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The Guide to
WEALTH MANAGEMENT IN ASIA 2012

hubbis

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FOREWORD

On behalf of BNP Paribas Wealth Management, I am delighted to take part in the 2nd edition of Hubbis' Guide to Wealth Management in Asia, which has quickly become the leading publication of its type in the region.

Private banking and wealth management in Asia haven't gotten easier since this time last year. In fact, they are probably more challenging than ever before.

We are now against the backdrop of a combination of increasing regulatory and compliance obligations, high cost-income ratios, and volatile markets.

The focus now, therefore, must be on really understanding what value means to clients today, and how to deliver it. This translates into:

- Understanding clients' needs and providing them with innovative and personalised solutions
- Providing investment advice and solutions in tangible and transparent ways
- Offering clients a team of dedicated and experienced relationship managers and investment advisers
- Building a lasting relationship with the next generation and assisting clients with generational assets transfer
- Optimising technology and operational efficiency to ensure great client experience while keeping costs under control

The various chapters in this Guide look in detail at what private banks need to do to enhance their business models, and the way they engage prospects and clients to be successful.

I hope you derive value from the insights contained in these pages.

Mignonne Cheng
Chairman and Chief Executive Officer
BNP Paribas Wealth Management Asia Pacific





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Feature article

FACING UP TO AN IDENTITY CRISIS

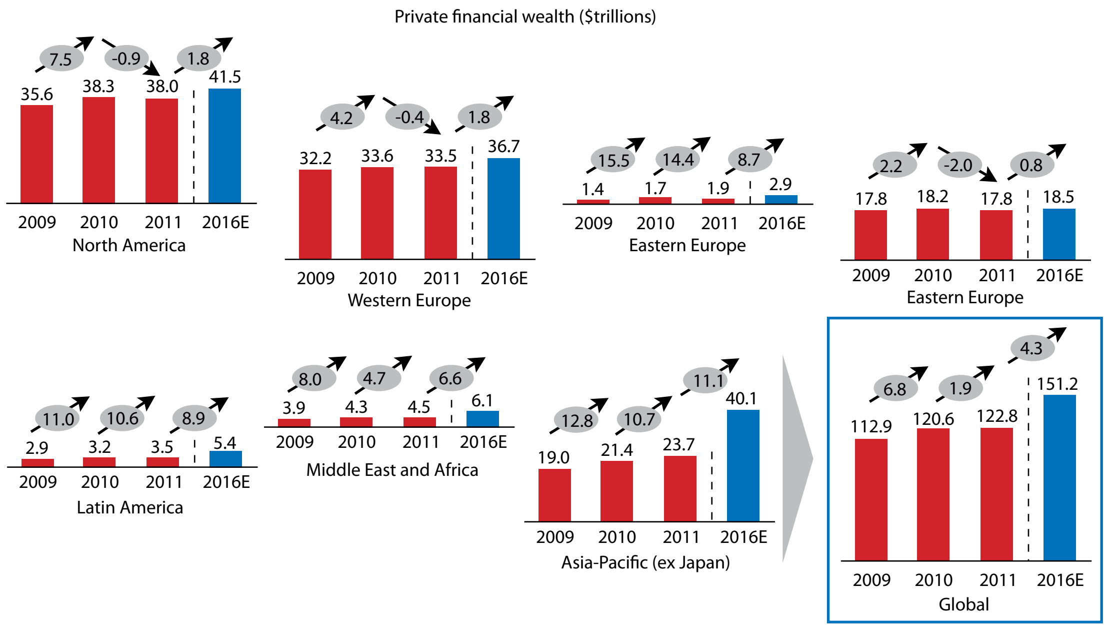
The agility and conviction with which individual private banks and wealth management firms in Asia respond to the many difficult strategic questions they face today will determine who will be the winners and losers within an industry set to take on a markedly different look-and-feel.

Asia remains the "promised land" of wealth management, with the region continuing to attract institutions of all types.

From Chinese banks broadening their offerings to service the growing numbers of mass affluent and high net worth (HNW) individuals across Asia, to the flurry of European banks and boutique players trying to find an alternative to stunted growth at home, to existing international and regional firms looking for selective expansion

"If a large player like Merrill lynch Wealth Management is taking the view to sell, then the rest of the industry needs to pay attention and banks must take a look at the viability of their private banking business models."

The growth of global wealth slowed in 2011



Source: BCG Global Wealth 2012: The Battle to Regain Strength

opportunities in the region – they are all lured by the surveys, headline economic numbers, hard statistics and even anecdotal evidence. These all seem to support the notion of this being the place to be for future growth, assuming firms come prepared, and with patience, to the region.

Scratch a bit deeper, however, and the reality looks quite different.

For the many firms who have been trying to grow their businesses and fight for market share over the last few years, private banking and wealth management in Asia is a daily struggle against seemingly never-ending – and in some cases mounting – hurdles.

Whether these relate to the excessive costs, burdensome regulations, limited talent, outdated technology, macro-economic uncertainty, or others, finding an approach which works and proves to be sustainable continues to evade the majority. Worse still, despite the hopes of many senior management, these challenges won't go away on their own.

Looking beyond the immediate cost-income pressures that most firms face, the industry in Asia is in the midst of coming to terms with various game-changing trends.

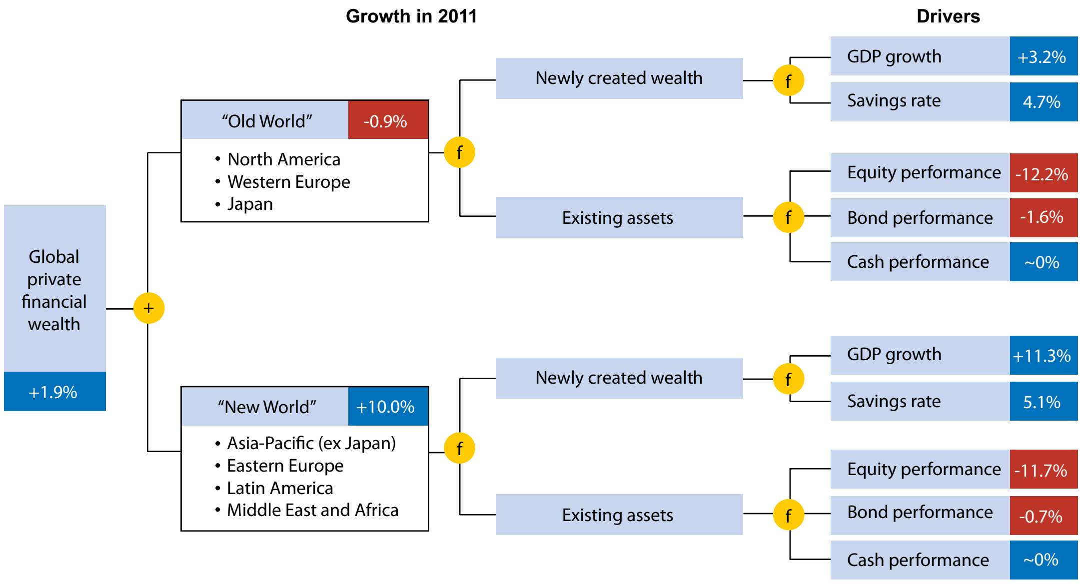
For example, the foundations of Asian wealth management and private banking are being shaken by developments such as: the end of the glory days of

Michael Benz

Merrill Lynch Global Wealth Management

"With so many firms entering the industry, the relative attractiveness decreases and it becomes harder for new entrants to be profitable"

The “New World” drove the modest growth in global wealth



Source: BCG Global Wealth 2012: The Battle to Regain Strength

investment banking; the crackdown on remuneration across financial services; the criminalisation of certain non-compliant advice in relation to client assets; and the intense scrutiny over the competency of individuals working in this industry.

For those institutions which are not prepared to re-tool and adapt to today’s new world of Asian wealth management, they will never reach this “promised land”.

After all, if a large, global, long-term player like Merrill Lynch Wealth Management is taking the view to sell, then the rest of the industry needs to pay attention and everyone else must take a look at the viability of their individual business models.

“This might be happening with Merrill Lynch Wealth Management because of the model itself not being profitable,” says Barend Janssens, head of wealth management, emerging markets at RBC Wealth Management, “or due to the pressures of regulation, or as a result of the need to continuously upgrade systems – or a combination of all of these.”

Regardless, he adds, this should have a far-reaching impact on the future of the private banking industry.

(Subsequent chapters will explore the potential “winning” business models, the importance of domestic markets and onshore alliances, and what firms need to do to provide value to clients today – along with product trends, and the increasing role of technology, compliance and wealth planning as key components of success.)

AN INDUSTRY RE-SHAPED

The positive thing to consider at this juncture, however, is that Asian wealth management and private banking is used to adapting. It has had to, given the various trends over the last 20 years or so which have shaped and re-shaped the industry.

Among the highlights was the discovery of private banking in Asia in the late 1980s and early 1990s by the universal banks as a business to pursue.

With private banking considered a high-margin, low-risk business, it provided the banks with cheap funding. Yet it brought a strong retail and corporate banking flavour to the industry, given that these were the areas where these newer players were predominantly strong.

The result was a strong focus on efficiency and effectiveness – via key performance indicators – all with the aim to grow assets under management (AUM), increase revenues and maximise profit. Unsurprisingly, this drive for growth by focusing inward on the organisation itself did nothing to develop the quality of relationship between

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Albert Chiu

EFG Bank

> "I wouldn't be surprised to see some consolidation among private banks in Asia"

the bank and the client. Instead, the overall quality of the industry deteriorated with the influx of bankers whilst the cost of doing business increased.

Another key trigger for change came around 10 years ago amid the rapid development of all types of – and increasingly exotic – investment products. More often than not these products served the interests of the banks more than they did the interests of clients. And given the high-margin nature of these products, relationship managers (RMs) were often forced to (aggressively) sell these products.

The most damning thing about this development was the fact that many bankers didn't – and still don't today in some cases – fully understand how the products really work.

The most recent significant shake-down for the industry came from the financial crisis in 2007 / 2008. The crisis revealed how the explosion of products and the systematic push to sell them had resulted in portfolios that did not match the client's risk-return profile in many instances.

The way this reflected on the industry lurched regulators around the world into action to confront issues relating to suitability and transparency, which haven't come off their agendas since. Adding to the brightness of the regulatory spotlight have been the ever-more rigorous, and successful, global efforts to pierce the veil of banking secrecy and provide countless billions of tax dollars to governments much in need of the funds.

The complexity this has created for offshore banking has made cross-border advice one of the most closely-watched aspects of wealth management in Asia today.

THE SHIFT EASTWARDS

The challenges that exist in Asia, however, are at least able to be put in the context of the opportunities the region presents. This is being seen in the global movement of private banks and other wealth managers from West to East.

Swiss banks in particular are facing issues related to questions over the traditional banking secrecy protection, says Albert Chiu, chief executive officer (CEO) of EFG Bank in Asia Pacific. "This is driving change in the industry, and is coupled with more demanding clients in the wake of the 2008 financial crisis."

As a result, more and more European-based banks are taking increasingly aggressive and proactive steps towards developing a presence and footprint in Asia.

According to Chiu, while there is a lot of competition, especially from regional Asian players as well as Chinese banks, the strong tradition and precision of the service that Swiss banks can and do offer mean that they still have an edge over many other firms. "In addition, the Swiss private banker has more of the client mind-set in their DNA," he adds.

In general, explains Chiu, the brand awareness is still very strong, and the perception of the Swiss banks among Asian clients still creates an impact.

On the flipside, he adds, domestic banks in Asia have a lot of local knowledge, combined with access to the region's entrepreneurs through their existing corporate banking networks.

Alex Jagmetti, head of Asia Pacific for Gonet & Cie Group, says Asia will play a key role strategically for many Swiss banks, but with fully-loaded costs not many are able to be truly profitable on a sustainable basis.

"Thinking it is possible to emulate the Swiss model in Asia is not a viable approach," he explains, "and banks who continue to do this in conjunction with a top-down mind-set will not be able to penetrate the market and access a meaningful client base."

To be truly successful, therefore, the Swiss approach needs to evolve as the banks need to adapt to the local markets and ways of doing things.

Switzerland remains the largest offshore center, but its lure is being challenged

Private financial wealth held in offshore centers, 2011 ($trillions)

Origin of offshore wealth	Destination of offshore wealth: Switzerland	United Kingdom	Channel Islands and Dublin	Luxembourg	Caribbean and Panama	Hong Kong and Singapore	United States	Other	Regional total
North America	0.04	0.12	0.11		0.39	0.05	0.00	0.02	0.7 →
Western Europe	0.93	0.15	0.51	0.36	0.13	0.14	0.12	0.22	2.6 ↘
Eastern Europe	0.09	0.05	0.04	0.03	0.03			0.03	0.3 →
Asia-Pacific	0.23	0.26	0.14	0.06	0.16	0.76	0.20	0.10	1.9 ↗
Latin America	0.25	0.03	0.03	0.01	0.25		0.24	0.05	0.9 →
Middle East and Africa	0.56	0.33	0.21	0.04	0.06	0.06	0.04	0.22	1.5 ↗
Booking center total	2.1 →	0.9 ↗	1.0 ↘	0.5 ↘	1.0 ↗	1.0 ↗	0.6 ↘	0.6 ↘	7.8 →

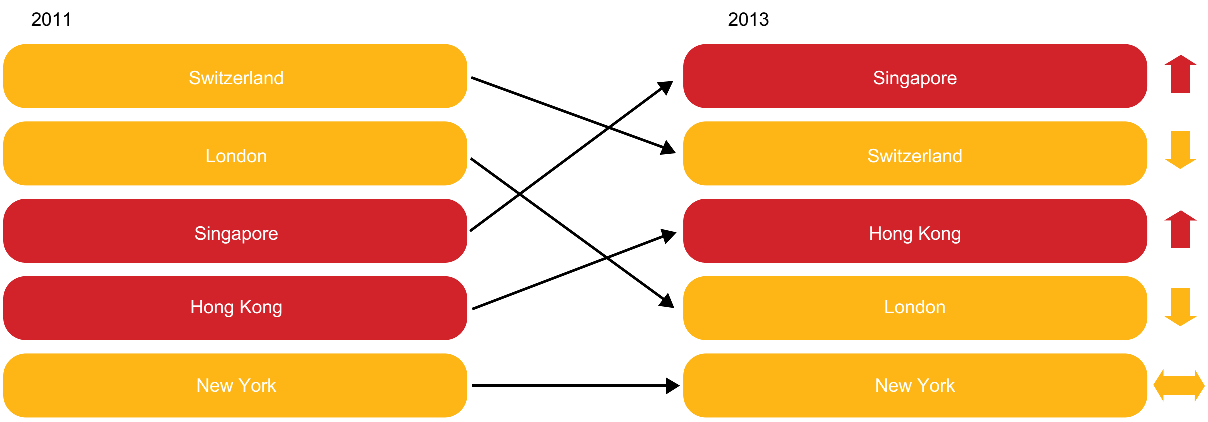
→ = Change in 2011

Source: BCG Global Wealth 2012: The Battle to Regain Strength

"This includes using local RMs and other talent to access the local markets," says Chiu. "This way they can better understand the culture, demands and needs of Asian clients." For some Swiss banks which have not yet opted to set up operations on the ground in Asia, disclosure issues in their domestic market have led some institutions

Multi-polar financial marketplace

Given increased regulatory pressures on offshore centres, which do you believe are curently the top five international financial centres which are the most successful now and in the next two years?



Source: PwC Global Private Banking and Wealth Management Survey 2011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Alex Jagmetti

Gonet & Cie Group

"Shifting client assets from one part of the world to another is not going to work at all"

and intermediaries to recently seek help clients move funds to Asia.

"We have been contacted by some institutions, to see if we can help their clients and if so, whether our collaboration can be built upon a fee-sharing basis," says Grace Chow, general manager and head of Bank of East Asia's wealth management division.

This presents an opportunity for firms like Bank of East Asia, says Chow.

This is because, she says, many regard Hong Kong as a better booking location than places like Singapore, and sometimes a local Hong Kong bank is better than a global bank.

"We would be pleased to offer our assistance," she adds, "provided that we can have face-to-face meetings with the prospective clients."

This is essential because it strives to establish a strong and long-term relationship with each customer in compliance with the know-your-customer (KYC) process.

Jagmetti adds that any firm who thinks that Asia is an easier place to do business from a regulatory and tax perspective has got it completely wrong.

"So shifting client assets from one part of the world to another is not going to work at all."

TIPPING POINT

How much longer can the industry remain at its current tipping point?

Despite the size of the Asian wealth management market and its continued growth, Michael Benz, managing director and head of global wealth management for Merrill Lynch Global Wealth Management in Asia Pacific, says that with so many firms entering the industry, the relative attractiveness decreases.

"It becomes harder for new entrants to be profitable, especially given the shrinking margins that come with a maturing industry," he explains.

"The business model which was successful in previous years has shown its limitations since the recent financial crisis," says Olivier Gougeon, regional chief executive officer, Asia Pacific, at Societe Generale Private Banking.

Further, with clients still largely transactional and performance-driven, the obligations and associated costs coming from the regulatory environment placing a heavy burden on private banking operations, and the persistent shortage of talent, leading to significant inflation in salaries, the pressures continue to build.

According to Andrew Turczyniak, head of wealth management for RBC Wealth Management in Asia, it is interesting to observe that, while there is an explosion in available assets in the region, the amount of these being managed by private banks is not appearing to be going up proportionately.

"In some cases, I get a sense that institutions have forgotten about their clients, and are still taking too much of a short-term approach," he says.

Yet this is an environment where banks need to be well-positioned to meet the needs of their clients amid very challenging market conditions.

"They need to engage their clients proactively and deliver on exceptional service," says Gougeon.

Going forward, Chiu says he wouldn't be surprised to see some consolidation among private banks in Asia.

"[This would] mainly involve some of the players which have come to the market later and have found it difficult given the high cost-income ratios," he explains.

"Being successful requires firms to play on their niches." ■

Q&A

INSIDE THE BNP PARIBAS PHILOSOPHY

Mignonne Cheng, chairman and chief executive officer of BNP Paribas Wealth Management Asia Pacific, reveals her strategy against the backdrop of one of the toughest periods for the industry in its history in this region.

What is your strategy in 2012?

BNP Paribas Wealth Management services its clients based on a three-fold and integrated approach:

1. Empowering clients with a combination of global expertise and local knowledge
2. Meeting clients' needs with a broad range of wealth management and banking solutions
3. Putting the long-term relationship at the very heart of our commitment to clients

In the current challenging environment, being at the forefront in terms of quality of service, product offering, execution capabilities and pricing is critical. We will therefore continue to strengthen our client offerings and servicing capabilities. The "client experience" is definitely our priority for this year.

We will also strengthen our one-bank proposition to ensure that we deliver a full suite of investment and commercial banking services to our top clients – whose demands are often not met by traditional wealth management products.

In the future, we expect these cross-selling efforts to become a major driver for new AUM and revenues. We will also continue to actively hire high-calibre talent to support our growth strategy in Asia.

> The "client experience" is definitely our priority for this year.

Tell us more about the set-up of your Key Clients Group and what it offers.

Our Key Clients Group offers highly-flexible and tailored solutions to meet the special needs of UHNW clients, however niche they may be. Our objective is to add value to both their business and personal aspirations.

Specifically tailored to key clients of BNP Paribas Wealth Management is our one-bank approach, mobilising and synergising resources from various business divisions of the BNP Paribas Group. Since mid-2011, formal referral programmes between our corporate & investment banking

Mignonne Cheng

BNP Paribas Wealth Management

and wealth management divisions have been effective, and there have been a significant amount of referrals.

Our key clients also enjoy jet and yacht financing solutions, with BNP Paribas Wealth Management being one of the few private banks which have the capability to offer these services. Through our corporate & investment banking division, our key clients have direct access to one of the most experienced financiers of private jets and yachts in the world.

BNP Paribas Wealth Management's Agrifrance division, the French rural land adviser, also differentiates us from the competition. We offer key clients the acquisition, ownership structuring, and management of farm and forest lands, vineyards, chateaux, and houses based on our 40-year experience in this segment.

In addition, through BNP Paribas Real Estates, the property manager in France, UK, Germany, and Switzerland, key clients of BNP Paribas Wealth Management have access to the same properties that are offered to professional clients.

Our key clients are beneficiaries where they can access the most sophisticated and competitive services provided by the BNP Paribas Group through a single point of contact – their RMs.

“Our key clients are beneficiaries where they can access the most sophisticated and competitive services provided by the BNP Paribas Group through a single point of contact – their RMs.”

What are the main opportunities and challenges in Asian wealth management and private banking?

The growing and robust Asian economy provides the private banking industry with huge opportunities. Compared with Europe and the US, private banking is a relatively young industry in Asia – hence with a lot of untapped potential.

However, choppy markets, increased competition from international, regional and local players of all sizes, tightening regulatory requirements, rising operating costs, and ultimately, the talent war, are the key challenges for the industry in the region.

Why are you well-placed to take advantage of the various opportunities?

Our competitive advantage comes from three angles.

Our strong global network and long history in Asia. BNP Paribas is a leading global banking group. It established its presence in Asia over 150 years ago. Over the time, we have built a strong client franchise with the region's most successful entrepreneurs and wealthy families. BNP Paribas Wealth Management's extensive network in Hong Kong, Singapore, India, Taiwan and China, and our deep know-how in the region, form a strong foundation for us to overcome economic and business challenges and capture the opportunities.

Our product range is one of the broadest in the market. Backed up by our corporate & investment banking and wealth management head offices in Paris, in addition to the regular private banking products and services, our clients have unparalleled access to many additional services like private investments, specialised asset financing, real estate, philanthropy, and passion investments advisory for vineyards and art.

Our financial strength and stability. This is key to ensuring that clients continue to entrust us, and top-tier RMs come to work for and stay with us.

What does it take to deepen relationships with existing clients?

At BNP Paribas Wealth Management, we are committed to our clients' futures.

We deepen our relationships with clients every day, by listening carefully, by perfecting the way we deliver services, by proposing out-of-the-box solutions, and by putting the expertise and capability of the entire BNP Paribas Group at our clients' disposal.

In these troubled times, we must more than ever proactively reach to our clients and better communicate, explain and help them make decisions with regards to all aspects of

> In these troubled times, we must more than ever proactively reach to our clients and better communicate, explain and help them make decisions with regards to all aspects of their financials.

their financials. Our role is to demonstrate the added value of private banking services by being a trustworthy adviser, always putting each client's priorities first.

So what do you think are some of the characteristics of good private bankers?

Good private bankers must understand and care about their clients. And this goes way beyond the superficial level of understanding and caring which enable one to pass compliance and sell products. A truly deep, caring relationship is the only kind that would last not only for years, but for generations.

Good private bankers must have the education and mental capacity to portray self-confidence when discussing any topic with clients, while maintaining a listening ear.

Good private bankers have a deep understanding of risk and return, and always make sure that the client fully understands the strategy and its implications.

Good private bankers leverage the help of other experts. ■

Feature article

WHAT DOES A WINNING WEALTH MANAGEMENT MODEL LOOK LIKE?

There is no one answer to what the right approach or business model is to private banking and wealth management in Asia. But a clear and consistent strategy is a critical success factor.

Strategic positioning in Asian wealth management and private banking today is more important than ever before. Being focused and deliberate about a business strategy, and how to execute it efficiently, will leave only those who are true to label standing – profitably – in five years' time, or even less.

Inevitably, there are as many opinions on what is "right" as there are individuals giving them. From, the largest firm in the world by number

> Rather than trying to cover all segments, firms now need to be more tactical and focused in their strategies to play to their strengths and niches. Otherwise the cost-income ratio will make it prohibitively expensive.

The CEO agenda: top 3 strategic areas of focus in the next 2 years

Source: PwC Asia Pacific Private Banking Survey 2011

of employees to the most focused and lean boutique, being profitable and providing true value to clients will be a symptom of being true-to-label and playing to the strengths of the individual institution.

"I think that banks will increasingly be forced to stop being all things to all clients," says Michael Benz of Merrill Lynch Global Wealth Management.

"Above everything, a bank should consider its own strength as an institution, and what value it can provide to a particular group of clients particularly well. This also means creating different areas of client coverage. And once the main areas are defined, in order to make sure that they lead to economic success, they need to be looked at from a fully-integrated, front-to-back perspective, including all related costs," says Benz.

"I don't think there is any single model which is the best for private banking in Asia," adds Stephan Repkow, CEO, private banking, at Union Bancaire Privee in Asia.

"I respect the broker-dealer approach that some large organisations take, but at the same time I believe that the bespoke and bottom-up approach to servicing HNW individuals offers a good complement to the execution-led and transactional-driven style."

Among the many other factors which contribute to success, closely following clarity and consistency are quality and integrity.

While every bank has its own culture, its own approach to serving its clients and its own unique challenges, those firms which are committed to Asia and growing their market penetration – through whichever measure is relevant to them – quality and integrity will prove to be the key differentiators going forward.

BEING FOCUSED

According to Bryan Henning, man-aging director and head of global research and investments within the wealth and investment banking divi-

Keith Harrison

Bank Hapoalim

"The strategic reviews we have done in our business over the last 12 to 24 months have led us to conclude we must focus on particular markets and become specialists in those areas"

Ravi Raju

Deutsche Bank Private Wealth Management

"We focused on helping clients to manage their risk exposure and to protect the returns on their portfolios"

sion of Barclays in Asia, the convergence of upstart aspiring wealth management firms – which tend to be the Chinese banks and the regional names – with the international banks of all sizes will mean the industry will continue to face a cost-income challenge.

"There will remain a shortage of quality RMs, product specialists and advisory staff, because the industry has more potential than the people available at the moment to service it properly," he explains.

But this will determine which types of firms are successful in different segments, depending on the base they have to start from, says Henning.

For example, a regional player with a good feeder retail network will do well in the mass affluent space, and then might work up into private banking, he says. By contrast, a capable investment banking firm will feed into the private investment banking segment servicing the wealthy entrepreneurs in terms of both their corporate and personal money.

"Rather than trying to cover all segments, firms need to be more tactical and focused in their strategies to play to their strengths," says Henning.

"Otherwise cost-income ratios will make it prohibitively expensive."

Adds Lok Yim, managing director and head of private wealth management for Deutsche Bank in North Asia: "Ultimately it is critical for any bank to determine what they are good at, and be realistic about what they are not as good at, and then target the relevant customers in the space where the bank is strong."

For many firms which take a top-down approach, with the aim of getting a certain market share from the whole Asian wealth management pie, they risk being too general.

"Taking that type of macro view is often why a lot of new entrants fail – they lack focus," says Alex Jagmetti of Gonet & Cie Group.

Being nimble is also increasingly important in today's environment – especially for new entrants.

For Gonet, by contrast, as a multi-family office in Asia backed by a bank, which in itself is a point of differentiation, it is looking to building a business via RMs who have proven track records in specific and pinpointed Asian locations. "They will develop the Gonet business in their specialist markets," says Jagmetti.

"It is particularly important when entering a new private banking market such as Asia to be entrepreneurial," adds Repkow, "and be able to adapt to various market situations and be relevant in the various segment of the market in which we want to provide our wealth management offering."

For UBP in particular, Repkow says that the fact there is a family behind the firm helps to make it closer to most of its Asian clients, given that many HNW individuals in the region are entrepreneurs who take a family-led approach to running their businesses.

Stephan Repkow

Union Bancaire Privee

"It is particularly important when entering a new private banking market such as Asia to be entrepreneurial"

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[1] Source: Bank of America. Merrill Lynch Global Wealth Management (MLGWM) represents multiple business areas within Bank of America's wealth and investment management division including Merrill Lynch Wealth Management (North America and International), Merrill Lynch Trust Company, and Private Banking & Investments Group. As of March 31, 2012, MLGWM entities had approximately US$1.8 trillion in client balances. Client Balances consists of the following assets of clients held in their MLGWM accounts: assets under management (AUM) of MLGWM entities, client brokerage assets, assets in custody of MLGWM entities, loan balances and deposits of MLGWM clients held at Bank of America, N.A. and affiliated banks. This reflects a change in calculation methodology effective March 31, 2011.

[2] Ranked #1 All-Asia Research Team – 2012 *Institutional Investor Survey*

In line with the need to be focused, segmentation has to go beyond what most institutions do today, which is segmenting purely by asset size.

"I am thinking of basic needs and behavioural differences," says Benz. "This depends on whether the client is someone who just wants peace of mind and only gets a call and statement update once a year; or someone who wants to have daily contact with the banker to more actively manage his/her account."

Further, it goes beyond the desired frequency of contact, he adds. This type of segmentation can also include aspects like liquidity features of a client's assets, preservation versus growth expectations, and the need for a certain type of risk management.

"When it comes to segmentation by wealth, I don't see any value in taking that approach," says Barend Janssens of RBC Wealth Management. "A client with US$1 million to US$3 million in assets can be extremely profitable for the bank, if they are a trader."

Barend Janssens
RBC Wealth Management

"The industry has been focused almost entirely on getting more assets under management and then trying to sell the standard product range"

GLOBAL OFFERINGS

Taking advantage of the opportunities in Asia also relies on a business model which recognises the different point in the region's growth cycle, coupled with the pace and extent of wealth creation, especially in China, Indonesia and India, plus the fact that a vast amount of this is first-generation wealth.

"For foreign players, which also have differentiate to compete and find new niche areas, focusing on product innovation, service delivery and a superior customer experience will be key," says Nam Soon Liew, partner and financial services advisory leader for Ernst & Young in Asia Pacific.

"As Asian entrepreneurs look to take on a more global role for their businesses, this is where a private bank such as Deutsche Bank, in terms

Top 3 people issues faced today

* Singapore + Hong Kong results

Source: PwC Asia Pacific Banking Survey 2011

of our global reach and diversification, can really service these clients' needs," says Ravi Raju, managing director and regional head of private wealth management for Asia Pacific at Deutsche Bank.

"[This is] through helping them within areas such as capital raising or mergers and acquisitions for their businesses, by leveraging the strong corporate and investment banking capabilities."

International and regional banks which leverage on their global or regional networks, familiarity with markets and operating environments to more easily serve the needs of their clients, will find new ways to cross selling to their existing customer base and attract new customers, explains Liew. "They could bundle transaction banking with private banking services to dominate share of wallet," he explains.

According to Raju, this shows the role for global universal banks and where they can perhaps add the most value in Asia. "We leverage on our competitive advantage, our strong integration with the corporate and institutional platform of Deutsche Bank, to proactively offer creative and non-traditional solutions to clients across a wide range of products."

Through focusing on helping clients to manage their risk exposure and to protect the returns on their portfolios, Raju says that the bank had its best year in 2011 in gathering new-to-bank client assets.

A global value proposition is also a big help in organisations being able to differentiate themselves in today's environment, says Olivier Gougeon at Societe Generale Private Banking.

"I wouldn't be surprised to see consolidation at some point between private banks, to enable them to generate scale and higher returns," he says.

WHY SIZE DOESN'T ALWAYS MATTER

At the same time, if banks become over-zealous with certain parts of the offering, this leads to significant problems for clients.

"In general," says Anuj Khanna, CEO, South Asia, wealth management, at Pictet & Cie, "for private banks with the strategy of targeting clients from US$1 million to US$1 billion, this requires bankers of varying levels of experience to service them. Large players can justify hiring 100 people over two years to serve all client types, especially as there is cross-sell."

There is no right or wrong, explains Khanna. "It is all about execution." This includes the management and who is running the firm, and is all about being focused on what the strategy is.

The Pictet offering, for example, is for clients who are cash-rich and need wealth management advice and services, says Khanna. "The dangers of going local in Asia include currency controls, which doesn't lend itself to managing money in a global way. As a result, entering local markets is not on our radar."

At the smaller end of the Asian private banking scale, for Bank Hapoalim, Keith Harrison, head of Asia Pacific and branch manager in Singapore, says that the strategic reviews the firm has done in its business over the last 12 to 24 months have led it to conclude that it must focus on particular markets and become specialists in those areas.

"This does pose a challenge in terms of what we should do with clients which don't fall neatly into the target markets we have identified," he explains. "But we have addressed this by looking at the extent of our existing business in other areas."

As a result, when it comes to marketing, designing products and other efforts that Bank Hapoalim undertakes to grow its business, the focus is on delivering in those areas identified for strategic growth. "The other areas still benefit, but the decision-making is made more clear cut," says Harrison.

For any similarly-sized institution, such an approach enables manage-

Carolyn Leng
CIMB Private Banking

"To move away from a product-centric approach generally, the industry must work together to embark on charging fees for service in a more formal and collaborative way"


RBC

> The industry must work together to embark on charging fees for service in a more formal and collaborative way.

ment to avoid being in a market where it is difficult to build a profitable and sustainable business.

Being smaller also means less dependency on success by pushing products, says Eric Pedersen, head of private banking at Nordea Bank in Asia Pacific.

"We can also adopt a much more tailored approach to each client because of the smaller scale and the fact that there is less need to segment clients in a mechanical way and automate our offering to service them," he explains.

When it comes to communication with clients, a smaller firm also often has an advantage in relation to continuity of individual RMs with their clients, adds Harrison. Plus it makes it more realistic to speak to each client on a personal level, rather than just an email blast. "This also makes it more feasible for RMs to get feedback from clients directly."

SUSTAINABLE REVENUE

Regardless of size or strategy, notable about the business strategy of most private banks and wealth management firms to date has been its inward-looking nature.

"The industry has been focused almost entirely on getting more assets under management, and then on trying to sell the standard product range [to clients]," says Janssens.

The pitfall of this approach is that everyone is focused on the same pool of assets, rather than looking at alternatives such as trapped liquidity or capital in a client's family business.

"This applies to clients across the region, yet private banks don't seem to be able to capture this opportunity," says Janssens.

To do so, he explains, requires a strong balance sheet as a starting point, to move away from an AUM-driven approach, and offer clients more interesting opportunities.

"This plays to our strengths," he says, "and we are not suffering in the same way as some of our competitors with legacy European or US businesses."

However, capturing the opportunities related to trapped liquidity also requires having the right type of experienced bankers to be able to identify and target these clients with the right types of solutions.

Only then can banks get back to the point at which they can be making sufficient and sustainable revenue.

Creating new streams of fee income in any meaningful and sustainable way other than traditional, transaction-led commissions is still elusive for many.

"To move away from a product-centric approach generally, the industry must work together to embark on charging fees for service in a more formal and collaborative way," says Carolyn Leng, head of private banking at CIMB Private Banking in Malaysia.

However, charging clients for what they have gotten used to receiving for free, coupled with the disappointing performance of many clients' portfolios, is proving to be a tough sell.

Plus, HNW individuals in Asia are well-connected in their own networks – so cluster to exchange information.

Further, for private banks which move from a traditional, transactional-led model to a discretionary or solutions-based model, there risk is being too far ahead of the curve, says Alan Luk, head of private banking and trust services at Hang Seng Bank.

"If clients are not yet willing to pay annual or portfolio fees, this will create a gap and risk the bank losing some market share," he explains.

This means the industry will only move slowly towards these types of models.

"There will always be doubts as to whether the market is ready for this approach, but as an industry we need to make a collective effort to change the clients' mind-set."

Within the growing group of Asia's middle class and mass affluent segments, meanwhile, Vineet Vohra, HSBC's regional head of wealth development in Asia Pacific, says that the fast-growing pools of wealth in places like China, India and Malaysia are now

slowly being invested into an increasingly diverse range of assets.

"We expect to see increased demand for wealth management solutions that cater to needs around protection, long-term savings including education and retirement, wealth growth and wealth transfer," he explains.

THE RIGHT LEADERSHIP

The right business model is, as has been highlighted, only as good as the way in which it is executed – which comes down to the skills and attributes of senior management.

Given the cost, regulatory and revenue pressures within Asian wealth management today, change is a must within the industry, and successful change starts with strong leadership which decides and sticks to decisions, and then pushes them through, says Mario A. Bassi, managing director and head of Asia for Solution Providers Management Consulting.

A well-planned strategy, defining the mission and vision of the organisation, and incorporating flexibility to adjust rapidly to the evolving marketplace must be defined by the leadership and disseminated promptly throughout the firm, adds Noor Quek, founder and managing director of NQ International. "This process will enable them to define their niche, differentiate themselves from the competition and enjoy economies of scale," she explains, "as cost containment has become a significant challenge for institutions."

Although specific skills and attributes will depend on each bank's culture and model to a certain extent, to succeed in today's environment, relies on senior management appreciating and treating RMs as serious professionals who are expected to socialise on an equal basis with the HNW community. Important people in society don't like thinking that they are dealing with unimportant bank employees.

This requires a high level of respect and empowerment, obviously within the regulatory boundaries.

"Good leadership involves grooming bankers as well as looking at how to meet demands for staff, and ensuring a sufficient number of experienced individuals," adds Bassi.

"It is also important to have senior bankers to guide and mentor younger RMs. It isn't possible to learn everything required to be a successful private banker until they are on the job."

As a result, senior management should try to avoid at all costs trapping their RMs within the short-term interests of the institution and the long-term interests of their client relationships.

More specifically, if leaders tell their RMs their vision, how they intend to achieve it, and their values and unique value proposition – combined with an efficient platform – then RMs are likely to be more engaged and stay loyal to an organisation.

"In turn organisations will be able to deliver growth," says Bassi. "While banks are afraid of RMs leaving, it is important for management to not only service the top-end but also manage the tail-end. This doesn't necessarily mean letting them go, but giving them the time and tools to move up to the next level. This also involves mentoring them to help them learn from more experienced or more successful RMs."

This isn't always the case in the current competitive landscape.

While a lot of private banks previously gave new staff a relatively long period of time to perform, Albert Chiu from EFG Bank says senior management today won't wait as long for a banker to prove themselves, "as the willingness to show a lot of patience is under significant pressure given the high cost-income ratios".

Important measurements now also include aspects such as sales pipelines and the way the staff engage clients and management.

"We have to do a lot more due diligence on individual bankers before we hire them," says Chiu. "It is no longer good enough to have a reasonable track-record as a priority banker and then want to move to the next level and become a private banker."

The focus is also now more how a banker has won or cultivated clients at previous firms, and how they have managed them. "The hiring process is therefore a lot more selective."

A further dilemma for many managers today is striking the balance between the short term and long term.

For example, most managers, especially in the universal model, can only dream about having 50%-plus of client assets managed on a discretionary basis, to create recurring, predictable income.

But it will take some time to grow the discretionary book, and many management cannot predict how long they will stay in their position.

So why pay too much notice of future earnings? It is much more tempting to focus on the current profitability as that is more tangible and most likely more important for the next step in the individual's career. Such a dilemma remains a significant threat to the development of the industry in Asia. ■

Q&A

HOW TO STAY RELEVANT IN THE NEW WORLD OF PRIVATE BANKING

Vincent Duhamel, head of Asia Pacific and Japan at Lombard Odier Darier Hentsch, outlines what Swiss and other private banks must do in today's new-look private banking landscape to adapt their business models in order to be successful.

To what extent can Swiss private banks re-invent themselves quickly or sufficiently enough to stay relevant within today's new world of private banking?

There are different types of Swiss banks. The "real" private banks are privately-held, focusing purely on asset management and wealth planning, rather than being transaction-oriented. As a result, they are better-placed to adapt to the requirements of today.

> Not being subject to quarterly earnings expectations means it is possible to make long-term investments and take a long-term approach.

For example, there is a major shift in the regulatory environment, in turn changing the attractiveness of Switzerland as a financial centre.

This ranges from tax requirements to initiatives like the Markets in Financial Instruments Directive (MiFID) in Europe.

So-called "real" private bankers are in a better position to reinvent themselves quickly because they never took the transaction-oriented path and instead focused on where the attention is now shifting – towards proper asset management and wealth protection.

Not being subject to quarterly earnings expectations means it is possible to make long-term investments and take a long-term approach.

What can the other Swiss banks do to remain relevant in a global context?

It is all about performance. Switzerland has had the advantage of political and economic stability over many years, so the banking industry enjoyed a competitive advantage in gathering assets relative to a lot of firms in other markets.

Since the world is changing quickly, the banks now need to respond in various ways. They have to reduce their costs, perform on their offerings, and maintain their established service levels.

One of the things they do need to do, however, is customise their offerings to the specific needs of clients, especially Asian clients.

The Swiss banks have an advantage over regional Asian banks in terms of the time that the Swiss firms have been investing globally, which makes them culturally inclined to offer effective diversification. Their 200-year or so history of investing has also given these banks a lot of experience in managing through various financial crises.

While "real" private bankers may not do as well during bull markets as other types of transaction-oriented universal banking, they are much more consistent through cycles.

Where has the private banking industry in general fallen short in Asia, including mis-managing client expectations?

Private banks in Asia have seen 10 to 15 years of hyped activities, ranging from product pushing to a lack of transparency on cost. This led to hyped expectations for clients and inappropriate products.

For organisations like ourselves, it is how to manage clients' assets throughout cycles. The approach must be to protect wealth and add to it.

No private bank is going to be able to meet the returns that entrepreneurs can make from their own businesses. So the focus must instead be on diversifying risk away from this.

The reason why a lot of banks have excessive cost-income ratios is because they are heavily dependent on distribution fees from their investment banking arms.

As soon as those products don't sell anymore, or when interest rates are low, the cost infrastructure becomes too large to handle.

Vincent Duhamel
Lombard Odier

"Private banks in Asia have seen 10 to 15 years of hyped activities, ranging from product pushing to a lack of transparency on cost. This led to hyped expectations for clients and inappropriate products."

Which models will work in the future?

We will always be a niche player, servicing and offering wealth management products for clients who might want to use universal banks for transactional purposes, but come to us for the safety of our balance sheet and to preserve the part of their wealth that they give to us.

For us, the challenge is to make it clear that our model doesn't involve conflicts of interest, and therefore ensure that the perception of our service and philosophy isn't the same as many of the private banks which are part of universal banking groups.

Looking at the evolution of wealth in Asia, 25 years ago when individuals were starting their businesses, they wanted to deal with banks that offered them deposits and corporate lending.

Then, as entrepreneurs wanted to list their businesses, they looked for an investment bank to help them do more sophisticated capital market transactions, for example initial public offerings.

These individuals are now more aware of the different types of wealth management offerings, have more wealth to protect, and therefore will use banks for different specific reasons.

So how can banks differentiate themselves?

It is about products and the strategy that firms can put together. In Asia, there is a greater need to develop Asian-tilted products.

This is because Asian clients want this to satisfy their home bias. Plus, European clients want more and more exposure in Asia, so the industry needs to offer them solutions that are attractive to them.

What are the opportunities for international players in local markets?

Being successful in private banking depends on knowing your clients' risk tolerance, needs and aspirations.

Take our recent strategic alliance in Australia with JBWere as an example. We are not in that market so we don't know these clients as well as a domestic player, and as a result we are not as well equipped to advise them in the same way as a firm like JBWere.

On the flipside, with Australia experiencing so much growth in wealth over the past 20 years, JBWere has been mainly domestically focused.

However, it now needs to provide a global platform to enable clients to diversify internationally, so they need to find a partner where there is no conflict of interest.

We satisfy that at two levels – we don't intend to enter the local market and compete for clients domestically, plus we don't intend to sell these clients investment banking products. Instead we offer the technology to service the clients and the know-how to offer global wealth management advice.

This creates a win-win. JBWere keeps the ownership of the clients, and we provide the platform. For us, JBWere is our window into the Australian market. ■

"This creates a win-win. JBWere keeps the ownership of the clients, and we provide the platform. For us, JBWere is our window into the Australian market."

Co-published article

WHY OFFSHORE BANKING WILL THRIVE IN SINGAPORE

Although there is a common perception that offshore banking is a route for clients to hide "undeclared" funds, this is not how offshore banking in Singapore has been developed or will be promoted, according to Francis Koh, professor of the Finance Practice, and director, MSc in Wealth Management, at Singapore Management University.

For Singapore banks, offshore banking supplements the revenues of onshore banking and serves real needs of high net worth individuals (HNWIs).

As a result, in the years ahead, offshore banking will complement onshore banking services and lead to the further growth of the wealth management industry in Singapore.

UNDERSTANDING OFFSHORE BANKING

By definition, offshore banking covers bank services provided by financial institutions located outside a depositor's country of residence.

The commonly-cited benefits of offshore banking include:

- The offshore bank being able to offer products and services providing competitive returns
- The offshore banking centre providing a secure and transparent banking environment allowing depositors to invest and accumulate their wealth over the long term
- A politically and economically stable jurisdiction to preserve wealth
- A sound legal system to facilitate the transfer of inter-generational wealth

Depositors often combine offshore banking activities with social and/or business visits. This suggests that offshore banking locations are usually located in strategic locations which have easy travel access to and from home countries for the offshore clients and their relationship managers.

Why then do some analysts postulate the the demise of offshore banking in the near future?

It is probably because of a legacy issue involving some offshore banking centres which had grown to be conduits of "undeclared money". These centres prospered with the help of statutory acts providing "bank secrecy", which tolerate the acceptance of indiscriminate deposits without rigorous know-your-client processes. Many of these centres were alleged to be involved in money laundering and black-listed by the Organization for Economic and Co-operation and Development (OECD).

There is now a broad consensus in the industry that "bank secrecy" as practised previously will not be available in the near future. International co-operation against tax evasion and other forms of illicit cross-border fund transfers have made strenuous demands on financial institutions removing bank secrecy as the raison d'être for offshore banking. Consequently, offshore financial centres, which depend on regulatory provisions of bank secrecy as the mainstay of business, will decline.

However, wealth management in Singapore did not evolve from, nor was it developed to take advantage of, "bank secrecy" or "undeclared funds", and Singapore has not been blacklisted by OECD at any point in time. Thus, there is indeed room for both onshore and offshore banking to grow in Singapore.

Francis Koh
Singapore Management University

"Offshore banking will complement onshore banking services and lead to the further growth of the industry in Singapore"

THE GROWTH OF WEALTH MANAGEMENT IN SINGAPORE

The active promotion of Singapore as an international financial centre gained traction in the 1960s. With excellent infrastructure, a well-educated workforce and an efficient legal system, many financial institutions were attracted to establish their operations in Singapore. Many multi-national companies set up manufacturing facilities as well as their regional headquarters in the republic. The growth of commercial, trading and manufacturing activities supported the need for international finance. The increasing presence of global financial institutions sets the scene for Singapore to be a "global" financial centre. Singapore is currently ranked in the seventh position as a global private banking and wealth management centre after London, Geneva, New York, Toronto, Hong Kong and Zurich.

The driving force behind Singapore's financial sector development has been the Monetary Authority of Singapore (MAS). MAS has assiduously introduced regulatory reforms and actively promoted the growth of the banks and encouraged financial innovations.

The many measures implemented by MAS and other government agencies include the following:

- Committing resources to develop human capital for the industry through the Financial Sector Development Fund (FSDF) to create a pool of talent for the industry
- Enhancing training and development through Financial Industry Competency Standards (FICS) framework
- Fine-tuning the legislative framework relating to trusts, anti-money laundering (AML), investment advisory and securities trading
- Keeping up efforts to make Singapore a congenial city in Asia to live and work in, with more recreational facilities, music, drama and arts initiatives, leisure including two buzzing world-class integrated resorts (the 2010 Mercer Quality of Living Survey ranked Singapore as the top city in Asia)
- Developing related services like office space, quality housing and international schools to accommodate corporations, their employees and families
- Removal of estate duties to incentivise the rich and famous to live in Singapore
- In tandem with the increased wealth in the region, AUM in Singapore grew by 13% in 2010 to about US$1 trillion surpassing the levels reached before the 2008 global financial crisis.

According to an industry survey by MAS, more than 80% of the total AUM was sourced from outside Singapore demonstrating Singapore's primary role in serving regional and international investors.

The Boston Consulting Group has estimated that Singapore has an 8% market share of the global cross-border wealth management.

THE STRATEGIC THRUST OF THE INDUSTRY IN SINGAPORE

In developing wealth management, Singapore's strategy focuses on becoming a "competent, trusted and clean financial centre", as articulated by Ravi Menon, the managing director of MAS.

This will support the ultimate objective to sustain Singapore's position as a premier wealth management centre building on its existing capabilities and robust "financial eco-system".

The strategy has been operationalised through a set of visionary actions. On the issue of competency, MAS recognised that Singapore faces a severe shortage of talent.

Qualified professionals are needed in almost all areas: front, middle and back offices. Hence, MAS, has encouraged the industry to train more professionals, and quickly.

So far, about 1,500 professionals have been trained under this FICS framework. Meanwhile, the framework is being reviewed and refreshed to increase its relevance to the industry.

In line with the urgent need for more competent wealth managers and to provide a pipeline of trained talents for the industry, the Singapore Management University, in collaboration with Wealth Management Institute (WMI) and supported by Swiss Finance Institute (SFI) and Yale University, offers a Master's degree in wealth management to aspiring and incumbent wealth managers. This offers qualified candidates opportunities for internships during their studies.

So far, more than 300 participants have graduated from the programme.

On the issue of sound market conduct, MAS regularly reminds the private banking industry to build trust and strengthen client relationships.

Wealth managers have been urged to move away from a transaction-driven approach of pushing products to a client-centered approach which focuses on customised advice that will meet the financial needs and life-cycle circumstances of their clients.

Banks have also been advised to review their compensation structures and to refrain from "aggressive poaching" of staff from other competitors.

MAS has repeatedly stressed the need to keep the financial centre "clean".

There are real and reputational risks if Singapore becomes a conduit for illicit funds, and Menon has pledged that Singapore is fully committed to align its AML and counter-financing of terrorism (CFT) regulations with the recommendations of the Financial Action Task force (FATF), which sets the global standards to control the flow of illicit money. MAS strictly enforces the AML/CFT provisions through a risk-based approach by taking into account the business activities, customers, products and services and the internal control system of each private bank.

Recognising the importance of collective responsibility to develop best practices and ethical conduct within the industry, private banks in Singapore have banded together to establish a Private Banking Interest Group (PBIG). One of the early initiatives of this group was to launch a Code of Conduct for the industry in Singapore, setting out key competencies, training and assessment of relevant wealth management professionals and their appropriate market conduct.

The Code also establishes standards regarding the continuous training and assessment of the professionals.

Under the code, relevant wealth managers have to pass a competency assessment called the Client Advisor Competency Standards (CACS) before they can provide financial advice.

The assessment examinations were successfully implemented in September 2011.

WILL SINGAPORE CONTINUE TO THRIVE AS AN OFFSHORE CENTRE?

The wealth management industry in Singapore is growing well, led by MAS and other key agencies of the Singapore government, working closely with the industry – which has collectively agreed to shoulder responsibility for raising competency, upholding professional conduct and developing a client-centric environment.

The close collaboration between industry and regulatory authorities is a key strength of and augurs well for the future of wealth management in Singapore as a competent, trusted and clean wealth management centre for both onshore and offshore banking. ■


LABEL.CH
“I entrust my
financial advisor with much more than my assets.”

Feature article

WHAT VALUE MEANS TO CLIENTS TODAY

As the approach of many HNW individuals to their wealth management relationships and portfolios becomes ever-more rational and professional, private banks and other advisory firms must make sure they understand what value now means to their clients – and then provide it.

One thing about HNW clients in Asia is that what they want and value is constantly changing.

This has become very true since the 2008 financial crisis, and the subsequent periods of market volatility.

What, therefore, can their bankers do to add value to them?

WEIGHING UP INVESTMENT PERFORMANCE

While investment performance is a part of any wealth management strategy, prudent and well-rounded wealth management involves more than that.

"The last global financial crisis has taught investors about the downside risk of leverage, and this time round, investors are definitely less leveraged than they were, and more well-prepared in times of market downturn and volatility," says Su Shan Tan of DBS Bank.

On one hand clients are better informed today than 10 to 15 years ago, as a result of news media and instant access to this information.

This gives clients the potential to be almost as well informed as their private bankers. On the other hand, there is also a lot of misinformation out there.

"Our role is to provide well-researched and unbiased financial advice to clients," says Bruce Von Cannon, CEO of Banque Privee Edmond de Rothschild's Hong Kong branch.

"It is important to give clients the view of in-house research and it is also useful for us to be able to give them the consensus views of other noted and reputable financial analysts."

In the past few months, with the Eurozone situation still uncertain, both clients and bankers have acknowledged the volatility of the markets and are now working on diversifying their assets by having conversations around asset allocation.

For ultra high net worth (UHNW) individuals, the financial crisis has shown them the importance of asset allocation and risk management of their overall position, irrespective of the various private banks that they are dealing with.

"The ability to provide added value at that level is more and more recognised, appreciated and thought after," says Philippe Legrand, CEO of London and Capital Asia.

Value is not merely about the percentage of returns, says Mykolas Rambus, CEO of Wealth-X.

"There are many avenues particularly in view of Asia's massive and growing population of entrepreneurs. For example, value can be delivered via the restructuring of multi-generational family assets or the provision of credit for businesses that wish to expand overseas – the options are countless."

The greatest value a private bank, for example, can offer is when a client has substantial amounts of money which needs to be preserved and passed on to the next generation.

"This involves managing money to generate returns that beat inflation on a sustained basis over a long period of time," says Anuj Khanna at Pictet & Cie.

"In the world of investing, generating very high returns in one year or in one product is easy and attributable to luck. Generating inflation-beating performance on a sustained basis is not."

> The good news is that there is widespread realisation that there is a crisis of confidence. The bad news is we still have a long way to go in our industry before that sentiment is turned around.

Given that most Asian clients use private banking services to generate more money, it is the responsibility of bankers, therefore, to explain to the client how difficult it is to make money on a sustained basis over a long period of time – and that instead, the real objective they should have is to preserve wealth.

"The first thing is therefore setting objectives and expectations," says Khanna. "Advice around concepts like diversification, appreciating reference currencies, and wealth transfer all need to be offered to a client to be able to add value to them."

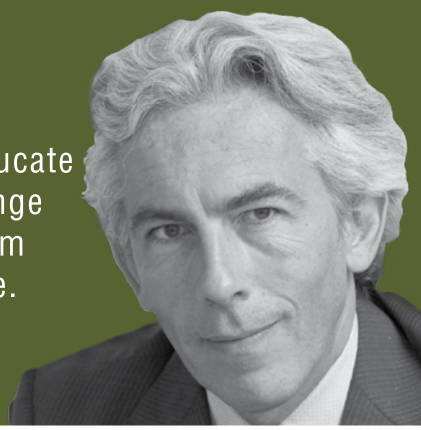
As a result, the overall service angle is key.

For example, says Keith Harrison of Bank Hapoalim, clients want to know they can get hold of their bankers

Olivier Gougeon

Societe Generale Private Banking

"We need to continue to educate our clients on the whole range of what we can bring to them – not just the product range. This takes time to put the infrastructure in place"



What private banks believe matters most to their clients now and in 2 years' time

Relationship manager quality	1	2
Comprehensive, integrated wealth management planning solutions	2	3
Provision of high quality advice	3	1
Client service model and approach	4	4
Brand and reputation	5	5
Investment outperformance	6	7
Provision of tailored, customised solutions	7	6

Is performance really irrelevant?

Sum of weighted ranked responses

Source: PwC Asia Pacific Private Banking Survey 2011

quickly and they can get access to facilities such as credit or specific products they hear about and they want advice on these products and services in a quick and efficient way. "This is where we really build a service-orientated partnership."

Hugues Delcourt, country executive for Singapore, and CEO, Private Banking International, Asia, at ABN AMRO Private Banking, adds that there is an increasing need for the industry to move towards establishing a "client service model" where RMs act as conductor of the relationship between clients and product specialists or solutions providers.

"RMs can then tap on the expertise of a pool of specialists residing within the bank to make relevant recommendations to their clients on various products or solutions that could be tailored to meet the clients' specific needs and goals," he explains.

This requires the institutions to develop a strong client service team of specialists who have in-depth knowledge and expertise in product structuring, lending and investments in order to provide integrated and customised solutions to the clients.

In addition, taking a team-based approach addresses the fact that it is very rare to find individuals with all the skills and attributes required for being successful in this role, adds Michael Benz of Merrill Lynch Global Wealth Management – being super-savvy technically, having a highly-developed sense for investing, and possessing finely-tuned social skills. This is particularly relevant for the larger client groups with increasingly complex needs.

Su Shan Tan

DBS Bank

"Our understanding of our clients' business needs in Asia also enables us to provide a holistic solution to their wealth management needs"

The success of a firm in trying to achieve this might come from within the culture, led by senior management. Or it might be something which management has to force on to staff – via incentive structures or other carrot-and-stick approaches. Either way, it is a key value-driver for clients.

However, while Harrison agrees that investment performance never seems to be the most important factor for clients, if it is poor, then clients lose their eagerness to work with a particu-

lar institution, because they expect a decent and consistent return.

And when this advice is delivered, private banks need to implement more robust advisory and execution platforms, says Nam Soon Liew of Ernst & Young, ranging from client onboarding, client reporting and investment suitability, to order management and execution, asset allocation and portfolio management.

"Clients expect expert advice to help them with decisions on asset allocation, expectations on investment return, products and services to consider," says Liew. Private banks then need to work out more structured and standardised approaches for client financial and behavioural profiling."

WELL-RESEARCHED

The time when clients need their bankers most is when markets turn down or turn volatile. Periods of time over the last four to five years have been extreme, so this requires RMs to present clear investment views to clients and to address their key needs.

"Nobody can claim that they know where the markets are going, but it is important to give a measured opinion," says Benz, "in terms of how we interpret the markets and what clients should watch out for – simple messages but clear guidance."

Yet delivering an informed service to clients requires the right people. This includes bankers who are sufficiently qualified, experienced and confident to deliver the guidance clients want, says Nick Pollard, CEO of Coutts in Asia. It also includes individuals in the products and services area who are equipped to develop and deliver appropriate solutions.

Hugues Delcourt

ABN AMRO Private Banking

"We see the need for the private banking industry to move towards establishing a 'client service model' where RMs act as conductor of the relationship"

"The investment can be high but the return will justify the cost for the banks that get the economics right," says Pollard.

The best way that Pollard says Coutts can position itself is as a provider of intelligent advice.

"This means quality advice and relevant products and services backed by insight and data. We are enhancing our investment products and services teams around the world. Our global network of investment strategists are on top of market developments and are able to offer real-time guidance to clients on how to navigate the turbulence in the markets today," he explains. "The banks which will benefit in these times are those who are constantly out there talking to clients about their concerns," says Pollard.

The ability to connect clients to expertise and networks outside the bank is important as well – for example, specialists advising on philanthropy.

> Clients expect expert advice to help them with decisions on asset allocation, expectations on investment return, products and services to consider.

Nam Soon Liew

Ernst & Young

"Private banks need to work out more structured and standardised approaches for client financial and behavioural profiling"

WELL-ROUNDED

"Private banking today has got to be more than a nice logo and concierge-type service," says Bernard Rennell, CEO, North Asia, and global head of private wealth solutions, at HSBC Private Bank.

"With the regulatory environment becoming more complex, and the investment climate more uncertain, scale and depth in resources and expertise is becoming more and more important to being able to deliver a first-class service to clients," he adds.

According to Tan, having an understanding of clients' business needs in Asia creates a better likelihood that the firm can offer holistic solutions to their wealth management needs – which in turn helps to prioritise their wealth preservation, risk management and succession planning needs.

"For example," she explains, "if we have clients in the oil and gas sector, we work closely with our sector experts from the corporate and investment bank in order to add value to their business. This also enables us to be far more effective in suggesting the right kind of wealth management tools, such as hedging strategies or addressing liquidity needs. We often link them up to potential partners or co-investment opportunities in their sector, too."

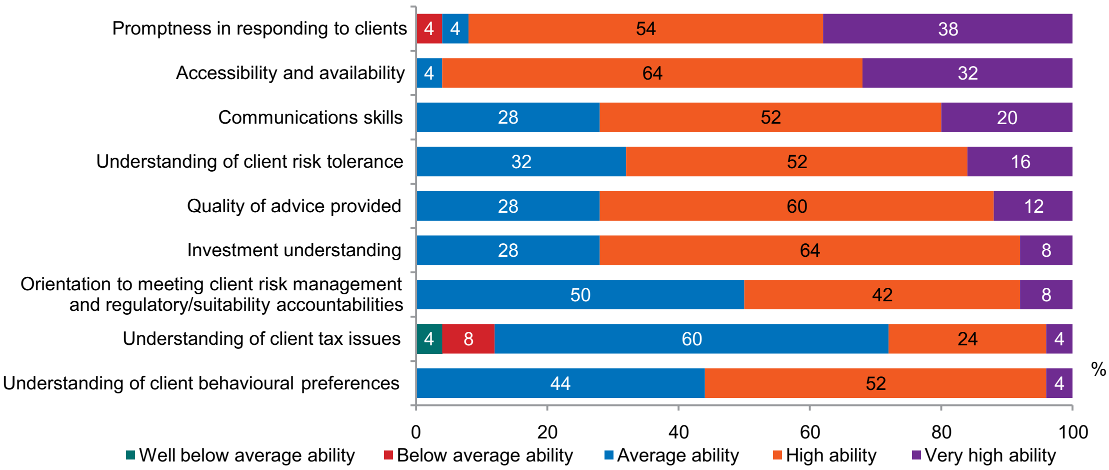
Ultimately, adds Tan, delivering value to clients is about understanding and anticipating what they need. "We are fortunate that as part of a universal bank, we can leverage the entire bank to meet those needs."

According to Olivier Gougeon of Societe Generale Private Banking, clients are increasingly interested in the global value proposition of a private bank.

"This includes a focus on trust offerings via wealth planning solutions," he explains. "That also requires an investment over the long term, in order to be an effective trustee."

Among the slew of issues that clients grapple with and that banks can help

Ability of relationship managers



Source: PwC Asia Pacific Private Banking Survey 2011

BANQUE PRIVÉE EDMOND DE ROTHSCHILD

Company Activities

Banque Privée Edmond de Rothschild SA offers comprehensive wealth management and estate planning solutions for wealthy individuals and their businesses. Investment solutions feature expertise in portfolio management, investment advisory and research, structured products, foreign exchange, commodities and trust services. The bank is considered a pioneer in hedge funds dating back to 1969 and received the 2010 InvestHedge Group of the Year Award, 2011 Banco Swiss Hedge Funds Award, 2011 IAIR Award for excellence in Investment Management, and 2011 European Fund of Hedge Funds Awards' best overall group.

Having had a presence in Hong Kong through our Representative Office for 22 years, Banque Privee Edmond de Rothschild proudly established a full branch in the Territory in 2012, following the granting of a full banking license from the Hong Kong Monetary Authority.

Company History

The Rothschild name in finance spans over 200 years dating back to the late 1700s to the present day headquarters in Geneva. Edmond de Rothschild merged the bank under Swiss-based La Compagnie Financiere Edmond de Rothschild (LCF) in the 1960s. Listed on the Swiss Stock Exchange since 1987, today the bank has assets under management exceeding USD 100 billion and boasts one of the highest capital adequacy ratios in the wealth management industry. It maintains a global presence with 33 offices across the globe.

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Anuj Khanna

Pictet & Cie

"The greatest value a private bank can offer is when a client has substantial amounts of money which needs to be preserved and passed on to the next generation"

> The needs of Asian clients go beyond the traditional private banking model, and answering them requires a team effort.

them with, issues around succession and intergenerational wealth transfer will become increasingly important.

"For example," says Pollard, "we are having more conversations with clients on succession planning, from both a product and advice perspective. Over the bank's 300-year history, we have managed the financial affairs of many clients through successive generations. We are in a unique position to help client with issues like business succession."

Further, the needs of Asian clients go beyond the traditional private banking model, and answering them requires a team effort, adds Legrand.

"The solutions to some of those needs are not always found within banks themselves."

Providing added value comes from the ability to put together and federate a coherent team whose combined experience is suited to answer the client's specific needs.

The loss of confidence clients have suffered in their banking relationships has also led them to increasingly ask banks to convince them which side of the table they are on, says Khanna.

"This is leading to clients asking themselves who is the best type of firm to service them – which has driven a number of larger clients to set up family offices, which means they are then advised by senior bankers."

This is highly-relevant to Asian HNW clients who are self-made. They are active and sophisticated investors, highly demanding on performance and service, involved in day-to-day management of their wealth, and their investments is a hotly-discussed topic in their social gatherings.

Philippe Legrand

London and Capital Asia

"Providing added value comes from the ability to put together and federate a coherent team whose combined experience is suited to answer the client's specific needs"

London & Capital Asia Limited

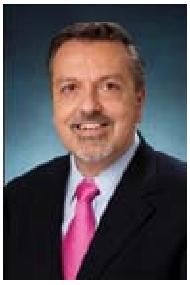
INDEPENDENT - PROFESSIONAL - TRUSTED ADVISORS

London & Capital
intelligent investors

Established in 1986 with offices in London and Hong Kong, the Group provides expert advice to private individuals, family offices, trusts, financial intermediaries and institutions on offshore and onshore investment strategies, with a strong focus on capital preservation and personal, tailored services.

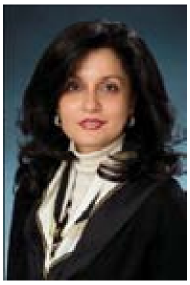
With Hong Kong as its Asian springboard, London & Capital Asia services the full spectrum of the families' private banking needs as well as those generated from their family businesses in terms of corporate or investment banking needs.

The Group has over USD 3 Billion of funds under Management (As of March 2011) , it is 100% employee owned and is SFC (HK). SEC (US), FSA (UK) regulated.



Philippe Legrand - CEO

Philippe brings over 25 years of experience with international banks in private, corporate and investment banking. He developed the Asian private banking platform for Rabobank/Sarasin in the late 1990's and subsequently headed the Private Banking North Asian operations of ABN AMRO. He was recently Deputy CEO of BNP Paribas Wealth Management North Asia, a group where he worked for more than 13 years. Based in Hong Kong since 1995 he has also worked in Europe, North America and India. Philippe speaks fluent English and French.



Sanam Ramchandani - Deputy CEO

Sanam brings over 25 years of experience in international financial industry. She was most recently Managing Director at BNP Paribas Wealth Management. Her experience includes 15 years of managing senior private bankers in BNP Paribas, ABN AMRO and Rabobank; prior to that she held various positions at Ernst & Young and the Rockefeller Family Office. Sanam is fluent in English, Cantonese, Hindi and Sindhi.

Benson Wong - Managing Director

Benson brings over 15 years of experience in investment banking and has transacted more than US$12 billion in mergers and acquisitions, capital markets and corporate advisory deals. He was most recently head of Greater China Debt Capital Markets (DCM) at BNP Paribas. Prior to that he was head of DCM at Bank of China and a Director in mergers and acquistiions at ING Barings. Benson speaks fluent English, Mandarin, Cantonese and Shanghainese.

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London and Capital Asia Ltd : 23rd Floor Henley Building, 5 Queen's Road Central , Hong Kong

Bruce Von Cannon

Banque Privee Edmond de Rothschild

"It is the intangibles relating to trust and long-term wealth preservation that far outweigh investment performance for most clients"

"They hence require greater RM contact and put great emphasis on the importance of client relationship management," says Legrand.

It essentially needs to be able to getting the basics right. "Private banks and advisories need to invest more time and money, and be prepared to do more homework to build a better understanding of those clients," says Rambus. For example, he explains, understanding what clients' privately-held companies are involved in, clients' social networks, and the hurdles clients have faced and how they were overcome.

According to Benz, the most important thing is a client going away feeling that they have got what they really needed, and in an individualised way. "No client likes off-the-shelf service, especially if they feel that the banker hasn't listened to what they are really saying or what they need at that point in time."

OFFSHORE OFFERINGS

Despite the regulatory and tax crackdowns in recent years, offshore banking remains a key component of what some Asian HNW clients value.

"Offshore private banks continue to serve wealthy individuals and families because we all live in a world of increasing social and political risk," says Von Cannon.

"Once an individual or family becomes wealthy, it is wise to seek diversification in the assets they choose and the global regions where they invest."

According to Delcourt, he is convinced that there will be increasing interest from European investors who would like to increase their portfolio diversification and exposure in Asia and surrounding emerging markets, and have some of their money being invested directly in these Asian markets and managed by Asian fund managers.

However, adds Liew, the lesser tolerance of regulators for banking secrecy is seeing more and more monies coming back onshore.

As a result, clients will value having access to alternative options for asset management in locations such as Hong Kong and Singapore.

"In Hong Kong… they can deal in RMB to adapt services to the needs of local clientele," says Georges Zecchin, chief executive of Crédit Agricole Suisse in Asia. "Undeniably, local clients are increasingly interested in opening accounts in Hong Kong with banks able to offer a full array of wealth management solutions."

Adds Zecchin: "That is why we opened a booking centre there. Prior to receiving our full banking licence, our clients had the possibility, as they still do, to book their assets in Singapore or Switzerland." ■

Mykolas Rambus

Wealth-X

"The volatile environment makes the issue of trust and the retention of trust between all parties increasingly challenging"

TAKING A TEAM APPROACH FOR ASIAN GROWTH

Peter Flavel, chief executive officer of J.P. Morgan Private Wealth Management in Asia, the high net worth business (US$10 million to US$30 million) of J.P. Morgan Private Bank, explains why the firm's team-based model is the future for advice in this industry in the region.

Given that the approach of many HNW clients to their banking relationships is ever-more rational, what do private banks need to do to change their models and the way they engage clients to be successful?

Our fundamental view is first-class wealth management advice should be delivered by an integrated team. And the players on the team should be "full time", not substituted off-and-on the field on an ad-hoc, as-needed basis. It means every private client at J.P. Morgan has a dedicated banker and investor coverage team.

We're partners in understanding client needs and delivering the best thinking of our whole bank for the benefit of our clients. We believe our team-based model is the future for advice in our industry.

How is this different from other private banking models in the market?

Other models in the market do make use of what are generally called investment consultants, but usually less than 10% of clients get to see both a relationship manager and an investment consultant. And when they do, the role of the investment consultant is usually more of part-time specialist support rather than of a dedicated, active, long-term member of the client coverage team.

In our team-coverage model, each client has a dedicated banker and investment consultant.

What else is required to deliver value to clients in today's environment?

What is required to deliver value in today's environment is the much-used term of being a trusted family adviser.

While it is much used, however, how often is it actually delivered? Our goal is to deliver superior risk-adjusted returns over the long-term through the natural different investment cycles.

It's widely known we have a much higher percentage of our client money managed in our bespoke discretionary portfolios. This is important for us; we seek to be in a fiduciary relationship with our clients. We see that as a key element of being a trusted adviser.

What interest still exists in offshore banking?

Offshore banking remains strong, with both Hong Kong and Singapore continuing to grow. It's about peace of mind for a client in that their investment portfolio is being well-managed in a secure, safe environment with strong regulation and transparency.

Some parts of the world can be more exposed to risk, particularly for the wealthy. Having a part of clients' wealth invested in a safe place will remain a valid business model for some time to come.

Are international banks winning Asian assets to justify their expansion in the region? Or are inflows into the Asian business mainly from existing European clients moving their booking centre to the region?

I'm not in a position to comment versus our competitors. Our focus in Asia is growing our investment assets from local Asian clients. It's not a focus to cover European wealth from Asian-based bankers. Our European-based teams have access to our global platform and they're best-placed to cover that wealth locally.

Are wealth management organisations geared up enough to deal with the complex needs of Asian entrepreneurs?

Yes, not all private banks are well set-up for all the complex needs of the Asian entrepreneur.

You need the strong links and global capabilities we have with our investment bank and commercial bank partners. You also need to have a liquid balance sheet to be able to help fund a client's legitimate need for leverage.

For instance, providing access to single-stock lending with the proceeds then used to diversify our client's investment portfolio and reduce risk.

What roles will international versus regional and domestic banks play going forward? And how can foreign players compete?

There's room for each of the different types of players, meaning international, regional and purely domestic private banks. Each will play to its strengths.

Clearly for us that means bringing the huge breadth and depth of our resources and detailed research that we deliver globally for the benefit of our Asian clients.

It could mean distressed debt opportunities in Europe, commercial real estate plays in the US, or local Asia investments leveraging the growth we continue to experience.

Peter Flavel

J.P. Morgan Private Bank

How are wealth management organisations balancing the desire to take a long-term, client-centric approach with the need to be profitable and justify the decision to look to grow in this region?

Achieving a profitable wealth management business in Asia has to be about taking the long view.

We are fortunate to be in the region growing HNW wealth faster than elsewhere in the world. It means we are in probably the most exciting wealth market globally.

But as with any business, there is the right rate of growth, neither too slow nor too fast. Our business goal is to be the best private bank, not the biggest.

We see it's about the right rate of measured growth and maintaining an absolute focus on delivering first-class advice while our clients grow. ■

Feature article

WEIGHING UP THE DECISION TO GO LOCAL

The debate over the extent to which the future of wealth management and private banking in Asia rests on having an onshore business continues unabated. As firms carve out their own niches, they have a multitude of options to consider.

In the last two years or so, news of private banks and other wealth management organisations selling all or parts of their business, closing branches and offices in individual countries, and re-allocating resources to different parts of their businesses have become commonplace.

Previously, the story was one of one-way growth and expansion. But the reality of the fiercely-competitive and compliance-laden nature of the industry today, has made it prohibitively costly for some institutions to maintain certain parts of their operations.

This adds further ammunition for those observers and practitioners who question the viability of international firms developing sustainable businesses onshore across Asia.

At the same time, there remain many staunch advocates of onshore private banking by international players.

Then there are those in-between, who have started to explore the possibility of strategic tie-ups, alliances or types of ventures with domestic institutions as a way to access a larger client base and diversify their income streams more generally.

As the industry is at its tipping point, it is a good time to take a brief look and understand some of the options, approaches and trends taking place in the market today.

FULLY INVESTED ONSHORE

India and China present two of the most potentially-lucrative and obvious opportunities for any wealth management firm looking to build a business in Asia.

"Local markets remain important to international banks as growth countries such as China, India and Indonesia offer significant long-term opportunities," says Ravi Raju of Deutsche Bank.

The experience to date for many firms which have entered these markets, however, has been disappointing.

Excessive costs of setting up and running the business have tested the patience of most of them, with some unable to stomach the time of five-plus years in most experiences and anecdotal evidence to make a profit.

This is coupled with regulatory restrictions which not only limit the business activities and geography which are available to international firms, but also give a significant advantage to local players which can plant their flags as widely as possible in the meantime.

Yet this hasn't put off some determined players.

"On the ground presence will provide the regional expertise, know-how and knowledge which is valued by clients," explains Raju.

"For private banks looking to establish a platform that is profitable onshore, it would require scale – not only in terms of the assets, but also in terms of the products and advice across asset classes."

Adds Lok Yim of Deutsche Bank: "It is important to have a presence onshore in China, even if it is a small one. It is critical to be there on the ground because the market will develop and open up in the long run. While this will take time, and it doesn't make sense for many private banks to be based in the mainland yet, we need to be ready for the time when we can apply for new licences, as and when they become available."

While Coutts has onshore operations in India (along with Hong Kong and Singapore), it has offshore propositions for the rest of the region where it does business.

Georges Zecchin

Credit Agricole Suisse

"Wealthy families in Asia do need tailor-made support to manage their global wealth, which could be booked in different banks and locations"

"The traditional global strategy of having a footprint in every country is gone, given the economics of managing these," says Nick Pollard. "The key is to identify key markets with scale and client growth opportunities and invest accordingly."

ALLIANCES

Perhaps more palatable in many markets, therefore, is the concept of strategic alliances of varying forms.

Some organisations believe that sustainability of the private banking model in Asia will in fact be built on developing ties with local firms in markets across the region.

For example, says Albert Chiu of EFG Bank, since firms in North Asia, spurred by China, will see faster growth than elsewhere in Asia, international private banks can facilitate this with the know-how, human capital and experience of what it takes to develop successful wealth management models.

"This is especially important given that local corporate banks don't have that much experience in private banking," he explains. "As they are building their banks, however, to be able to offer a wider range of products to their cor-

Alan Luk

Hang Seng Bank

"Because we are a local player, we focus on the local market for customers whose assets are mainly in this region"

Marc-Olivier Francq

Union Bancaire Privee

"Private banking is a business which requires global expertise and a pro-active management of clients' assets based on unbiased long-term global strategic asset allocation"

porate and affluent retail customers, they realise it is difficult to create and develop a private banking proposition from scratch."

As a result, they are keen to partner with international firms such as EFG.

"Some have indeed approached us," says Chiu, "looking to us to provide a private banking solution for their corporate clients."

While these local firms know that they will lose some of the private assets of clients, they would rather do that to an international and reputable firm which does not compete with them in other banking areas, and especially not domestically.

A tangible example of this is Lombard Odier's partnership with JBWere – announced in March 2012 – to enter the Australian market, offering clients in Australia and New Zealand access to the Swiss private bank's investment tools, research and platforms.

Through the partnership, JBWere clients are now able to trade internationally across a range of asset classes and get access to FX hedging, custody and reporting.

Lombard Odier provides its institutional and HNW clients with wide-ranging advice in the areas of wealth management and specialised services such as estate planning, family business expertise, philanthropy or solutions for independent asset managers.

Not everyone agrees with this type of approach, however, depending on the extent of the formality behind it.

"I am not a big fan of JVs in general," says Andrew Turczyniak of RBC Wealth Management. "It isn't about control, but rather understanding the relative value that is coming to our institution by aligning with other firms, and also knowing what we can offer them." A JV also needs to fit the culture of both firms, which Turczyniak adds can be dangerous in terms of their respective positioning and stages of development.

Further, says RBC's Barend Janssens, if one of the partners then grows very quickly, this can change the dynamics of the relationship and must be considered in advance.

Says Kathryn Shih, chief executive officer for Asia Pacific, and group managing director, at UBS Wealth Management: "We are witnessing more and more strategic alliances with local players. However, questions then get asked, such as: How long term are these ventures? What is in it for each firm in the long run? And who owns the client in the long run?"

While Shih says UBS is interested in looking at some of these opportunities on a selective basis, especially in smaller markets, where it can do it on its own, it prefers to do so. "For example, we have three branches in each of Australia, Japan and Taiwan, and five branches in China."

Shih says the firm looks at how much long-term potential there is to partner with another wealth management or-

Kathy Shih

UBS Wealth Management

"While we are interested in looking at some of these opportunities on a selective basis... where we can do it on our own, we prefer to do so"

ganisation from the point of view of us giving them advice as well as investment content, because it cannot delegate the KYC process.

Having international investment content and processes are an essential part of wealth management, she explains. "Local players find it challenging to create global content and a robust and comprehensive process. Firms need scale to afford key components of these such as a CIO, a global process, a good product platform, and a large investment management team which scans the best-in-class in-house and third-party products."

So while local players tend to have a very large client base, the question Shih raises is whether they have the content, culture and even appetite to develop that business in a meaningful way, to offer equivalent benefits to a large international private bank.

An increasingly common way for many private banks to reach a broader client base is to partner formally with the small but growing number of external asset managers and family offices setting up in Asia.

While there is debate over the cost and compliance-monitoring aspects of creating a unit or desk targeting these financial intermediaries, it is clear that they can bring a win-win for the bank through the asset managers bringing not only assets to the bank, but also using their platform for research, products and execution.

Just like an aircraft, before it takes off, [the EAM industry in Asia] needs to build up ground speed, says Mario A. Bassi of Solution Providers Management Consulting. "A number of banks understand already the potential of this segment and started to invest into it. However it takes time to build up the infrastructure, including processes, systems and mind set of the banking staff supporting this business model. Asia will continue to be an attractive proposition for European wealth and this will provide steady growth especially for local EAMs. Therefore it is definitely a new segment the banks should focus on."

Says Georges Zecchin of Crédit Agricole Suisse: "Of course, the family office structure is not yet as popular in Asia as it is in Europe and the US, but we believe that wealthy families in Asia do need tailor-made support to manage their global wealth, which could be booked in different banks and locations."

The right partner as a bank is another part of the solution, adds Zecchin. "When a wealthy family creates a family office, it certainly looks for investment advisory and asset management support. However, the objective of a family office is not only to manage the present wealth but also to protect the assets for the future generations…. Our objective is not only to provide operational support to the family offices but also to be the perfect 'interface' between the financial intermediaries and our bank's offering and services: market and investment solutions developed internally, research, estate planning, and a dedicated IT system which allows order input, reporting and data extraction."

GLOBAL VERSUS LOCAL

It seems inevitable that there will be increasingly-defined roles for international versus regional and local banks going forward in Asian private banking wealth management.

For many domestic banks, for example, the plan is to continue to strengthen their roles as local players.

Bank of East Asia, for example, intends to expand its coverage in the Greater China region, rather than broadening its network internationally. "Instead of trying to serve every need of every customer, we prefer to concentrate on our strengths," says Grace Chow, "which include flexibility, convenience, our good network in China, our ability to providing financing, to name a few."

Adds Chow: "China has always been a major focus for our bank, especially as the country has opened up in recent

Grace Chow
Bank of East Asia

"Instead of trying to serve every need of every customer, we prefer to concentrate on our strengths"

Eric Pedersen

Nordea Bank

"There is less need [for us] to segment clients in a mechanical way and automate our offering to service them"

decades. Our larger branch network – with 110 branches, sub-branches, and offices nationwide – enables us to reach and understand our clients more effectively. BEA's network in China allows us more opportunities to interact with clients than most global banks enjoy. The bank aims to open 10 to 15 new outlets in China each year."

Given that the wealth management market on the Mainland is still relatively young, Chinese banks have not acquired sufficient skills and their product offerings are generally limited in range.

As a result, most banks are currently focusing on asset accumulation.

"I do not expect to see many changes in the Mainland market in the short-term, as most firms have only been operating there for a few years, and the regulations are relatively rigid. It will be challenging for banks to be profitable in this business in the near future," says Chow.

Services tend to be designed along the lines of red-carpet programmes for VIPs, and some Chinese banks take clients on cruises and other excursions. The focus is on how to make clients feel special and valued.

At Hang Seng Bank, for example, Alan Luk says clients often consider it to be a local, prudent brand, so they will come to the bank depending on their needs and on what they want to achieve from their investment strategy and portfolio.

"We have specific product strengths also in a localised way," he explains.

"For example in relation to stocks in Hong Kong and the Mainland, and local property investments, where we can help them through our subsidiary to manage their property portfolios."

Being able to satisfy the home bias of Asian clients and cater to their portfolio needs is also a key differentiator for DBS Bank.

"Unlike the traditional Western-style asset allocation model which has a greater percentage in the US, Europe and other developed markets, our asset allocation for our Asian clients has a higher weight in Asia ex-Japan equities or Asia fixed income," says Su Shan Tan, managing director and group head of wealth management at DBS Bank.

"Our clients, who are obviously primarily Asians, want an Asian flavour to their asset allocation. They want their assets to be in a market they understand, in a currency that they require, and also to benefit from the longer-term growth in Asia."

DBS' corporate and commercial banking franchise in Asia also allows it to provide its Asian-based customers with regional connectivity.

"This is invaluable to our clients," says Tan, "whose main business activities are centered on Asia."

However, Marc-Olivier Francq, head of business development for private banking in Asia for Union Bancaire Privee, says that while regional banks benefit from having close relationships with HNW clients in their core market, albeit often fairly recent relationships, private banking is a global business.

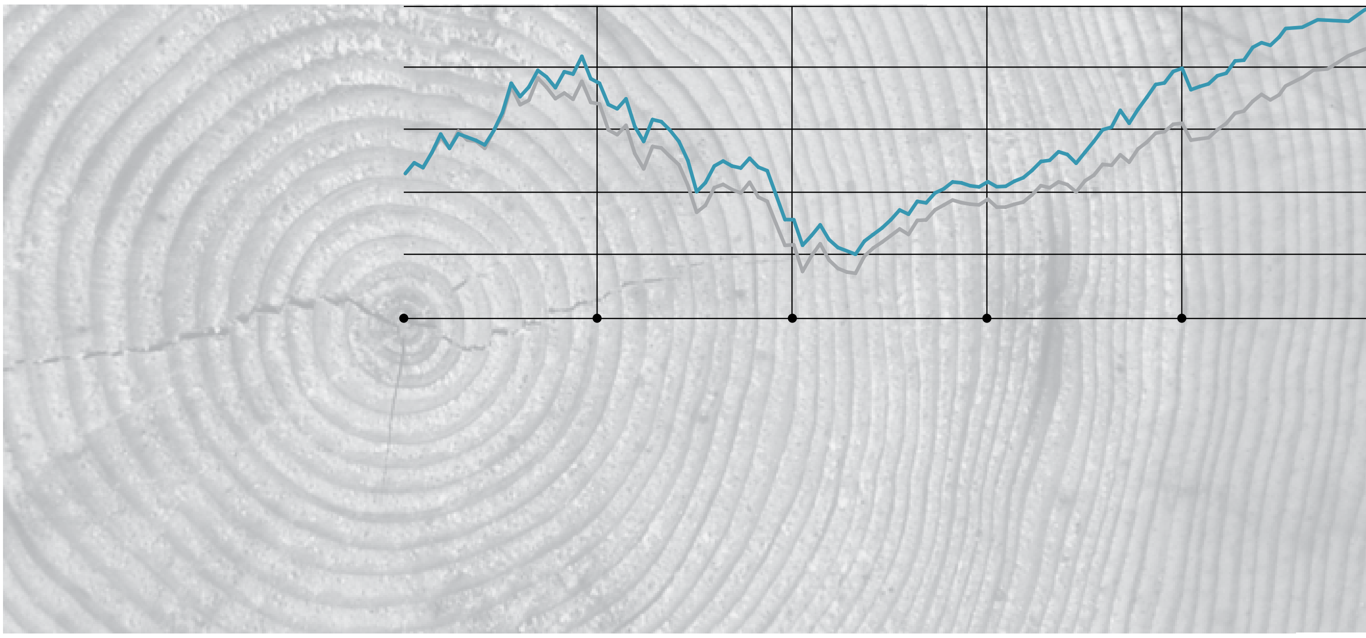
"[This] requires global expertise and a pro-active management of clients' assets based on unbiased, long-term and global strategic asset allocation," he explains.

Francq adds that the competitive landscape in private banking and wealth management does not just oppose international versus domestic banks.

It also takes into account the nature of business that players on both side of the spectrum are involved in, with many competing across retail, corporate and investment banking as well as in wealth management.

"UBP does not directly compete with these 'platform banks', whether regional or international, and often more focused on short-term transactions," explains Francq.

"But," he also adds, "it is instead a pure wealth management player focused on managing client assets for the long term."



Q&A

AN AUSTRALIAN ANGLE ON PROVIDING VALUE TO CLIENTS

Eric Schimpf, head of Macquarie Private Wealth in Australia, discusses the models and propositions that comprise a financial advisory offering which can deliver value to clients in today's environment.

In what ways are financial advisory firms in Australia changing their models and the way they engage clients?

We have found that clients are looking to their financial advice provider for four key things: high-quality service; leadership; innovative ideas; and performance.

Most importantly, it is clear that clients want their financial advice provider to listen to them and, from the information the clients provide, understand them on an individual and intimate level. This means, for example, delivering information that is relevant to them, engaging with them in the way they want to be engaged, and doing so at times that suit them.

"A value proposition cannot focus on performance alone."

Knowing your clients at this level of detail lays the foundation for you being able to meet their needs on our four key areas. This may not mean a change in model for an advisory firm, but it means paying close attention to information about clients to tailor your approach and help ensure a successful outcome in today's environment.

To what extent does providing value to clients rely on delivering investment performance?

Investment performance will always have a significant role to play in what a financial advice provider delivers to clients – and client research has validated this. But it is only one part of a much bigger picture.

A value proposition cannot focus on performance alone, not only because it would be a mismanagement of clients' expectations, since investment performance is not always predictable – but also because it is only a part of what they are looking for.

For example, in an investment environment like this, which is challenging investors and their portfolios, our clients are looking to us for leadership in the services we offer. Macquarie Private Wealth believes it is our responsibility to help clients make sense of the huge amount of noise in the

Eric Schimpf

Macquarie Private Wealth

marketplace, to sort through what is relevant to them and get to the heart of what it means for their financial affairs.

Our research team is focused on developing quality research that is meaningful and the value this provides to our advisers and their clients is significant. Hanging your hat on investment performance alone, and suggesting a client does the same, does not make a successful relationship.

How is the ongoing volatility and uncertain investment outlook affecting the conversations clients have with their advisers about products, services and strategies?

The approach we take to this within Macquarie Private Wealth is that volatility and uncertainty make conversations with clients all the more important.

An important aspect of these discussions centres around managing client expectations when it comes to what is realistic to expect from their investments. Modeling portfolios on market assumptions developed before this "new norm" arrived is unlikely to be a realistic guide today.

When it comes to strategies, the focus has naturally evolved from some investments to others, as the industry has adapted to the current environment.

Take equities, for example. Conversations may have shifted from growth stocks to stocks that pay a dividend yield, offering regular income. However, importantly, the conversations about equities have not stopped, the appetite for them is still alive and well, it is just the content that has subsequently altered.

Cash now also plays a leading role in client discussions on an ongoing basis, which was not the case five years ago. Cash is still a mis-managed part of client portfolios, in my view, and can be misunderstood as a set-and-forget or static component. I believe all assets in a client portfolio have to be actively managed, including cash.

How critical is technology to a financial advisory business' ability to provide the right client experience?

For a financial advisory business, being able to articulate and demonstrate an effective value proposition cannot be done in this day and age without the use of technology. In fact, technology is key.

Going back to my earlier comments on knowing your client, effective use of technology allows an advisory business to deliver services in a range of different ways, at a time that suits the client.

In the age of the Smartphone and tablet, technology is giving people choice and flexibility like never before about how they consume information.

This allows them to tailor the experience to their personal preferences. So companies that acknowledge this, and then investigate how it fits within their own business model, can benefit.

For financial advisory practices, enabling a client to check their accounts 24/7, or read insightful research or commentary when they get the time – not when the organisation wants them to – is a powerful way to deliver value and show you understand their needs. This is the client experience any organisation would want to deliver.

It has become increasingly clear that financial advisory firms cannot compete on performance alone, so what you can offer in terms of value and experience becomes increasingly important. ■

Feature article

USING TECHNOLOGY TO UNLOCK MARKET POTENTIAL

Private banks and wealth management firms continue to grapple with the demands on their technology and systems. But finding the right solutions – from the back to the front offices – promises to create a critical point of differentiation going forward.

Some of the biggest challenges that IT and operations departments across the wealth management landscape face include trying to combine disparate and sometimes out-dated systems – while also reducing the over-reliance on either manual or spreadsheet-based solutions – to enhance productivity and efficiency throughout the organisation.

This is arguably the most effective way of tackling the multiple challenges confronting the industry today and, at the same time, stand out in the eyes of clients.

"Technology, and more importantly, relevant and functional technology, can make or break an organisation in today's challenging financial services environment."

Technology perspective

What are your current top three priorities for allocating your technology budget?

Source: PwC Global Private Banking and Wealth Management Survey 2011

So for any bank or organisation which gets it right, it will find that the overwhelming cost and compliance burdens threatening to shackle many firms ease significantly.

"Technology, and more importantly, relevant and functional technology, can make or break an organisation in today's challenging financial services environment," says Noor Quek of NQ International.

MOVING GOALPOSTS AND GROWING FEARS

From a business perspective, the end-goal for institutions is to have a single, integrated system which tells management what it needs to know.

This is most likely to be achieved getting feeds flowing to a central point, and then making the outputs meaningful and standardised for both clients and employees.

"This often requires them to have a central data warehouse and aggregation platform, which has real-time positioning capabilities, and where aggregation can work with multiple front-end solutions," says Julian Webb, global head of data management and analytics at DST Global Solutions.

However, marrying the front-end, client-facing solution with the back-end to enable platforms to move towards the single operating platform is complex, he adds.

Further, the many new regulatory and compliance requirements are making this difficult – and costly – to achieve. And regulators and auditors are taking an ever-closer look at how banks are managing their data.

To try to tackle the demands, spending on solutions to fulfill new regulatory obligations has risen to at least 30% of total IT budgets at many institutions, say industry professionals. This is to meet a range of needs, from know-your-client to anti-money laundering to suitability.

Then there is FATCA, along with not only other existing tax-related regulations, but expected scrutiny going forward to fill government coffers.

For instance, there are various changes in the tax regimes in terms of the way tax between certain jurisdictions is calculated, and the way to assess it.

Technology and operations professionals estimate it will take another two to three years of hard work just to meet the various needs and requirements

Julian Webb
DST Global Solutions

"Platforms need to become better at managing, collecting and organising their data in a consistent and coherent way"

> Some smaller players might, in response to various regulatory changes, be forced into a shared infrastructure approach.

they are already aware of. At the same time, however, IT budgets are under continued pressure as a result of high cost-income ratios.

A further reason why many banks are worried about FATCA relates to the fact that what it looks like now is very different from what many firms expected at the outset. This has meant that it no longer only results in a higher cost of compliance, but also that many banks have had to put their other large IT initiatives on hold – whether these were related to new products or the client experience.

With so much uncertainty about ongoing changes to the regulatory environment, IT experts also say they feel hamstrung, at least to a certain extent, about what to do next.

The increasingly international nature of private clients, in particular, is adding yet more complexity to technology and operations solutions. For example, there might be Hong Kong-based clients booked in Zurich, Singapore and Hong Kong.

Worse still, the legacy systems that many heads of IT have inherited don't tend to be very flexible.

Further, some smaller players might, in response to various regulatory changes, be forced into a shared infrastructure approach, rather than building their own.

Technology is also well-positioned to have a big influence in terms of dealing with another key issue that private banks face in the current environment – related to product and client suitability, and also, in ensuring that in the process of transacting for their clients, frontline advisers are fully adhering to the various regulatory requirements.

Technology must therefore be adapted and updated to mitigate the inherent risks involved as part of this, warn IT experts, to ensure that trades which aren't suitable are not allowed to take place. This not only safeguards the client's interests, but it also protects the institution's reputation.

"Many organisations that do not segment their client base will have to start doing that now as requirements for each segment get more intense on all fronts," explains Quek. "Those with technologies implemented haphazardly which do not fit in seamlessly with the rest of the organisation will have to re-engineer their structures."

One potential solution to ensure a bank's software and systems can communicate is to enforce a standard company-wide messaging system. This means any new system or software has to be able to adapt to this standard otherwise it cannot be implemented, regardless of the suitability of the business features.

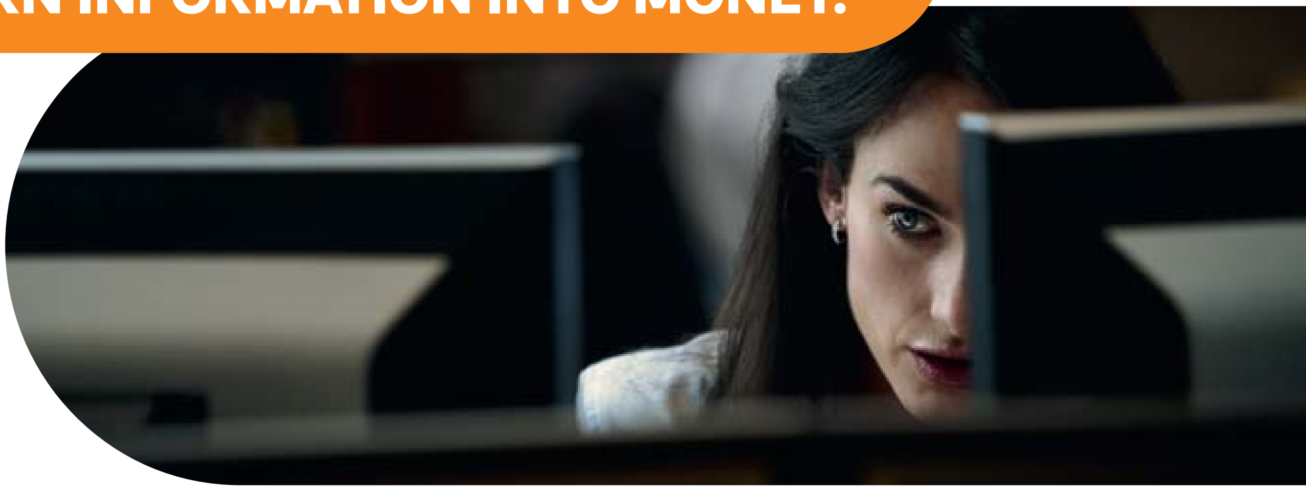
Ultimately, the aim should be to ease the burden for advisers, in turn freeing up as much time as possible for them to talk to clients and be as productive as possible.

As a benchmark for Asia, many banks in Switzerland have responded to the various challenges by moving away from first-generation systems and towards highly-integrated solutions.

Camilla De Villiers

Thomson Reuters

"I cannot see how businesses will survive... without embracing technology as a core pillar to their success"



Around 60% to 70% of banks are believed to have done this in the last six to seven years – in almost all cases related to regulation and tax compliance. And the last two to three years have seen a more integrated systems approach following greater regulatory scrutiny, the need to do more straight-through processing (STP), and demand from clients for advanced functionality in online banking and trading.

However, little has been possible overall in terms of an allocation of the IT budget to improve client experiences.

> Perhaps one of the biggest business risks which private banks need to tackle relates to client confidentiality and data protection.

DATA SHORTFALL

Perhaps one of the biggest business risks which private banks need to tackle relates to client confidentiality and data protection.

Such information – which is now critical not only to most business decisions, but also to fulfill regulatory obligations such as FATCA – is unlikely to have been as diligently gathered in the past as is now required by many firms, nor taken as seriously as it now needs to be, because it simply wasn't a priority previously.

Yet the missing data poses challenges to IT and operations departments when determining which suitability and cross-border issues impact which types of clients.

A lot of work has to be done now, therefore, to fill in the gaps, clean existing data and then put in place the processes to review and maintain it.

Gathering data in an efficient way can help improve the productivity RMs in enabling them to access a greater volume of information about clients, and more readily. Plus, it is vital for institutions to know what information has been shared with clients, and what each client's preferences are.

Clearly this is important at times when RMs leave a firm, for the firm to maintain useful relationships with clients.

For the purposes of FATCA, meanwhile, this would help banks initially identify whether they have the required client data, then therefore whether they are able to perform the query analysis to identify which clients are at risk.

As a result, institutions need to be more structured around how they capture and classify the data to get the required transparency of information. Only then can they expect to be in a position to manage it on an individual client basis.

Another issue to emerge in line with FATCA has been that it now appears to be the first of what are expected to be numerous global regulations that will be implemented.

As a result, organisations which don't have in place effective data infrastructure systems are far less likely to be able to react to a lot of the new regulatory standards in the pipeline.

Roland Slee
Bravura Solutions

"The architecture of core registry systems for wealth management is going through a profound change"

Dr Fred Davies
Insa Software

"Modern technology can reduce the increasing administrative load put on asset managers by the increasing demand for statutory reporting"

SLOWLY GETTING DATA SAVVY

For data which firms do hold and are now increasingly gathering on their clients, technology and automated processes can support their efforts to deal with current challenges and create new opportunities

"Technology can enable organisations to make smarter use of the data," says Webb. "Highly organised, real-time and historical data and information with the most effective distribution and reporting tools can be a huge competitive advantage."

For example, wealth management firms can learn from what is happening in other industries – the "Googles" and "Amazons" of the world – which use their own data to drive how they service their clients.

"We are looking at providing tools to allow wealth management firms to more proactively aggregate from the various internal sources and mine the data they hold around their clients," says Webb, "in relation to trading and investment activity, for example, to be able to identify cross- and up-selling opportunities."

This also satisfies the many regulatory challenges and requirements for data gathering and reporting.

The focus for platforms therefore needs to become better at managing, collecting and organising their data in a consistent and coherent way, explains Webb, to serve as building blocks. This isn't to only meet regulatory challenges in a cost-efficient manner, but it is also to provide new sources of business.

"Without such platforms, meeting the regulatory requirements becomes very ad-hoc, manually intensive and expensive," says Webb.

MISSION CRITICAL

Despite the many challenges, the amount of air-time technology now gets in discussions that many private banking and wealth management CEOs have as part of their strategic planning reflects its increasingly vital role as part of business success.

Technology can be a huge enabler to private banks and wealth firms wanting to improve the overall client experience, be it in differentiating themselves from their competitors, increasing adviser productivity, or in helping streamline processes and creating efficiencies from the front through to the back office, says Camilla de Villiers, head of wealth management at Thomson Reuters in Asia.

"We constantly review our technology development roadmap to ensure that we are keeping up with the latest developments and trends in the in-

> Highly organised, real-time and historical data and information with the most effective distribution and reporting tools can be a huge competitive advantage.

The value now is in providing advanced analytics that leverage that data to create a consistent, seamless experience for the customer and indicate additional, relevant investment opportunities.

dustry," says Hugues Delcourt of ABN AMRO Private Banking, "to ensure that we are doing our best to provide our clients with what is the right and optimised experience."

There is little doubt that technology is an inevitable way for wealth management firms to differentiate themselves to clients.

"Today, clients expect 24x7 access to information with high levels of security and system integrity; this is a given," says Roland Slee, managing director for Bravura Solutions in Asia Pacific.

"The value now is in providing advanced analytics that leverage that data to create a consistent, seamless experience for the customer and also to indicate additional, relevant investment opportunities."

Last year, DBS Bank, for example, enhanced its internet and mobile banking platforms to enable its clients to view their investment portfolio online while they're on the move, says Su Shan Tan.

"We are also proud to the first bank in the region to provide a consolidated online view of our clients' banking facilities (credit cards, current account, etc) and investment holdings," she adds. "The usability of your platform – in terms of how convenient and easy it is for the client to access his data – will drive and differentiate the client experience we can offer."

Practitioners have differing views on the extent of the importance of the personal relationship between an RM and client. This is to a certain degree dictated by the business model and individual preferences of both sides. It is difficult to argue, however, that technology doesn't lead to a more streamlined, consistent and trackable delivery of information of all types.

"Some frontline staff think the most important thing in private banking is the relationship with the customers, which the frontline says does not require technology," says Georges Zecchin of Crédit Agricole Suisse. "Indeed, technology is paramount in private banking."

This is especially the case in today's markets with new regulatory demands, he adds, requiring banks to keep up-to-date with new requirements and be able to implement them for the benefit of their clients.

"Technology should ease the communication between an RM and a client throughout the entire relationship process," says Zecchin, "and not just be a way to communicate with the system or place an order."

Today, even if all the knowledge of a client sits in the RMs head and on some notes, the systematic capturing

Mark Jansen
PwC

"The smart money is looking at a five- to 10-year strategy, not a one- to two-year strategy"


Control, Order and Coherence for Investment Analytics
Faced with data and information coming at you from every direction at different times and in differing formats, you need a way to satisfy the demands of Fund Managers, Relationship Managers, Regulators and, most importantly, your clients. You aim for transparency of information, enable compare and contrast and timely distribution.
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of knowledge about clients is lacking, says Mario A. Bassi at Solution Providers Management Consulting.

"Given that a client gets serviced by several different individuals within a private bank, each of them has different sources of information. So if a bank has a common repository to collect this information, it provides a much better view of a client and ultimately helps the bank to service them in a much better way and ensure also the necessary regulatory duties to record client interaction."

Further, the desire of Asian clients to be in the driving seat when it comes to making decisions about their portfolios, means they want the ability to log on directly and access their account details and other information quickly.

This is especially the case in markets like mainland China, for example, where the functionality and flexibility that local banks need to service their clients need requires the institutions to be able to pick and choose different software and solutions to create the whole suite.

For instance, the gambling mentality of many wealthy individuals in Asia means the local banks must develop functionality and interfaces which enable them to go online to place their orders, and view and access their portfolios on their own, so that they feel in control. This influences the decision-making processes in terms of choosing the technology and software required.

Client reporting is an important component of this, both for clients and also for RMs.

According to Urs Tanner, CEO of Assentis Technologies, wealth management firms tend to be a three-generation approach to client reporting.

The first generation is what most institutions have implemented today, he explains, which means they report on what happened in the past.

But this is not enough to differentiate themselves and they should offer more advice.

As a result, client reporting of today and tomorrow must contain background information on what happened and why, says Tanner.

This is particularly important, he explains, because client reporting is often the only touch-point a bank has with its client.

As a result, client reporting should be used as a sales tool going forward, with banks incorporating sales messages as part of up-selling efforts.

Essentially, he adds, by providing more flexibility to investors, for example to enable them to start choosing which kind of information they want to see in their client report, a bank can use reporting as a way to differentiate itself.

According to Dr Fred Davies, CEO and chairman of Insa Software, some clients expect the reporting to be more than a simple statement of assets, and instead to show the potential downside risks – a "what if?" analysis and how their assets performed relative to an appropriate benchmark.

Mario A. Bassi

Solution Providers Management Consulting

"Technology is vital for private banks to be able improve their current processes of onboarding clients"

Client reporting of today and tomorrow must contain background information on what happened and why.

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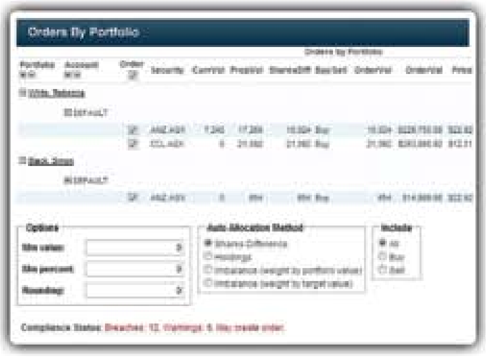

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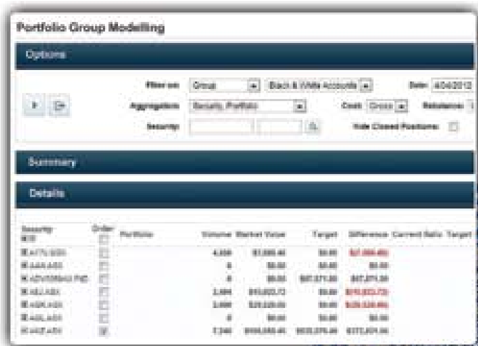

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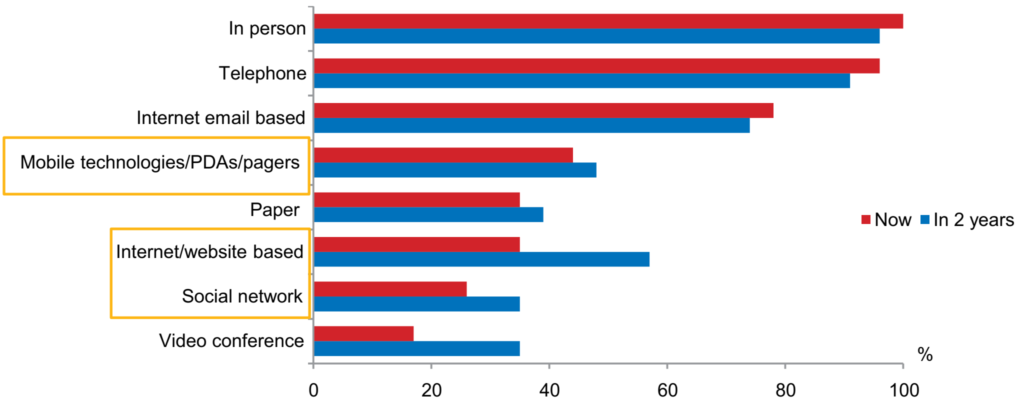
Means of interaction with clients, now and in 2 years' time



Source: PwC Asia Pacific Private Banking Survey 2011

Technology is also vital for private banks to be able improve their current processes of onboarding clients. For example, says Bassi, the start of the life-cycle with a prospective client involves a lot of marketing materials which make promises to clients. But it is when a client transacts for the first time that the onboarding happens.

"Whereas it might take a retail client 24 hours or less to open an account with their consumer bank, this process at a private bank might take several weeks because of the compliance checks and the technology-support requirements," he explains. "The leadership should decide on the processes and how they should be designed, so that technology tools can support this."

Bruce Von Cannon of Banque Privee Edmond de Rothschild, says he is surprised at the extent of the importance that clients place on getting statements and account summaries delivered in electronic forms as a factor when choosing a private bank.

"Banks that fail to invest in such reporting and software technology will be at risk of facing client attrition," he warns, "and longer term possibly being unable to hire talented bankers who want the best possible software base from which to serve clients."

It is also important to repackage information when providing it through internet or mobile channels. Choosing the right colours for the particular audience is an important consideration as part of this. For example, red is a good colour for Chinese clients, whereas in many other countries and cultures it has negative connotations in relation to financial markets.

Much thought is also needed on the functionality in terms of user experience and what aspects like charts should look like.

A further challenge to organisations is to ensure the firm's technology capabilities are fully understood and well-utilised, adds Quek. "This means educating all front-, middle- and back-room users on the capabilities and the outputs of the system," she explains.

"It is not unusual for clients to experience delays to queries because data is not correctly collected, inputted and retrievable. This impacts reputational risks and potential legal issues. "

The key going forward is simplification, adds Slee, with more functional and capable platforms addressing a broader range of needs across product silos, market tiers and segments.

Yet the challenge in the current environment is cost, and taking the plunge to spend significant amounts now only to reap the rewards later on. "However," says De Villiers, "we have found that firms we have worked with to leverage technology, be it mobile devices, harnessing the internet, implementing sales support tools like proposal generation capabilities, or on-boarding and reporting tools, have realised immediate benefit and are now able to scale their businesses in a far more cost-effective manner."

How critical is it? Well, says De Villiers, this boils down to how serious a firm is about the wealth opportunity and how long they intend to be in the game for.

"It is impossible to envision how a private bank can acquire new clients and keep the loyalty of existing clients without investing in modern technology," adds Davies.

GOING MOBILE

In step with the rapid pace at which the wealth management market has evolved, more so than ever before, the use of technology to enable advisers to connect to their clients, the markets and also to the news that shapes world events is integral to success, says John Fennelly, managing director, wealth management, at Thomson Reuters.

As a result, online and mobile applications that give advisers access real-time news and commentaries, as well as investment performance and product information, are transforming the industry and the definition of service. Client expectations in these areas are being raised all the time from other aspects of their daily lives, so wealth managers must keep up with technology. "Today's investors are exceptionally savvy and demand immediate access and response from their advisers," explains Fennelly.

"What we are finally seeing is a tipping point in the preference across all customer segments to the use of digital channels," says Mark Jansen, partner, advisory, financial services industry practice, at PricewaterhouseCoopers (PwC) in Asia.

"Whilst this has been talked about for over a decade, it is finally happening as technology and bandwidth have increased along with the ubiquitous use of various hand-held devices means that it is now part of everyday life."

For example, adds Delcourt, many of the firm's clients are iPad users, so it has therefore developed a research application for iPad to provide clients in Asia with the added convenience of accessing investment research and commentaries anytime, anywhere.

John Fennelly
Thomson Reuters

"Today's investors are exceptionally savvy and demand immediate access and response from their advisers"

One way of using technology to meet the needs of Chinese clients in the mainland, for example, is to use mobile phone SMS to encourage product sales. Given that most people use this way of communicating, it is important to incorporate it as a marketing and sales tool.

A challenge related to the use of mobile and internet technology more broadly, however, is the fact that there is a regulatory black-hole when it comes to determining those products which institutions should be showing on their website, how they can qualify from a suitability perspective, and to what extent they can really push a particular product versus another.

NEXT-GENERATION TECHNOLOGY

The shift in focus to the next generation is also having a marked influence on technology strategies across the industry.

In particular, as part of the focus on improving the client experience, Carolyn Leng of CIMB Private Banking says technology is very important to "Generation Y", which is savvy and will be the ones managing and generating the wealth going forward.

"These individuals welcome the use of technology to access their portfolios."

She is a firm believer, however, in the human touch as core to any private banking offering.

"Clients will always want to speak to their private bankers directly to bounce around ideas and share experiences," she says.

Such a view is, equally, difficult to argue with.

Adds Grace Chow of Bank of East Asia: "It's not about enabling clients to access larger amounts of information and then to trade online by themselves without the banker. Although this level of support costs more, we believe many clients would agree that this level of personalised service is worthwhile."

Costs are key to discussions around this subject, given that technology in the form of process automation does help reduce bank costs over time.

"This can be witnessed in customer service, as well as in product development and enhancement," adds Chow.

FINDING THE RIGHT BALANCE

Banks should also be looking at which of their products are more suitable for electronic channels. "While this isn't always suitable for all private banking clients," says Jansen, "it is definitely under-utilised and should not be ignored. The question is how elastic customer demand is relative to price and channel."

Given that technology is moving quickly, however, he says banks need to make decisions about what they do and don't have available online.

E-channels can also be used to bring the client and adviser closer together through a more efficient communication method. "Banks which are more static in the presentation of their investment materials and products may mean clients look other banks as their regular go-to providers," warns Jansen. Further, e-banking can be used to address regulatory concerns such as over hold mail.

Modern technology can also reduce the increasing administrative load put on asset managers by the ever-larger demand for statutory reporting, says Davies. "Since undeclared monies are rapidly disappearing then client tax implications are becoming significantly more important and technology must be able assess these implications," he explains.

Most focus still tends to be on front-office applications in terms of improving the client experience and the effectiveness of frontline staff, says Jansen. "Core processing systems will also be critical as customers expectation of real time reporting increases, or more importantly as some in the industry start dining this, thus lifting the bar." However, it is important to understand how clients' expectations are changing in terms of what they want and need from their banking relationships.

While clients use online and mobile tools for news and research, discussions and decisions around product suitability and deal structuring is still done on the phone or in person with an adviser.

IT expert raise an interesting question about whether banks trust their RMs, or instead they trust the rules set in the system in terms of which products are suitable for different types of clients. There isn't a straight answer to this. For the more experienced and capable client advisers, the institution can rely more on them to sell the right products to the right clients, based on the correct criteria. However, not all RMs are as clear about the full product range available to each client.

It is about finding a balance and ensuring collaboration between the human and technological aspects to the role of providing client advice and the right experience.

BUY OR BUILD?

Given the wide-ranging technology and systems needs of even the smallest wealth management players, the "buy or build" debate is inevitable.

Historically, says Slee, there has been a tendency for Asian organisations to build their own technology solutions, given the lower costs of doing this in the region.

However, since companies must now satisfy market demand for technology-driven features such as an enhanced online experience, mobile applications and personalised analytics, financial services organisations should be looking to buy in their technology and systems solutions where possible.

"Wealth management firms are now seeking to build strategic relationships with technology suppliers that can provide off-the-shelf solutions to meet their needs," says Slee, "while delivering economies of scale in harnessing fast-changing technologies."

And at the higher-end of the spectrum, with the firms which operate on a large-scale, Webb says that the challenges when dealing with a significant volume of transactions require real expertise, which he adds is difficult to achieve in house.

"To achieve real agility – the ability to rapidly enter new markets, frequently release new products, maintain compliance with fast-changing regulation and respond to competitive threats – wealth management firms are looking for technology providers to deliver next-generation solutions based on modern, open technology," adds Slee.

Yet the key challenge for vendors, says Jansen, is keeping pace with the customer and RM demands with regard to e-banking and front-office solutions.

At the same time, the concept of hiring more people in a wage-challenged market whilst grappling with legacy systems and processes that don't lend themselves to scale means worsening cost-income ratios and an uncertain future for some, says Jansen.

"The smart money is looking at a five- to 10-year strategy, not a one- to two-year strategy, which requires a commitment to put in place the foundations today, which enables profitable growth with scalability for the long term." ■

Co-published article

DIGITAL INNOVATION - THE PATH TO GROWTH IN SINGAPORE BANKING

The economic climate, increased regulatory intervention and competitive challenges are forcing banks to embrace digital innovation as the new path to growth, says Michiel van Selm of PwC Singapore.

In the last decade, "digital" has evolved from basic online banking to a broad, rich set of features and capabilities which have revolutionised the banking experience.

This digital revolution has been majorly triggered by a number of innovators seeking to capture value across the banking value chain.

While banks are continuously innovating their eco-system, digital customers are becoming more and more informed, which is exposing them to multiple choices and innumerable platforms to express their opinions.

PwC's digital tipping-point study has deeply delved into the behaviour of digital customers across the globe and

"For Singapore banks, there is an excellent chance to engage with customers online and capture the digital opportunity."

the dominant factors that lead to their engagement and advocacy towards certain brands.

As a part of PwC's global research, we have found that Singapore banking customers are among the most digitally-engaged in the world.

TAPPING THE POTENTIAL

For Singapore banks, this means there is an excellent chance to engage with customers online and capture the digital opportunity.

The response on incidents are immediate and in enormous volumes expressing strong opinions.

For example, in the wake of an ATM fraud in December last year, the digital engagement of the bank involved across web platforms increased more than 20-fold.

Though Singaporean banks demand high engagement on the web, our research observed that their engagement is still around more basic banking and product capabilities like ATMs and security, while some of the best-practice banks in the world are able to engage customers and their sentiments around their digital eco-system of platforms and services.

Singapore banks have to work on improving the customer sentiment or risk losing market share to international competitors or new entrants.

This would be achieved by a strategic dichotomy of resolving "real world" practical issues of banking services like security, fraud and at the same time living up to the expectations of Generation Y by providing a holistic

Michiel van Selm

PwC

"Singapore banks have to offer a new digital feature set that has advanced user-experience through interactive, game-like interfaces"

digital experience with the help of timely innovations.

Thus, to innovate in the digital channels and become truly innovative Singapore banks have to offer a new digital feature set that has advanced user-experience through interactive, game-like interfaces where the boundaries between the real and the virtual start to merge, and bring data to life through rich visualisations.

Singapore banks also need to offer advanced services through mobile devices and networks such as enhanced digital security and the ability to access banking services from anywhere including partners like property sites.

At the same time, they need to launch innovative tools that provide social media and predictive analytics, driving deeper insight into customer's behaviour and enabling highly targeted and relevant treatment strategies to be executed through digital media.

They also need to implement new channel integration technologies, enabling a seamless customer experience across the many digital platforms.

"As Generation Y "grows up" with digital, it will be more important for banks to match their digital expectations."

Successful players will be those that recognise the changing eco-system and set out a clear digital vision for securing customer relationship primacy.

MAKING CLIENT CONNECTIVITY COUNT

The implication for banks is that as business models are transforming by the shift to digital channels, it opens up new opportunities for engaging and interacting with customers to build relationships and grow revenues by charging customers for digital services that they value.

For banks that manage to engender a similar shift in their own distribution models, similar opportunities await.

With the battle lines being redrawn amongst banks, the winning bank should be looking to focus on taking steps to develop deeper relationships with their customers.

Focusing on gaining trust, building engagement and creating value for the consumer should be the guiding principles for doing this.

Our analysis has shown that there is a significant opportunity for Singapore banks to innovate in the digital channels and improve online sales.

Based on customer behaviour, online engagement, sentiment analysis and the digital improvement possibilities we estimate that on average a 20- to 30-fold increase in digital sales is possible for banks in Singapore.

The Generation Y of banking customers represents a highly-important customer segment for banks, as they are starting to reach the peak age of financial consumption and will be an important source of value for banks.

As Generation Y "grows up" with digital, it will be more important for banks to match their digital expectations.

For the Singapore banks to capture this opportunity we believe that there are many important elements in getting started are:

- **Develop a vision and strategy:** acknowledge that the new digital feature set is changing the way consumers interact with their banks. Understanding the different needs of different customer groups is essential, as a one-size approach will prove insufficient to meet the range of needs of customers
- **Be prepared to partner:** banking will necessarily become increasingly intertwined with customers' digital lives. New business models and means of interaction will be required to be successful in this changing business context
- **Achieve first-mover advantage or become a high-quality, fast-follower:** given the benefits that digital can bring – both for existing customers as well as Generation Y – banks need to act now to avoid being displaced.

The full extent of what digital can offer customers goes beyond the basic mobile and internet banking services that are now widely provided.

Digital banking will evolve into a richer set of offerings, providing new value for banks and their customers through a new "digital feature set".

We believe that the perfect storm banks are facing today will produce some clear winners.

Successful players will be those firms that recognise the changing eco-system and are then able to set out a clear digital vision for securing customer relationship primacy.

Others will see the challenging environment of today as a distraction at best and they will continue persistently with old ways and methods, eroding value in the process by disengaging the customers. ■

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TAKING ADVANTAGE OF ASIA'S "BULL MARKET" FOR WEALTH PLANNING

One of the biggest strategic opportunities for the wealth management industry in the long-term lay in its ability to service the increasingly urgent and complex needs of HNW clients in relation to succession planning and inter-generational wealth transfer. But only if they can overcome the main blockage at both the client and RM levels – education.

One of the most notable obstacles to capitalising on the growing need for wealth planning for Asia's ever-wealthier and increasingly international families continues to be education – at both the adviser level as well as for HNW clients.

There is increasing urgency to ensure RMs at private banks and other advisory firms better understand the various tools and structures, and their applications, to ensure the industry makes the most of the current "bull market" for wealth planning.

Without this understanding, these frontline individuals won't be able to provide suitable and appropriate advice, nor solutions, to address the increasingly complex and bespoke needs which clients face.

And in turn, clients won't properly understand how to use and apply trusts and the various other tools to meet their business and succession planning needs.

The challenge has become so acute in certain emerging markets, for example China, that this is now something which keeps some wealth planning business heads awake at night.

These were also some of the key outcomes from thought-leadership discussions in Hong Kong and Singapore – hosted by Hubbis in partnership with by Amicorp Group – on the future of wealth planning in Asia and involving high-profile wealth planning practitioners and senior management.

BREEDING GREATER AWARENESS

"Inevitably, the vast and ongoing inter-generational shift is impacting the way that HNW clients and families think about how they manage their wealth," says Peter Golovsky, managing director and global head of private clients at Amicorp Group in Hong Kong.

While the need for wealth planning solutions in Asia has been apparent for the last 15 years or so, the families are now 15 years older and little of substance has been done to address the issues.

However, while the need for wealth planning solutions in Asia has been apparent for the last 15 years or so, the families are now 15 years older and little of substance has been done to address the issues in the majority of cases.

As a result, some wealthy families who haven't put in place effective structures are now facing problems, adds Golovsky, especially if the publicity around high-profile and public divorces and family disputes which make their way into newspaper headlines and articles is anything to judge the situation by.

This media coverage shows how many accidents are out there waiting to happen, warn other industry practitioners. But at the same time, these situations highlight the potential for clients to become more aware of the need to start planning properly.

"Recent high-profile family disputes, be they through divorce or succession planning is highlighting that in Asia, where less than 15% of people have a will, succession planning advice and tools such as trusts and foundation, are imperative," says Angelo Venardos of Heritage Trust Services.

Seeing the tangible detriment of not planning, or of having a plan which doesn't get administered in a very robust way, seems to be a catalyst for a growing realisation of the need for proper structuring for family businesses and succession.

CULTURAL INFLUENCES

The hierarchical structure of many Asian families is a significant contributor the the lack of action being taken by these clients in terms of wealth planning.

For example, say industry professionals, in many family meetings, sons, daughters and other family members tend to simply agree with with the views of the patriarch. This stems from a culture in Asia of following orders without question.

By comparison, there tends to be more discussion among family members, in a family office-type environment, in Europe and the US.

In turn, adds Rivers, selecting the appropriate forum or structure which can facilitate the succession process for the benefit of the family, together with relevant governance around that, becomes more complex.

"The corporate and family governance mix may well require the introduction of external professional management

Bernard Rennell
HSBC Private Bank

"Once [Asian families] trust you and can see you know what you're talking about, they are generally very willing to open up"

Peter Golovsky

Amicorp Group

"The vast and ongoing inter-generational shift is impacting the way that HNW clients and families think about how they manage their wealth"

for the family business, especially if the next generation chooses a different career path," he says. But he quickly adds that bringing in professional business managers is likely to incur additional costs because they will probably want to be financially incentivised more directly than a family member, who would more likely be focused on the longer term.

Further, adds Rivers, the family will also need to learn how to find a way to work and interact with professional business managers.

An effective approach to start with, says Bernard Rennell of HSBC Private Bank, is to focus on the fact that wealthy individuals need to plan strategically for their family in the same way as they try to plan strategically for their businesses.

Plus, he thinks it is a myth that Asian families don't want to address issues relating to succession. "Once they trust you and can see you know what you're talking about, they are generally very willing to open up about what they need."

For example, it is about encouraging more proactive conversations as a starting point.

Explains Venardos: "When a client says to me, 'if I die', I quickly but politely correct them and say 'when you die…'. Once they acknowledge that this could be tomorrow, we can get on with the issue of succession planning 'on their demise'."

It is then about selecting the right tools to create the most appropriate structure to suit the individual client.

"While there are common themes, every situation is different," says Rivers, "depending on factors such as whether the family will run the business, or whether it will be managed by professionals – or a mix of both; and whether the family wants to list the business, or whether it wants to keep it private."

Further, there are jurisdiction-specific considerations depending on where family members are based, including different tax issues.

FOCUSING ON THE NEXT GENERATION

Being able to really engage and prepare the next generation is a further challenge.

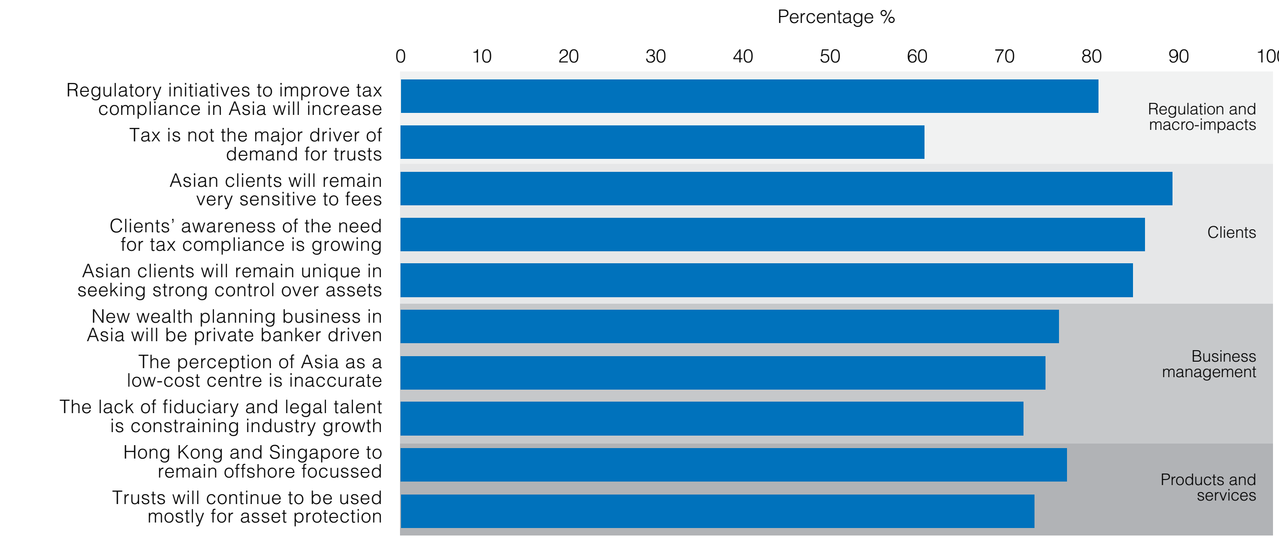
It is often the case in Asia that children don't really know much about the family wealth or business in any detail. Or they just don't want to ask.

"Many clients tell us that they face difficulties in educating their children about managing family wealth," says Hugues Delcourt at ABN AMRO.

"They face a great challenge in getting their children to understand not only

"The hierarchical structure of many Asian families is a significant contributor the the lack of action being taken by these clients in terms of wealth planning."

10 Key Predictions



Source: STEP report 2011

the basics of finance, but also how inherited wealth will change their lives."

Given that clients realise the importance of helping their children understand how wealth can become a beneficial tool for them to realise their potential, rather than a set of obstacles for them to overcome, the starting point for doing this in the proper way is to begin early, explains Delcourt.

"[This includes] conversations and activities that help children understand the family's values, goals and approach to money management," he says.

All sorts of next-generation programmes and gatherings have sprung up in recent years as private banks eye this as a foundation for client continuity plus education and networking. "This allows clients and their children to bond and share experiences with their peers within the same circle."

"Many clients see great value in such initiatives and we believe this helps to enhance our total value proposition and over time it will translate into a trusting and long-standing relationship with our clients."

There is also a continuing trend that while the second generation is educated overseas – in countries such as the US, Canada, Australia or the UK – initial expectations they will return home to run the family business after their education are giving way to the increasing reality that sons and daughters often stay overseas, explains Nigel Rivers, managing director for TMF Group in Hong Kong, and the firm's regional director of private clients in Asia Pacific.

"That impacts the plans which the patriarch might have had in relation to succession and the family business," adds Rivers.

The practical outcome is that it becomes a bigger challenge to provide succession for the family business, which often comprises the core of the family wealth.

Yet the fact that most of the next generations have Western university edu-

Nigel Rivers
TMF Group

"Ultimately, it is about transparency but the burden of the administration and reporting will increase, and so costs will increase"

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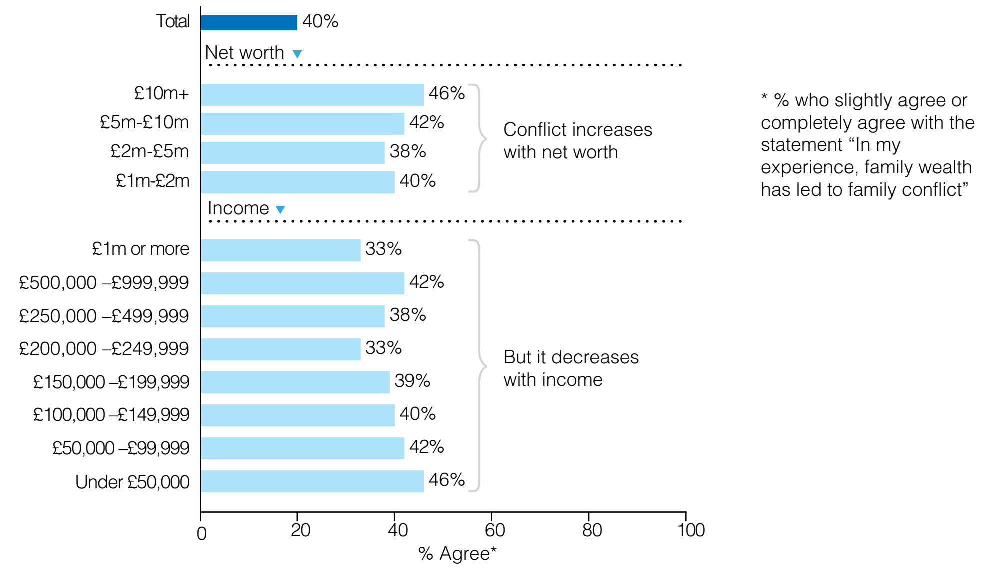
Wealth leading to family conflict (by wealth levels and income)



Source: Ledbury Research, Barclays Wealth

cation, and not always only from business schools, means that broaching these subjects and starting the process is easier now than say 10 years ago, adds Venardos.

RAISING STANDARDS

Disputes within families and cultural characteristics in Asia simply highlight the pressing need for the frontline to do more.

This means becoming more knowledgeable and engaged in the solutions available to facilitate this wealth shift.

Some industry participants propose more supervision, to give a benchmark or floor to how advisers must conduct themselves, to ensure they offer appropriate solutions to clients.

On the flipside, regulations or global standards alone won't achieve what is required. "Ultimately, without proper education, there will be increasing instances of clients not understanding the structures they are buying – or as a worst-case – structures being mis-sold," says Golovsky.

For example, say practitioners, it has been the case that many HNW clients end up having multiple BVI companies because they think this is the best way to manage their assets, or because this is what their friends have done. Some HNW individuals might even consider them to be status symbols based on how some advisers portrayed them.

Essentially, wealth planning requires advisers and clients to take a long-

> "A wealth planning approach can also strengthen the client relationship through engagement of the next generation as well as other family members."

Disputes within families and cultural characteristics in Asia simply highlight the pressing need for the frontline to do more.

term view in order to generate suitable solutions.

"As an industry, we need to move away from short-term profitability focus that may come at the expense of long-term client value and relationship," says Thomas Vonrueti, managing director and CEO of Swiss Life in Singapore.

He adds that a long-term relationship between adviser and client is the best foundation on which suitable advice and solutions can be provided to the client to generate value for the client and at the same time stable long-term revenue for the adviser.

"A wealth planning approach can also strengthen the client relationship through engagement of the next generation as well as other family members," says Vonrueti.

Golovsky says that the education that many advisers need, both for themselves and their clients, includes making clients realise the implications of not planning or using certain wealth planning tools.

For example, in Singapore, if they have their account in their personal name, then this is a public account, not a private one – given that when they die, whether they do or don't have a will, the account will go in front of the probate court.

Internally, bank-owned trustees are also grappling with how to address the education and engagement dilemma.

An approach that one large bank has introduced to monitor and manage the interactions with clients in relation to wealth planning solutions is an internal policy stating that an authorised specialist must be involved in any planning and structuring.

This puts it in the hands of the wealth planners, rather than the RMs.

The aim is to get the right person in front of the client at an early stage to avoid any potential for mis-understanding, mis-managed expectations, or mis-selling.

At the same time, the industry needs to remain realistic in terms of how much of wealth planning is structuring versus the ability to manage the process with a wealth family.

For example, Rennell says HSBC doesn't expect its private banking RMs to be experts in wealth planning as well as on the investment side.

But it does expect them to understand family dynamics and possible solutions – and then to bring in specialists as required.

"The industry needs independent firms like Amicorp," adds Golovsky.

This can then help to facilitate the required thought leadership and dialogue to ensure best practices in the wealth planning and structuring processes across different players.

Angelo Venardos

Heritage Trust Services

"In Asia, where less than 15% of people have a will, succession planning advice and tools such as trusts and foundation, are imperative"

REGULATORY DRIVERS

The need for wealth planning, along with advisers who can discuss options and solutions in the right ways with their clients, is greater today than ever before.

"As the regulatory and tax environment becomes more complex it is getting harder for other players to keep up with the constant changes and get it right," explains Rennell.

> The trend towards global transparency and the subsequent changes in regulations should be seen as an opportunity rather than a threat.

This presents one of the main challenges for the concept of wealth planning in Asia today. As do the rising costs for all players.

"For example," says Rivers, "FATCA looks set to affect the industry significantly." He says he expects other Western governments to piggy-back off this regulation.

Ultimately, it is about transparency but the burden of the administration and reporting will increase, and so costs will increase."

And regardless of any improvements in the global economic environment which may or may not be on the horizon, the current spotlight stemming from recent crises on tax and transparency will remain amid the new regulatory and compliance minefield, says Golovsky.

"This will put increasing pressure on the need for tax-compliant structures, which in turn will require practitioners to up-skill themselves and consider the need for more vigilant risk management," he explains.

"We devote a lot of effort to this area," adds Rennell. "Confidentiality is often extremely important, but at the same time, if a family's structuring does ever come under regulatory spotlight, it has to be compliant and robust. This is important both for our clients and for us."

As part of its wealth solutions offering, for example, Rennell says HSBC has close to 400 people in Asia focusing solely on wealth planning – but not bankers as such, rather lawyers, accountants and trust professionals who specialise in assisting families to plan strategically for inter-generational wealth transfer and preservation of their family wealth in the longer term.

Vonrueti says the trend towards global transparency and the subsequent changes in regulations should be seen as an opportunity rather than a threat.

"Institutions and advisers that can assist clients and families to secure wealth planning solutions in line with regulations in their respective domiciles will certainly benefit [from these changes]," he explains.

"The extra work and knowledge required will result in enhanced client relationships and will generate long-term revenues."

For example, he says, wealthy individuals will continue to prefer wealth planning provided by offshore centres such as Singapore and Hong Kong, which offer political stability, security and available services.

While the complexity of advice will certainly increase, he says this will allow professional organisations and advisers to demonstrate clear value to their clients.

At the same time, the recent Financial Advisory Industry Review (FAIR) from the Monetary Authority of Singapore (MAS) will certainly further support the move to higher transparency in terms of costs and charges, as well as commissions paid to advisers.

"Overall," adds Vonrueti, "this shift towards greater transparency should improve product education to clients with a corresponding increase of client understanding of product features and costs, resulting in them making more informed decisions on their insurance and financial planning needs.

At the same time, advisers will move away from a sales orientation towards a more client-centric approach based on client needs and suitability." ■

GETTING THE APPROACH TO WEALTH STRUCTURING RIGHT

In line with the many regulatory, tax and general transparency-driven developments globally, there is a growing focus within Asia's advisory community on how to make the best use of trusts and other structures as part of the various wealth planning options available to clients.

Ranging from the appropriateness of estate and succession planning structures to the ability of advisers to service clients' needs in relation to wealth transfer effectively – private banks and wealth management organisations in Asia are grappling with how to address these and other challenges.

Ultimately, the pitfalls relate to there not always being enough care taken, nor advice given to a client.

The focus must therefore be on ensuring the most appropriate solutions are first found, and then implemented, for each client.

THE USE OF TRUSTS

The 21st century presents family businesses with a unique situation complicated by both the diversity and rate of change, explains David Stone, director of structuring and product development for Amicorp Group in Asia.

"Especially in Asia," he adds, "families have always needed to find ways to preserve their traditional identities and values while allowing the current generation to pursue its own direction. The traditional identities and family bonds of Asian families are interwoven with family business and wealth interests, which are now being impacted by cultural, generational, technological and economic developments."

Such trends, alongside the backdrop of regulations such as FATCA and the movement of the next generation to live in Western countries, are having an impact on the choice of jurisdiction for trusts, for example, based on what the different trust laws provide for clients.

Too often trusts are used as a catch-all to put in the relevant assets a client has, and sold as any other product, say market experts.

"There are a wide variety of jurisdictions and corresponding types of trusts and foundations available, each with different characteristics," explains Stone. "A selection can be made depending on the specific situation of a family, and the location of the beneficiaries, or second generation inheriting the business."

In addition, the influence of the movement of family members into Western jurisdictions is presenting challenges for families when looking at how to structure trusts and other solutions based on emerging tax requirements.

One of the challenges relates to the fact that clients don't necessarily know all these issues.

However, this is often due to the fact that some advisers selling the trust initially don't fully understand how the structure works over the longer term.

This is one of the pitfalls of the fact that wealth planning has been popularised in the last year or two.

"Too many people in the industry think of a trust as a product and it is therefore often mis-sold," explains Bernard Rennell at HSBC Private Bank.

The focus should, however, be about thinking of the long-term objectives and working backwards to put in the right structures, he says, rather than using a trust as a way to offer something additional to a client.

But this is easier said than done. While HNW individuals and families in Asia face many of the same issues as those in other parts of the world when it comes to private wealth planning, a number of particular issues are more common or of greater significance to this group, says Marcus Leese, a partner at Ogier, the law firm.

He explains that these issues include such factors as:

Marcus Leese

Ogier

"[Various] factors have combined to limit the use of traditional private wealth planning by many HNW individuals and families in Asia"

- First-generation wealth - as much of the wealth is newly created, the need for wealth planning is a new phenomenon for many
- Culture and legal system - many of the traditional private wealth planning tools and structures are either not known or not fully understood by many clients and their trusted advisers
- Nature of assets - for many Asian families the majority of their wealth remains their family business in which they remain actively involved and which they (and many trustees and bankers) may consider not well suited to ownership by a trustee
- Control - for many, any actual or perceived loss of control over valuable assets is a significant hurdle to private wealth planning
- Limited domestic taxation - the relatively modest rates and incidence of domestic taxation in many Asian countries has meant that one of the principal drivers for private wealth planning in the West has been absent

"These factors and others have combined to limit the use of traditional private wealth planning – particularly trusts – by many HNW individuals and families in Asia," explains Leese. Among the most popular trust structures under BVI, Cayman, Guernsey

> Too often trusts are used as a catch-all to put in the relevant assets a client has, and sold as any other product.

and Jersey laws, for example, which can address many of these issues, are reserved powers trusts, structures which relate to specific statutory regimes, and private trust company (PTC) structures.

PTCs seem to be one of the increasingly-common solutions in Asia as part of the effort to tackle emerging issues relating to family businesses and succession planning.

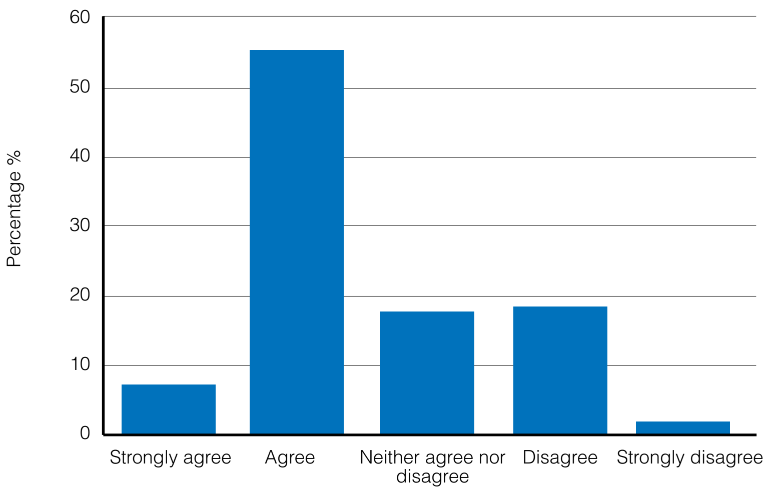
"Some people regard PTCs as a cheaper solution to a professional trustee," says Nigel Rivers of TMF Group. "But, in reality, professional support to run the trust properly is still required."

PTCs can provide a good balance on the decision-making board between those family members and professional managers who have sufficient knowledge of the assets and the underlying business and those professionals who can provide guidance on the role of the trustee, he explains. But only if properly understood and put into practice.

Another emerging area of focus includes long-term dynasty planning, with patriarchs looking at what will happen for their grandchildren and greater-grandchildren.

As a result of the growing variety of options, advisers should be looking

Prediction: trusts in Asia will continue to be used primarily for asset protection purposes



Source: STEP report 2011

to specialists – whether independent trustees or bank-owned trustees – to provide the ongoing service.

Another view was that advisers should only be involved at the outset, and then they should pass responsibility for the ongoing advice.

This relates to the expectation over the need for family office-type offerings to be able to take a more professionally-run approach.

> Advisers should be looking to specialists to provide the ongoing service.

PROPER GOVERNANCE

A key next step with any structuring must be building a governance system around the trust – which ensures the right people from the family will be making the decisions. The trust itself, or the trustee, cannot do these things alone.

For example, one of the common missing links in the set-up and governance process is in terms of covering aspects such as how boards are constituted, and how agreements which govern how various parties operate – including the boards, the protective committees and the enforcer committees.

This process also needs to consider aspects such as how the family as a group is going to deal with the typical and predictable conflicting issues which arise – for example who can work in the family business; whether family members get paid for their

work; and whether family members will also get feedback and performance appraisals.

A difficulty is that various parties have different views on what they want out of the trust, and how they think it will work. As a result, everyone involved needs to be aligned and clear on the objectives and decision-making processes, say practitioners.

GETTING THE RIGHT ADVICE

A pitfall in this whole process, however, comes back to the ability of an adviser to explain the complexity of the structure and keep clients up-to-date over ensuing years with advice and guidance on the best way to manage the assets in the trust.

Due to poor advice, some HNW clients end up with dozens of BVI companies.

Worst still, the knock-on effect of clients having bad experiences when setting up a trust or other wealth planning structure is skepticism.

At the same time, there is too often a reliance on the banker to bring along the trustee to regular meetings with the client.

However, practitioners say this can create the potential for problems to arise in terms of any ongoing monitoring and supervision.

The approach, instead, should be to assess and manage risk directly – which in practice means having direct access to clients to ensure they are advised properly on an ongoing basis.

Another approach, say some bank-owned trustees, is to ensure that the trustee puts into the agreement a requirement for an annual meeting to ensure everything is kept up-to-date. This is also beneficial for clients to feel comfortable and more in control.

Christian Stewart

Family Legacy Asia

"There are pitfalls to using trusts as a tool as part of wealth planning for families.... They can create a false sense of security"

NOT ALWAYS A TRUST

According to Christian Stewart, managing director of Family Legacy Asia, while wealth management professionals often equate the succession planning process with setting up some type of trust structure, to offer benefits such as preventing ownership fragmentation within family businesses, there are also pitfalls to using trusts as a tool as part of wealth planning for families. "They can create a false sense of security," he says.

For example, family wealth might fail as a result of family conflict, and putting the business into a trust won't automatically protect against this.

The danger with trust solutions, therefore, is that they might be too simple.

In many cases, an RM or trust specialist will only talk to the patriarch or founder, so gets one perspective on

Thomas Vonrueti

Swiss Life

"One of the major differentiating factors for private banks is the ability to provide customised solutions that demonstrates clear benefits to clients"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A broader range of instruments

While advisers have a range of structures and solutions at their disposal to support wealth planning, these have been applied in a simple way. And with increased regulations demanding transparency, a greater variation of tools is being used – both now and most likely going forward.

An example of this is the use of life insurance in Asia, says Thomas Vonrueti of Swiss Life.

Most advisers have used a single traditional product for years – namely Universal Life – while in other regions a much broader range of insurance solutions have been deployed to address clients' wealth planning needs, he explains.

"The implied simplicity of the product as well as double-digit commission certainly fueled its popularity," says Vonrueti. "Modern life insurance solutions such as Private Placement Life Insurance (PPLI), which has been an essential wealth planning tool in the US and in Europe, allow clients not only to address liquidity provision needs but also to assist in estate- and tax planning as well as segregation of private and company assets."

Such solutions can be adjusted to the specific circumstances of the clients, taking into account the relevant jurisdictions of them and their families, he adds.

With the increasing commoditisation of products in private banks, one of the major differentiating factors for banks is the ability to provide customised solutions that demonstrates clear benefits to clients."Here, modern life insurance solutions such as PPLI will play a more important role in Asia as well," says Vonrueti.

how succession will play out, and on how ownership should be structured in the future.

However, says Stewart, there is often no testing in reality with the family about whether this is acceptable.

"It is therefore crucial to have family meetings involving the wealth manager, lawyer and business founder, to identify the structure in the future and whether this will work in practice."

OTHER QUESTION-MARKS ARISING

The impact of clients squeezing banks on fees for trust and other wealth planning services is also unrealistic for the sustainability of good advice, add practitioners.

Transparency in pricing is a major issue in wealth planning in Asia today, explains Angelo Venardos at Heritage Trust Services. One potential option is the industry becoming more disciplined and not wavering on fees, given that it isn't good for anybody if a client gets bad service simply because the provider or adviser isn't getting paid enough on an ongoing basis to deliver the level of service required.

So getting reasonable fees to guide families through various transitions is critical for the industry to do what it should be doing. In line with this, the concern raised by some practitioners is that while they position trusts as long-term structures, the industry isn't geared up to support this approach. This is where the litigation and reputational risks then arise, they add.

Yet not all banks are latching on to the benefits of offering wealth planning as an alternative angle from which to grab a client's attention and then to win their business.

"With our trust business," says Rennell, "clients don't have to bank with us, so we don't use it as a way just to generate assets under management and to make an account 'stickier'." Instead, he adds, family governance and succession planning is a serious business in its own right.

However, there is a question-mark over whether banks are even the right types of organisations to be providing clients with advice about their trusts. Law firms, for example, potentially provide better continuity in terms of the advice.

Clients can then use the banks or independent firms as the platforms to hold their assets. ■

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Feature article

RE-DEFINING PERFORMANCE FOR PRIVATE CLIENTS

It seems that Asia's notoriously-speculative investor base is seeing value – for many of them for the first time – in properly-diversified portfolios and more measured returns.

Today's new-norm of volatility combined with seemingly never-ending uncertainty over the investment outlook is finally enabling RMs and investment advisers to drive home the value of asset allocation in a way which has been difficult to achieve on any meaningful scale until now.

Conversations between clients and their bankers today about products and investment strategies are different from ever before.

There is even growing optimism that the historically-low engagement of discretionary portfolio management will become an important revenue generator in the not-too-distant future.

While risk tolerance could, in theory, quickly swing back to reflect a re-

> Now is the perfect environment in which to educate clients again about the need for them to focus on proper asset allocation.

newed appetite for higher-yielding investments, a more fundamental shift appears to have begun, at least in the more mature Asian private banking centres of Singapore and Hong Kong.

MORE CAUTION SHOWN

Several key trends are currently driving the region's wealth management business at the moment.

First is regulation, which, says Alexander Kobler, regional head of investment products and services for UBS Wealth Management in Asia Pacific, has a large impact on production costs, and on what the firm can do with different client segments.

"This requires us to be much more specific and industrialised in our offerings, and also in the way we deliver ideas and investment content to clients," he explains.

Secondly, in line with changes in client behaviour, there is now much more sensitivity and involvement in the investment decision-making process.

And thirdly, the market reality is that following a 30-year dis-inflationary cycle which provided high risk premia, there is now an environment which is much more trading oriented and one in which Kobler says he doesn't expect to see high risk premia for another decade or so.

"The focus for advice, therefore, needs to shift from a buy-and-hold approach to a more active advisory style," suggests Kobler.

There is also more appetite in Asia for asset allocation advice, and doing this in a disciplined and dynamically-adjusted way over time.

"Now is the perfect environment in which to educate clients again about the need for them to focus on proper asset allocation," says Angel Wu, regional head of products and solutions at ABN AMRO Private Banking in Asia. "So many clients have now had bad experiences through concentrated portfolios and poor track records of risk-adjusted returns of their portfolios, making it easier to get buy-in from clients to look at discretionary, diversified mandates."

Adds Kobler: "We see more and traction and penetration in client books through this approach and as a result asset allocation has become considerably more diversified."

Bank of East Asia is also witnessing much more buy-in for an asset allocation approach from clients today than before, adds Alfred Mak, head of investment products and advisory.

"We come up with our quarterly model portfolio on asset allocation and we keep track of this," he explains. "Besides, investors appreciate the need to diversify after going through so many boom-and-bust cycles."

From a bottom-up perspective, Kobler says that UBS Wealth Management is now focusing on a research-based-advisory process as the core of its advisory value proposition. "The aim is based on the market assessment and the individual client portfolio to systematically and with a short- time-to-market deliver tailored investment ideas," he explains.

Since HNW clients tend to run money on an absolute-return approach while asset managers run money on a relative-return approach, Mak says investors will always expect the bank to give them inputs with regard to both strategic and tactical allocations.

MANAGING AND RE-ALIGNING EXPECTATIONS

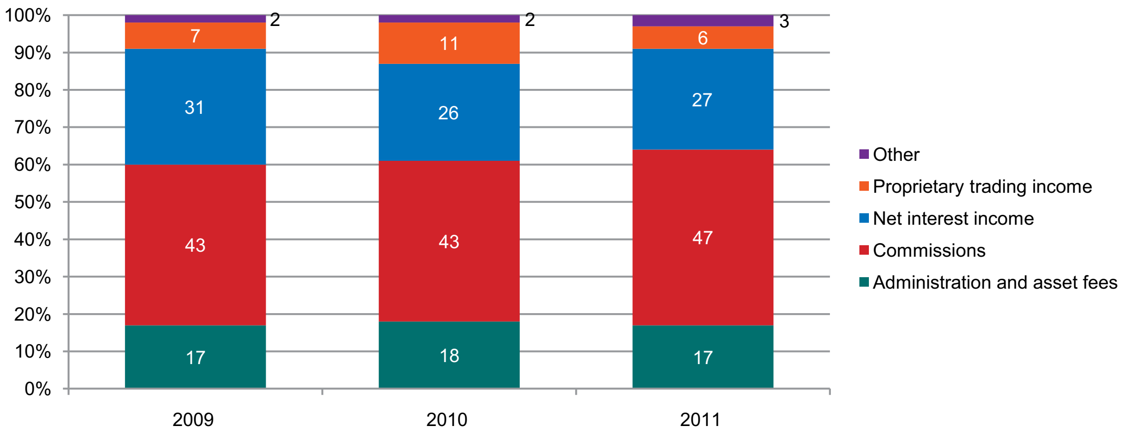
When looking at how the banks are positioned to deliver performance for clients to date, there has been a mis-match, at least at a macro level, between client expectations and what the banks have produced for them.

"The client often expects an absolute return, looking for the private bank to be delivering alpha," says Bryan Henning of Barclays.

Alex Kobler
UBS Wealth Management

"The focus for advice needs to shift from a buy-and-hold approach to a more active advisory style"

Revenue breakdown by fee types



* Singapore + Hong Kong results

Source: PwC Asia Pacific Private Banking Survey 2011

"If clients go in at the outset with the wrong return expectation and time-frame, then they are bound to be disappointed [with the outcome]."

Discretionary portfolios, assuming a client can take a three- to five-year view, are potentially the answer in being able to show clients how strategic and tactical asset allocation can work.

"At the moment I am seeing a renewed appetite from some clients to retest the added value of a private bank in terms of discretionary management," adds Olivier Gougeon of Societe Generale Private Banking.

"We say to our clients that they should keep a certain part of our assets to allocate to us to manage on their behalf," he says. "This is all part of the education process, which while slow, is happening at the moment."

Yet while the discretionary manager may have beaten the market in the last few years, clients are expecting their portfolios to be at least flat, which is challenging in these times.

"For instance," adds Henning, "while the discretionary manager's portfolio has fallen by 12% compared with the market which is down 14%, this is still not satisfactory to clients."

DEFENSIVE MOVES

Against the backdrop of the ongo-ing European turmoil as well as uncertainty over whether China will be able to sustain its growth, investors are increasingly conservative.

In line with market uncertainty, there has been a big shift into fixed income as part of a defensive move in 2011 and 2012. This has included high-yield and emerging market debt, and still is much more of a focus than on equities.

"This is a difficult moment for investors," explains Mak, "and as such, clients in general prefer steady income from less-volatile investments."

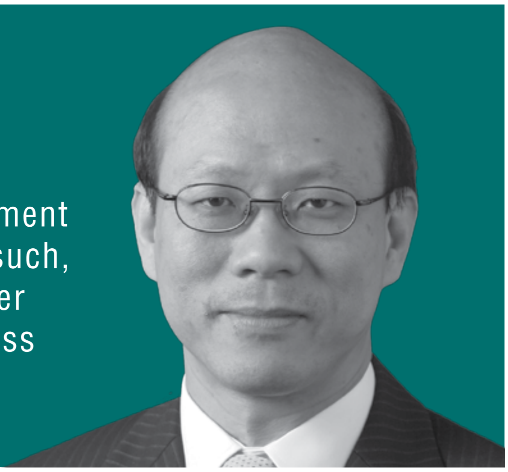
Bryan Henning

Barclays

"If clients go in at the outset with the wrong return expectation and timeframe, they are bound to be disappointed"

Alfred Mak
Bank of East Asia

"This is a difficult moment for investors, and as such, clients in general prefer steady income from less volatile investments"



In reality, clients are in general happy to receive around 6% to 7% per annum return via a diversified portfolio, he says, which is achievable by private banks as long as there is the right set up of the portfolio mix.

One of the key trends in line with this is the focus on fixed income products more broadly, says Wu.

"With yields low on investment-grade bonds in developed markets, Asian clients are buying investment-grade emerging market bonds," she says. "They are also looking at some high-yield names which they know and are very familiar with."

Other products which are of interest in today's environment include credit-linked notes, typically less than five years in duration, and linked to strong names such as Bank of China and DBS.

And at the even shorter-end of the spectrum, she says investors are looking at 1-year certificates of deposit. However, if they are investing in these short-dated instruments, they tend to prefer to do so on a leveraged basis. For example, with a one-year CD bearing a yield of less than 2%, they might want to leverage it to enhance the yield to 5% to 6% or even higher.

A second trend can be seen in how clients are reacting to the equity markets, adds Wu.

"Even during comparable turmoil in recent years – ranging from September 11 in the US in 2001, to Avian flu, to the Lehman Brothers bankruptcy – many investors still showed appetite in bargain hunting."

For the past six months, however, she says investors are getting very conservative and are not generally looking to get access to equities, even with enhanced yield products or at lower entry prices.

Of course, the uncertainties we are facing now are different from what we experienced before.

To generate income in such an environment, clients are investing in a well-diversified portfolio, but with a bias towards US high-yield bonds and Asian high-yield bond funds.

According to Victoria Ip, managing director and Asia Pacific chief investment strategist at Merrill Lynch Global Wealth Management, corporate balance sheets are very strong and profit margins have continued to surprise to the upside.

Adds Ron Lee, head of investment advisory, private Banking, at Union Bancaire Privee in Asia: "Economic and wealth text books tell us that in times of low interest rates, good companies can borrow cheaply and increase profitability, so investors should buy them.

Yet at the same time, not-so-good companies can get into more debt and disguise themselves as good companies and forecast stellar sales and rev-

"To generate income in such an environment, clients are investing in a well-diversified portfolio, but with a bias towards US high-yield bonds and Asian high-yield bond funds."

enue just to prop up its share prices with its sustainability questionable."

The difficulty, therefore, lies in differentiating one from the other. The same text books would tell investors not to buy bonds as the price of debt can only come down especially those of higher investment grades.

"Our studies show there are structural changes driven from globalisation, lower borrowing costs and cheaper wages are all leading to more resilient margins than the market expects," she explains. "Our view is that although the macro environment is fluid, specific industries and companies are still bringing in high cash profits, especially in large caps stocks as supposed to small caps."

With such a backdrop, generating income via corporate bonds, dividend-yield growing equities and REITs are good choices, says Ip.

"For those [investors] with long-term views and who can stomach the volatility, high-yield bonds from improving balance sheet strength and emerging market debt from continued economic growth and better finances.

Angel Wu

ABN AMRO Private Banking

"Most private banking clients are mainly looking for protection, and are more and more accepting in this environment of returns which are only 5% to 10%"

EVOLVING MODELS

According to Henning, increasingly with discretionary portfolios today, clients are taking the standard model portfolios the banks have and imposing their own requirements so that it becomes a bespoke mandate.

"For example, if there is a global model of bonds, equities and other asset classes, then a client will look at it in more detail, and ask for more or less of certain assets, and potentially they will ask for something new to be added," he explains.

"We feel comfortable with this approach in general, because the clients feel more ownership over the portfolio, while we are managing it for them."

The key here, adds Lee, is not to pick tops or bottoms but to strategically allocate appropriately when macro indicators and trends emerge within the various asset classes.

The difficulty for many large players is making sure the whole intellectual capital of the firm is delivered systematically to clients.

One channel is the client adviser and how to equip them to optimally select and channel ideas to a specific client based on individual needs. "We are continuously enhancing our distribu-

"Increasingly with discretionary portfolios today, clients are taking the standard model portfolios the banks have and imposing their own requirements so that it becomes a bespoke mandate."

"The best of both worlds"

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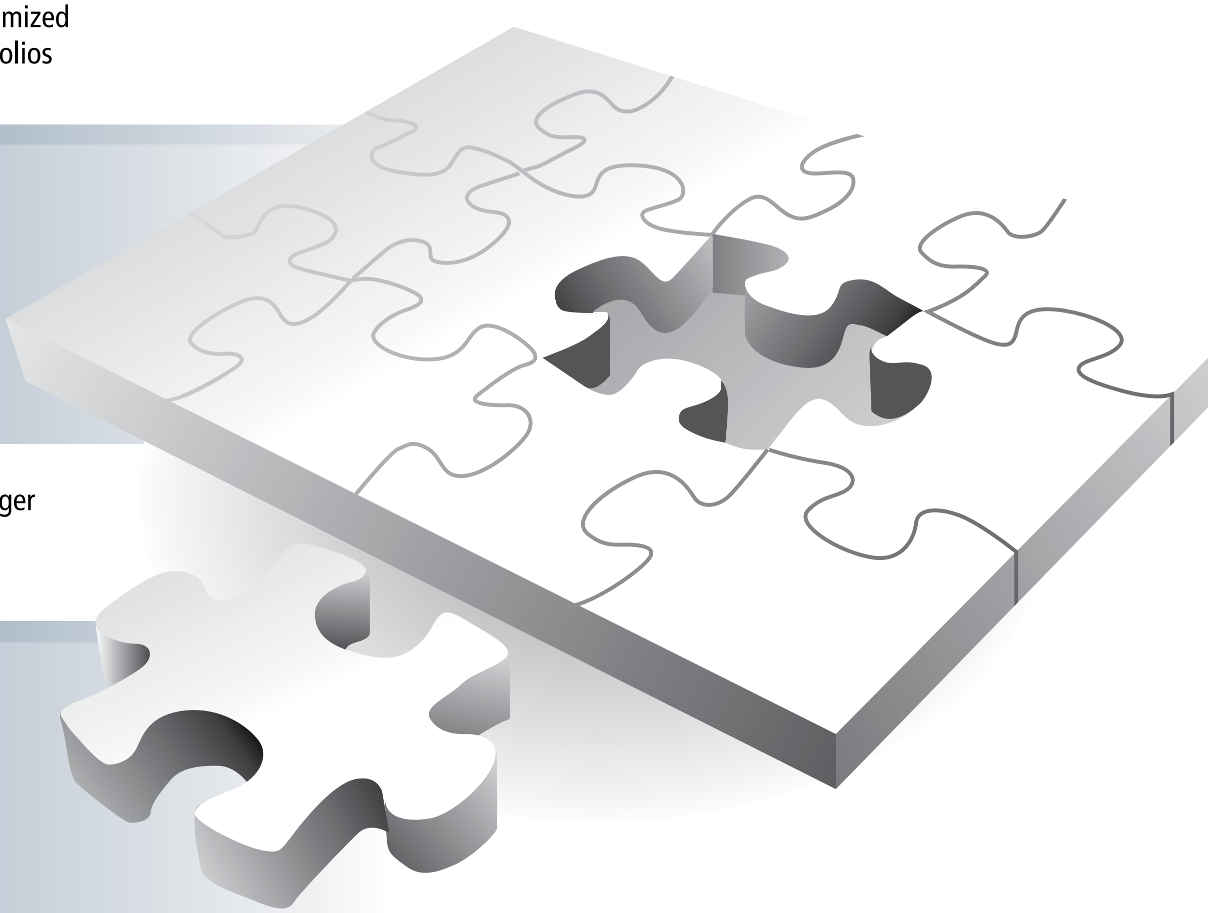

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Victoria Ip

Merrill Lynch Global Wealth Management

"The importance of strategic and tactical allocations is even more critical in an investor's path of wealth management now"

tion model to enhance the support and convenience for the client advisers," says Kobler.

A specific initiative UBS is driving, for example, mainly for more sophisticated portfolios and clients, is to leverage the technology it uses for institutional clients and family office businesses.

"UHNW clients in Asia have been learning from their European counterparts," adds Wu. "So they now see a need to have dedicated professional managers to add discipline to their investment portfolios. As a result, we have been developing Asian-focused portfolios for these clients." She says that ABN AMRO has also been working on a dedicated platform to service their needs, and expects to attract a lot of client interest from Asia and elsewhere as UHNW clients show appetite to diversify.

For the broader HNW client base, Kobler says UBS has been increasing its analytical tools behind the client holdings to trigger alerts and other notifications to advisers about any needs from either a risk or an opportunity perspective to act on the portfolio.

The platform, called "Advice Review Tool", is in place but the bank is continuing to evolve the delivery to its clients through various channels.

"From an investment suitability perspective, we establish a very strong rule-driven engine," explains Kobler, "which filters content for a specific client to avoid manual processes."

Having such processes in place ensures clients get everything they need, advisers can work more efficiently, and management gains operational leverage across the organisation, he adds.

Further, the bigger a client portfolio gets, then the more granularity is possible in terms of the potential investment universe.

And from an economic viewpoint, it is less costly to access products with bigger portfolios.

"For example," says Kobler, "an asset allocation fund might sometimes be better economically than trading individual instruments."

It is also interesting to see a key trend emerging in Asia where the local investment universe and underlying liquidity is rapidly expanding.

The natural home bias of clients – regardless of where they are based in the world – means this is of interest to Asian clients who until now have not been able to get as much domestic exposure as they would have liked, explains Kobler.

"Fund managers and investment banks now need to come to market with a lot more localised offerings to cater to this appetite. This is mainly in the form of funds."

In particular, Wu says private banking clients are showing interest in fixed in-

> UHNW clients... now see a need to have dedicated professional managers to add discipline to their investment portfolios.

come funds, as well as in other Asian dividend income strategies.

"This began over a year ago and I expect to see this interest in income-generating strategies until there is a pick-up in the markets and in equities specifically," she explains.

She says she also wants to encourage clients to position these dividend funds and income strategies generally as a long-term theme, not just an ad-hoc opportunity. "The aim is that they get used to dividends through a stock or fund and they see the beauty of constant income."

REVENUE GENERATORS

A trend which Kobler says is strong in Europe but which is only just starting to emerge in Asia is one of advisory contracts.

"This is where clients opt to pay a flat fee for advice, and possibly a performance fee, rather than a commission per transaction," he explains.

This helps to overcome the restrictions arising through the regulatory requirements to disclose fees on individual trades and creates a full alignment environment for client advisers to interact with their clients.

UBS Wealth Management has US$4.5 billion under management through its flagship Active Portfolio Advisory (APA) offering in Hong Kong and Singapore, and it is almost US$8 billion in Australia, operating under a client adviser-driven framework.

"Interest in APA grew by more 30% in 2011," says Kobler, "and while growth is at a slower pace this year, I am convinced that these fee-based advisory models will become a key characteristic over the next five to 10 years."

Such an approach won't suit every client, however.

More immediate revenue-generating strategies are likely to come from clients taking a more traditional, transaction-oriented approach.

For example, says Grace Chow at Bank of East Asia, currency-related investments such as FX-related structures have become very popular, and are helping to create new revenue streams for the bank. Renminbi, for example, is a currency that many clients are interested in.

"Even these uncertain times offer opportunities to wealth management service providers," she explains. "Many investors have adopted a low-risk appetite and are looking to borrow at low interest rates." They then create an arbitrage opportunity, Chow says, by investing in bonds to earn higher returns.

"We can provide financing to enable these investors to achieve this, while making sure that the clients understand the risks they face."

The greater focus on asset allocation also raises the need to consider whether equities should still be the cornerstone of Asian portfolios.

"While equity market performance has been disappointing because of the size and the duration of the current de-leveraging cycle," says Ip, "it is still one of the most liquid and transparent asset class."

She says she advises clients not to ignore equities because while they may challenged in the short term, they have cheapened substantially and the long-term prospect remains positive."

The approach, therefore, should not be to desert the asset class but rather to compliment it with the right investment strategy, whether it is from a protection or participation perspective, a deep value / distressed angle, or focusing on companies that would still do very well in a modest growth environment because they are either the market leaders or in a secularly upward industry. ■

> "A trend which is strong in Europe but only just starting to emerge in Asia is advisory contracts. This is where clients opt to pay a flat fee for advice, and possibly a performance fee, rather than a commission per transaction."

A FUTURE BUILT ON DISCRETIONARY ADVICE

Esther Heer, deputy chief executive officer of BSI Bank in Asia, explains how the firm is pursuing a model to deliver discretionary advice as a core offering, and reveals what it takes to make this a success.

What is BSI doing to pursue discretionary banking business opportunities in Hong Kong?

Discretionary advice is a huge focus for BSI in Asia, particularly for our clients in North Asia.

Since BSI Group started investing heavily into building our business in Asia two years ago, we have designed our business model to deliver discretionary advice as a core service.

> We have designed our business model to deliver discretionary advice as a core service.

Some banks profess to do this, but they are selling mainly bonds or funds – not balanced portfolios.

To achieve this, we have actively created, within BSI, the capability to provide top-quality discretionary advice.

This starts with hiring the right investment advisers with proven experience – and also the right bankers and relationship managers who have both the right maturity and mindset to adopt discretionary advice as a core service, along with a network of clients who see discretionary advice as a wealth management advantage they can get from us at BSI.

We have also put together a proactive programme that targets and educates our clients on how discretionary advice will help them to correctly engage with their private banking team – and in particular, how to elicit the best performance from their banker.

Why are you taking this approach?

It is my belief that only under a fee-based discretionary model will my bankers and advisers have no incentive to push to clients an expensive investment product.

There is no room for a banker to play on pricing or products to drive revenue.

Instead, my team will focus on managing the portfolio to achieve maximum returns and increase or protect the size of assets.

This is a total alignment of the bank's interests with those of each client.

This is not an easy proposition to sell to clients in Asia. They are still more in favour of paying per transaction, but I believe that with the effort my team is putting into educating our clients about discretionary advice, over time our clients will also realise that the merits of fee-based advice.

What types of relationships are required to make this work?

Discretionary advice is all about a total partnership between the client and the bank, with the measures of performance defined upfront between both parties.

It is a symbiotic relationship that ensures the private banker's performance is tied to that of the client's portfolio, based on the client's risk profile and expected returns.

This is similar to hiring a lawyer or accountant – where the private banker and experienced investment adviser as-

Esther Heer
BSI Bank

signed to the client are very focused on ensuring that the interests of the client are their own at all times, regardless of whether markets are up or down.

> "This assures the client that the support they receive from the bank is consistent throughout the relationship, not fixated on meeting revenue targets."

This assures the client that the support they receive from the bank is consistent throughout the relationship, not fixated on meeting revenue targets.

I believe in due time, our clients will demand this as a service from us. For now, we will stay the course and continue to educate.

The service can also be likened to hiring a full-time investment portfolio manager to manage the client's portfolio, which is especially useful in volatile markets.

That is why in more developed wealth management markets such as the US, the UK and Australia, for example, the regulators want financial advisers to phase out the commission system and move to a fee-based advisory service.

In what ways do BSI's services stand out from the competition?

At BSI, we don't want to become a big private bank in Asia – or have a lot of customers.

We prefer to stay medium-sized in the region and therefore have the flexibility to navigate, which is important for increasingly volatile market conditions.

BSI is also a pure-play private bank globally, focused on providing personalised banking services to ultra high net worth individuals.

Our services are designed to cater to the segment that requires dedicated and tailored attention. The bigger banks cannot afford to do this.

Our discretionary mandates are also not for everybody – there must be a substantial enough investment pool of US$1 million or more before there is flexibility to do creative allocations.

Such a service appeals most to clients who are more realistic about their return expectations.

> "Since the time we obtained our branch licence in March 2012, at least 30% of our total business – and almost half of all new business we win – has been in discretionary advice."

They are also more focused on wealth preservation – and likely to be a busy senior executive who can't afford to be hands-on in managing their portfolio.

We are seeing more clients asking us to take on the role of monitoring and managing their portfolios for them, particularly since coming off the risk curve in the last two years.

What also differentiates us is our structured process of dedicating time every three to six months to sit down with our clients and go over in detail, their portfolio and revisit their asset allocation plan.

How do you determine the right asset allocations for your Asian clients?

At BSI, we have a Global Asset Allocation Committee that reviews our global asset class distribution, followed by an Asia Asset Allocation Committee that ensures the right Asia-tilted balance in our recommended portfolios.

We also have an experienced team of product specialists which then build on a client's portfolio with the right investments into specific equities or bonds.

This three-step approach ensures that we not only have a tight rein on macro-market developments, but that we also take a structured approach to asset allocation and designing portfolios.

No individual portfolio manager can or should make their own recommendations which are not aligned with the outlook, research findings and investment principles formulated by BSI globally.

How much success have you had with your discretionary strategy to date?

Our plan to focus on discretionary advice has paid off well for us.

In a short time of two years since we started building our Hong Kong office, especially and since the time we obtained our branch licence in March 2012, at least 30% of our total business – and almost half of all new business we win – has been in discretionary advice.

This compares very favourably with the 5% to 10% that is industry practice in Asia. ■

Feature article

FINDING A WAY TO FIGHT FRONT-OFFICE THREATS

How to control client advisers is a greater source of debate and concern than ever before as private banks continue to struggle with the complex and uncertain regulatory and compliance landscape which is the new reality in Asian wealth management.

The spotlight on wealth management, which is shining brightly from all sides, is being fuelled by a combination of the economic needs of many Western governments, the greater attention on investor protection globally, and an ever-growing cross-border intolerance for any hint of money laundering or tax-related crimes.

While policies and measures of all kinds can be proposed and put in place internally, the extent to which the private banks can feasibly monitor

> Client-facing offices must be trained to probe and seek clarification up to a point they are satisfied as to the sources of wealth and the integrity of their clients.

them on an ongoing basis is, in practice, limited.

As a result, the fear that the actions and behaviours of front-office staff especially might lead to them falling foul of the regulators lurks constantly in the minds of senior management as well as the compliance gatekeepers.

"All banks are grappling with regulatory pressures," says Nick Pollard of Coutts. "Those that are able to navigate these issues and have relevant propositions in place that are consistent with regulatory requirements will have a leg up on the competition."

Nick Pollard

Coutts

"Those [banks] able to navigate these issues and have relevant propositions in place that are consistent with regulatory requirements will have a leg up on the competition"

REGULATORY COMPLEXITY

Practitioners across Asia have, unsurprisingly, grown weary in the face of the overwhelming challenges in complying with the various requirements being placed on the region's wealth management industry.

Yet this is simply an extension of what is happening around the world – given, for example, that there were somewhere around 11,000 regulatory changes implemented globally in 2011.

"Increasing regulations have resulted in higher compliance costs on our part," says Hugues Delcourt of ABN AMRO Private Banking.

The fact that this is happening against the backdrop of a business environment where margins are tight has led to IT and other budgets being increasingly squeezed.

"All banks have had to adjust to these new developments," adds Bruce Von Cannon of Banque Privee Edmond de Rothschild. "In some ways it is making the industry perform at a higher level…. All in all the new regulations and requirements are a fact of life and we will adjust to them."

Indeed, as the trend of increased regulation and supervision by the authorities continues, Noor Quek of NQ International says that those institutions which are able to successfully meet requirements will take market share from those that fail to meet the standards set.

This poses big hurdles for the regulators, too.

Not only do they need to get a better understanding of the size of the cross-border issues impacting private banks, but with many jurisdictions facing various fiscal and economic stresses, the pressure on regulators to help protect domestic markets is creating a potential danger of some degree of regulatory arbitrage, explain some industry practitioners.

So while trying to offer a level playing field, for example, regulators may look to compete in certain niche areas to attract specific, boutique segments of the wealth management landscape.

The focus in Singapore, for example, is about demonstrating it is robust, in order to be one step ahead of other markets in Asia to create a long-term competitive advantage.

And Hong Kong has more recently made public its intentions of becoming a regional private banking hub.

However, neither jurisdiction wants excessive inflows. This is especially true of funds coming in from Europe, where given the tax and regulatory developments, any new money inevitably comes with a question-mark over its origins.

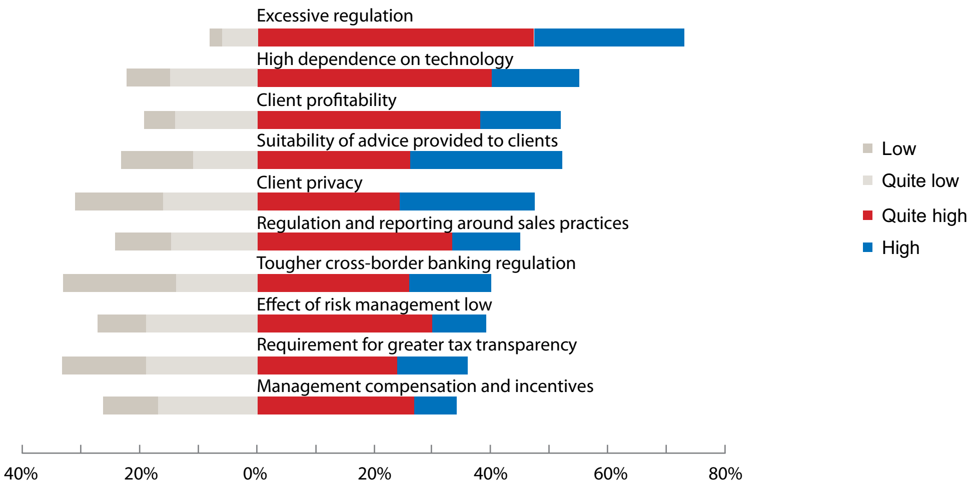
Legal and compliance specialists say they further fear that regulators want to now be seen to be flexing their powers to show they are willing to use the enforcement tools available to them.

This may translate to them looking for isolated cases where they can then try to make a showcase or example of individual firms.

From the perspective of the institutions, however, this can cause yet more confusion and, therefore, a lot of concern.

Risk severity top 10

Please rate the following risks in terms of their severity to your organisation



Source: PwC Global Private Banking and Wealth Management Survey 2011

PROBLEM AREAS GROW FOR BANKS

For global private banks, the in-creasing complexity of compliance impacts the thousands of accounts involving shared relationships between different offices – for example Hong Kong, Singapore and Zurich – which are subject to different approaches by the various regulators.

Trying to keep abreast – let alone ahead – of everything their own banks do is a significant task for practitioners, especially given that systems were not designed to deal with a lot of the requirements that now exist under new rules.

"The regulators are now much more obvious in our operating environment," says Albert Chiu of EFG Bank. "They are no longer the 'invisible hand' of regulation. We therefore need to make sure our bankers do not do anything which is not allowed, relating to declaring funds, advising cross-border, ensuring suitability, and other aspects of compliance."

Indeed, cross-border issues are among the biggest concern for global private banks, given the tension between the business and control functions in terms of what is and isn't allowed.

Problem areas can stem from issues such as the fact that tax evasion is now a predicate offence for money laundering – a trend which is spreading rapidly.

Singapore, for example, is one of the most recent jurisdictions to announce moves in this direction.

Depending on how it is enforced by various regulators, legal experts say that this threatens to be a big challenge to institutions.

For instance, a lot of firms receive money from individuals which are resident in jurisdictions where the firm is

Andrew Turczyniak

RBC Wealth Management

"We always want to focus front-office staff on talking to and servicing clients – which is difficult to achieve at the moment"

unlikely to glean any knowledge about whether those clients are reporting properly in their home jurisdictions.

The cost to make sure some institutions are continually on top of what they need to do from a regulatory perspective has been calling into question whether continuing some parts of their businesses is economically viable.

Pollard, for example, says that a lot of work is being undertaken at Coutts to ensure it continues to be compliant and able to operate effectively amid the new regulatory regime coming on stream in the coming years.

In line with this, the firm has reduced the number of countries in which it operates across the Coutts' international network from 170 to 80.

"In addition to commercial reasons, risk management has played a big factor in these decisions," says Pollard.

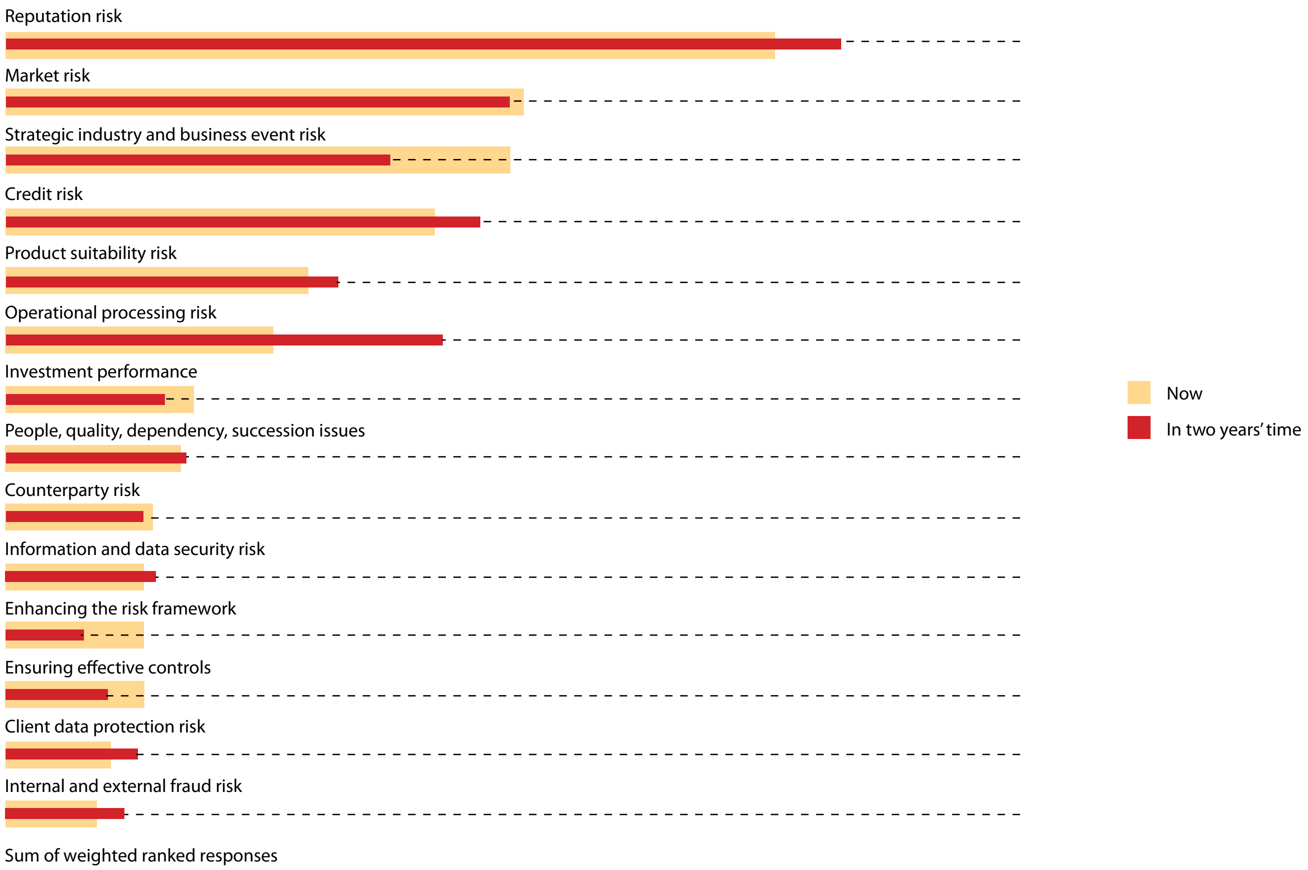
Further, for many private banks, trying to keep "clean" means turning away potential customers. And compliance officers say it is very challenging to determine whether certain European clients want to open bank accounts in Singapore or Hong Kong because they are genuinely concerned about the future of the Eurozone, or because they are still under the misconception that they can hide non-tax-compliant money elsewhere.

There is also a risk with some of the inflows from markets like Thailand, Malaysia and Indonesia. With funds from these types of places, there are question-marks over the compliant nature of the source. So the worries extend beyond Europe.

The duty of compliance and due diligence, however, should already be embedded in the DNA of those involved in the business, says Quek.

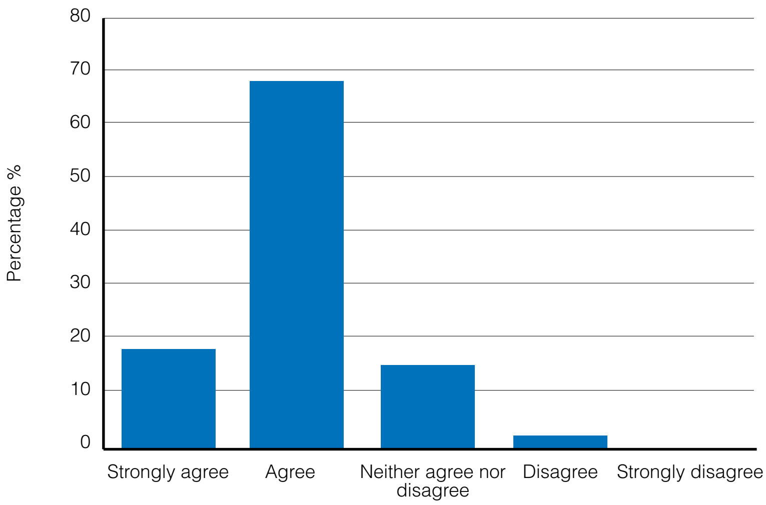
Principle areas of risk

What are the top three principle areas of risk you expect to face now, and in two years' time?



Source: PwC Global Private Banking and Wealth Management Survey 2011

Prediction: client's awareness of the need for tax compliance is growing



Source: STEP report 2011

At the same time, client-facing officers must be trained to probe and seek clarification up to a point they are satisfied as to the sources of wealth and the integrity of their clients.

The process of aligning current KYC procedures to meet required disclosure standards will be a very trying and challenging exercise. Further, given the complexity of many regulations, there can be situations where individuals innocently fail to comply.

This is also giving way to feelings among some compliance officers that they and their institutions cannot be expected to assume the role of tax police or investigators.

Going through the motions of requesting clients to sign forms to get basic comfort is not a method which actually helps identify instances of tax evasion.

Instead, a more practical approach could be that the banks look more closely for indicators during the client onboarding process as to whether they think a client might be moving money for tax-related reasons.

This means scrutinising aspects such as what percentage of their assets is being moved, whether the reasons seem legitimate based on the rest of their portfolio and lifestyle, and the complexity of the client's structures.

However, legacy issues are very difficult to identify and uncover, agree practitioners. There is often uncertainty over whether a suspicious transaction report needs to be filed, or whether it should be investigated by external experts.

The general compliance challenges for the private banks also arise from a suitability perspective. Practitioners in Hong Kong, for example, said the local regulatory environment continue to struggle to balance an appropriate level of controls in terms of suitability for "sophisticated" investors.

This is inevitable, they explain, given that private clients might include the whole spectrum of individuals – ranging on the one hand from an individuals who has US$10 million and has been working on an equity trading desk in an investment bank for their entire career, to people who have won US$100 million but lack any financial experience or expertise on the other.

The rules don't give private banks the ability to make the distinction themselves, bemoan compliance specialists, so they have to treat all investors equally.

Part of the problem legal and compliance staff face is the fact that the Hong Kong Monetary Authority (HKMA)

Noor Quek

NQ International

"Institutions that are able to successfully meet requirements will take market share from those that fail to meet standards set"

The behaviour of individual RMs is in the eyes of compliance officers the main weak link.

has its own set of rules in terms of the selling process, without any influence from the Securities and Futures Commission's (SFC's) criteria.

Along these lines, practitioners in Hong Kong say their wish-list for reforms includes a greater distinction in regulations to recognise the differences in serving typical private banking clients – to help determine what is more appropriate for them as opposed to retail investors.

The rationale is not to avoid any compliance requirements, say practitioners, but rather focus on what is appropriate for specific individuals and which is in their best interests.

Linked to this are calls for streamlined regulations in terms of the selling process in Hong Kong. The aim is to create a clearly-defined rule-book to enable institutions to more clearly identify and define what is required to ensure compliance.

THE DANGER OF RELYING ON ADVISERS

Ultimately, the behaviour of individual RMs is in the eyes of compliance officers the main weak link in anti-money laundering efforts, suitability enforcement, avoiding tax-related ambiguities and other compliance priorities is employees.

This is for various reasons. First, say compliance practitioners, there might be a lack of a real understanding among RMs about why the new requirements matter.

Secondly, there is also a conflict with some of the other requirements that compliance functions place on RMs. For example, the bank might ask an RM get clients to sign certain documentation to meet a specific regulatory request – yet under cross-border guidelines an RM might not be able to send that form to the client.

Thirdly, RMs have to spend a lot more time today dealing with internal policies, administrative burdens and other inward-facing tasks, rather than talking to their clients to try to deliver net new assets and revenue in an environment of low client activity.

"Ultimately we always want to focus front-office staff on talking to and servicing clients – which is difficult to achieve now," says Andrew Turczyniak of RBC Wealth Management.

It is easy to see, therefore, how compliance will inevitable play a bigger role within the future of private banking and wealth management, adds Carolyn Leng of CIMB Private Banking. Plus, it puts the institution at greater risk without it being able to enforce any controls.

For their own comfort, some global banks go to the extent of requiring RMs to complete various tests, read relevant internal manuals and get approval from their market leaders to be able to travel to a certain jurisdiction. On their return, they then have to fill in detailed call reports.

But ultimately, banks cannot know what an individual RM does on a trip; there can never be a compliance officer looking over each RM's shoulder.

"It is a huge challenge for all of us, especially given that we often are unable to know more than what our clients are willing to tell us about themselves and their backgrounds," says Leng.

"So we can only base our own reporting and advice on that information, once we have verified it."

This will inevitably lead to changes in business models and the way in which some firms conduct their business and then put in place the relevant checks and balances.

"In particular," says Leng, "the regulatory and compliance burdens have the potential to slow down the pace at which firms can do business."

And this will get worse if other countries follow the US' course of action with FATCA-style legislation.

On a positive note, the fact that RMs have to spend an extra amount of time explaining to their clients the additional compliance and disclosure requirements that they and the bank have to comply with can help to build a stronger rapport with clients, add Delcourt.

"The process has resulted in better communication and greater sharing of client concerns and transparency in the way we do business with our clients," he explains.

Georges Zecchin of Crédit Agricole Suisse agrees that tougher regulations and requirements do not affect client relationships, but in fact can create a regulatory net which constitutes a protective shelter their assets.

GETTING THE MESSAGE ACROSS

The fundamental message that legal and compliance practitioners must try to get across to their frontline is that compliance is common sense, ethical behaviour.

As a result, those advisers who are sensible will almost always be in compliance – automatically – with most of the regulations.

RMs who don't understand this, or don't want to follow internal rules, should no longer be in this industry.

Yet this is a difficult viewpoint for legal, compliance and risk personnel to put to senior management – especially in such a competitive business environment, and that given the relatively small number of RMs with experience and who are familiar with what is required from a regulatory perspective.

"I think the challenges will only continue to increase and consume the time of client-facing staff," predicts Turczyniak. "At the same time, this will lead to ever-rising costs."

Improving the compliance culture therefore needs to rely on more of a carrot-and-stick approach, with more systematic disciplinary action.

This has changed from the previous approach of using only the "carrot" to encourage the right behaviour.

Now, the "stick" translates to enforcing consequences, for example impacting bonuses, in order for it to start to matter to RMs.

Current key performance indicators set by some institutions' business styles and incentive or reward systems which recognise quantity rather than quality even before a client is fully understood by the institution, have caused the compliance and due-diligence process to be glossed-over.

"It is imperative that bank staff, especially front-office staff, be made to realise they are also very much a part of this heightened compliance process," explains Quek, "and their understanding or lack of it would impact on the quality and profitability of the business in the longer term, as well as their own career development, integrity and reputation."

In addition, the way to deal with the ever-more demanding KYC process should also be linked to the hiring process, says Barend Janssens of RBC Wealth Management.

For example, in corporate and investment banking, it is possible to get a lot of information about the client at the outset which is in the public domain, and there are a number of inputs into the KYC verification process which can be cross-referenced, he explains.

By contrast, private banking is very much dependent on clients giving their banker information verbally – increasing the challenge on front-line staff to be able to understand and interpret the information and know how to ask the right questions."

"So if we don't have the right type of bankers with the experience and ability to understand what clients are really saying," says Janssens, "we will end up with big compliance problems down the line."

There are also an increasing number of indirect ways to ensure front-office staff are more careful. These include the fit-and-proper and various ethical requirements.

At the same time, there are circulars (published publically in Hong Kong, but privately circulated in Singapore) which state that a particular individual shouldn't be hired for a certain number of years as a result of their previous conduct.

Such potential punishments raise the alertness and awareness of staff, both to sanctions as well as the way that regulators are now approaching and responding to any breaches.

This might help in preventing some activities from taking place, plus it ensures staff make more effort to understand what is required.

It is also getting more difficult to move clients from one bank to the next to open new accounts.

Equivalently-challenging internal policies and controls at other firms are therefore contributing to a certain amount of RM stickiness which wasn't there until recently – where RMs realise they might not be able to jump employers and take clients with them because getting account-opening approvals at a new firm within today's new regulatory environment might not be possible for certain accounts which they perhaps opened 10 years ago.

At the same time, however, the lengthier process that now exists between opening accounts and selling products also makes it difficult for those industry players to pursue aggressive growth strategies. ■

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