the client, and try to identify existing clients with similar demographics. If it is a new referral, research the existing client.
- Understand what products and services might be relevant to add-value to the client before the meeting, based on whatever demographics are already known.
- If what the bank can do for this client isn't clear, then be sure to identify how to get that information in the meeting so that the client's time isn't wasted.
- Send a short outline prior to the meeting of the format of the meeting, what will be discussed, what the aim of the meeting is, and what will be required from the client. This saves time, manages expectations in advance and means that the meeting will be focused.
- Prepare for questions from clients.
- Remember: that the fact the client has agreed to meet means he or she is likely to be interested in opening an account or doing a transaction.

The meeting

- Turn up ahead of time.
- Never talk about the client immediately before or after the meeting; who knows who might be listening?
- Inside the meeting room, prepare everything that is needed for the meeting.
- Don't sit down before the client arrives or sits down.
- Do the introductions in a clear and confident manner.
- Confirm how much time the client has for the meeting.
- Clearly tell the client what the intentions and expectations are for the meeting.
- Ask permission to ask questions and take notes. These will be very important to keep an accurate record of what was discussed as well as creating a clearer picture of the client and his or her needs over time.
- Talk 20% of the time; listen 80% of the time.
- Always be positive.
- Never disagree with a client. If they say negative things, use this as a positive opportunity to dig deeper and ask more questions. Don't even react, and never look miserable.
- Be clear about the style and approach of the bank towards wealth management, and explain clearly why it does or doesn't provide certain products and services.
- Never comment on the competition. If drawn into this question the best response is: "I never comment on them, because I know they never comment on us". Comment generally on how the bank differentiates itself in the market.
- Never lie in response to a difficult question from a client. Instead, promise to get back to them with the best person to answer that query rather than not providing the fullest answer possible.
- Don't be obsessed on selling one product; be open to a client's suggestions on what they are interested in as part of their wider wealth goals and needs as this might lead to more business , and over a longer period of time.
- Ask permission to send the client a follow-up or proposal.

The key to a successful meeting is to ask smart and proactive questions (and listen to the answers), for example: what the client is trying to achieve in the context of their wealth; what their expectations are; what financial education needs they might have; what experiences they might have had with other wealth managers; what problems, issues or concerns they have about their financial situation and future; what help they think they might

need with their wealth management; and what they want from a long-term relationship with a wealth manager.

After the meeting

- Send a hand written “thank you” note the same day.
- Evaluate the client in terms of attitude to risk and overall goals, to see which product and service recommendations are appropriate.
- Set a timeframe for a decision.
- Arrange a time for the client to meet with other advisers and consultants within your firm if necessary.

After the sale

- Remember that the sale is easy compared with managing the expectations of the client and delivering on promises.
- Not delivering the promised outcome to a client will result in them not coming back to trade again, and potentially commenting negatively to family, friends and colleagues.
- Every written communication to a client must be clear and correct.
- Arrange regular times and dates, which suit the client, to follow up and review investments and the overall portfolio objectives.
- Send regular updates on market trends and any broader economic or geo-political developments which are relevant to the client’s interests.
- Depending on the needs of each client, arrange to do a regular review of their risk appetite, needs and goals to more effectively monitor the suitability of their portfolio.

A 9-step brand strategy for private banks in Asia (case study)

1. Elevate the marketing function.
2. Take a long-term approach to client relationships.
3. Create an emotional attachment with the client.
4. Develop one-on-one relationships.
5. Focus on client touch-points.
6. Deliver on promises.
7. Redesign products and services.
8. Measure the outcome.
9. Increase minimum account sizes.

Critical components of effective adviser training (chapter 7)

- Customised to firm style and culture.
- In sync with business goals and processes.
- Sticky concepts and vocabulary.
- Practical application.
- Tailored to different client behaviour.
- Mentor programmes.
- Self-awareness skills.

The 4 parts of a fee-for-service advisory model (chapter 8)

1. Goals.
2. Returns.
3. Asset allocation.
4. Risk.

New considerations for adviser remuneration (chapter 8)

- Weed out underperformers.
- Reward loyalty.
- Align advisers to positive client outcomes.
- Recognise relationship-building.
- Acknowledge a team approach.

Management objectives underlying compensation structures (chapter 8)

- Driving company and individual performance.
- Balancing short-term and long-term performance demands.
- Retaining key talent and protecting the company's interests.
- Avoiding unnecessary or excessive risk taking.
- Aligning executive and client interests.
- Competing effectively for key talent.

How private banks can make money from the development of wealth transfer in Asia (chapter 8)

- Through their trust business by setting up trusts for discretionary portfolios.

- From the fees involved in transitioning money in the most secure and protected way to the next generation.

- By selling relevant insurance products.

- Because of the need to provide a more comprehensive analysis of the whole portfolio for the new generation, to provide risk assessment and look at the appropriate strategies going forward.

About the author

As a successful financial journalist and editor for more than 10 years in Europe and Asia-Pacific, Andrew Crooke has far-reaching experience within the financial services industry.

Before helping to set up Hubbis in early 2009, Andrew spent three years as Editor of Pacific Prospect. He was in charge of the planning and production of all content in relation to conferences, consulting reports and publications. In this role, he spearheaded among other projects the launch of two quarterly magazines and weekly e-newsletters.

Previously, Andrew ran his own editorial and media consulting company, providing services for the corporate, financial and legal markets in Asia-Pacific.

He first came to Hong Kong in 2002 with Euromoney Institutional Investor, working as Asia editor of the company's flagship legal title *International Financial Law Review*. This followed several years as a financial and legal reporter with Euromoney in London.

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"This book poses key questions and offers practical advice and direction for the future of Asian private banking."
– Gary Tiernan, Global Head, Investment Advisory & Fiduciary, The Standard Chartered Private Bank

"The various checklists and suggestions in this book provide important reference material for tackling the many challenges that Asia's wealth management industry faces today."
– Andrew Fung, Head of Treasury & Investment, Hang Seng Bank Limited

"Anybody interested in a long-term career in wealth management in Asia will learn important lessons from this book."
– Eric Aubin, Deputy Chief Executive Officer - Hong Kong & North Asia, BNP Paribas Wealth Management

The harsh lessons of the financial crisis dictate that Asia's wealth management industry at every level must be restructured to create a business that works for advisers *and* clients. It is critical that the changing needs and expectations of clients are morphed into new revenue models so long-term relationships can be sustained through economic cycles. From regulators and senior executives through to relationship managers, the focus is now on rebuilding trust, improving competency, enhancing transparency and implementing sound risk management.

This book, filled with insights and expertise from people at the forefront of the industry, is a best practice guide for those individuals and organisations responsible for shaping and driving the future of Asian wealth management in a post-financial crisis world.

Read this book to discover:

- Fundamental issues that managers must address to restructure their business
- 10 main characteristics of the Asian wealth management sector
- 12 key challenges confronting the industry
- 7 ways to rebuild client trust
- 6 key questions advisers must constantly ask themselves
- 23 success tips to help advisers build long-term, sustainable relationships with clients
- The sales cycle: before, during and after meetings with clients
- How clients' requirements are changing and driving their behaviour
- Key questions clients should now ask their advisers
- A 9-step brand strategy for private banks in Asia
- The components of effective adviser training
- 4 parts of a fee-for-service advisory model
- New considerations for adviser remuneration

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