WEALTH MANAGEMENT IN ASIA

hubbis

August 2014

FOREWORD

On behalf of BNP Paribas Wealth Management, I'm delighted to take part again in this flagship publication – which is the 4th edition of Hubbis' annual overview and outlook for the private banking and wealth management industry in Asia.

Despite operating in what has become the world's most exciting region for wealth-related products and services, organisations of all types and sizes continue to face many challenges.

These exist in terms of regulation, strategy, the investment landscape, costs, staffing, technology and client expectations.

This is forcing the more forward-thinking firms to focus on what they do best, and to build or re-shape their value propositions around that.

Only then can they hope to build credible and profitable businesses.

This publication will focus on specific areas of what's driving the future of wealth management in Asia – showcasing different business strategies, highlighting success stories, reviewing the stages of industry development across the region, uncovering the potential of technology, understanding the game-changers in asset management, offering insights into new advisory models, providing commentary on the importance of managing family wealth and the next generation, and assessing the importance of the Switzerland-Asia connectivity.

I hope you enjoy reading these insights and derive value from them.

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

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Expert insights

THE QUINTESSENCE OF OUR MISSION STATEMENT

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Leonteq's explicit goal is to make a difference through particular transparency in investment products and to be the preferred technology and service partner for investment solutions.

We count on experienced industry experts with a focus on achieving client's goals and a first class IT infrastructure, setting new standards in stability and flexibility.

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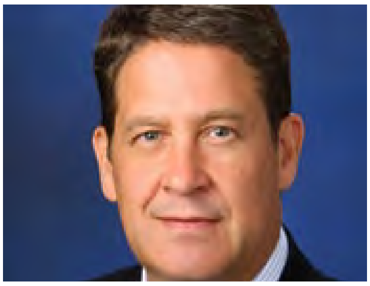
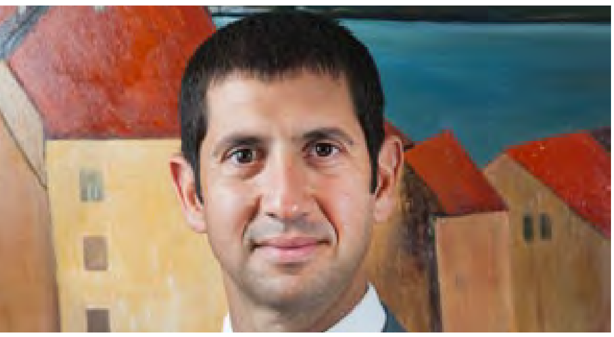

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4.32 million

"While North America's HNW population expanded [in 2013] by 16% to 4.33 million, Asia Pacific's grew by 17% to reach 4.32 million."

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500 million

"Asia Pacific today has a middle-class population of more than 500 million and this is predicted to expand significantly, and triple by 2020."

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20 years

"The last 20 years has been all about relationships; the next 20 years will be about competencies."

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US$250 bn

"Overseeing 14 businesses across 12 countries in Asia, as part of Citi Asia's US$250 billion in AUM... perhaps the biggest challenge is doing all this in a consistent way."

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3,000

"Published data points to an estimated 3,000 single family offices (SFOs) globally, with only around 100, or 3%, in Asia Pacific, managing US$1.2 trillion."

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US$10 bn

"Banks with US$10 billion in AUM or lower are less likely to be profitable; those with US$15 billion-plus have a better chance."

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KEEPING UP WITH THE CHANGING WORLD OF WEALTH MANAGEMENT

WEALTH MANAGEMENT FIRMS OF ALL TYPES CAN ONLY MAINTAIN AN UPWARD TRAJECTORY AND STAVE OFF THREATS FROM REGULATORY, COST, CLIENT AND OTHER CHALLENGES IF THEY FOCUS ON THE CRITICAL AREAS THAT WILL DETERMINE THEIR SUCCESS IN ASIA. THESE INCLUDE: REFINING BUSINESS MODELS, BECOMING MORE RATIONAL ABOUT STAFF PERFORMANCE, IMPLEMENTING THE LATEST SYSTEMS, IMPROVING ASSET-GATHERING CAPABILITIES AND RAISING THEIR LEVEL OF DIGITAL COMMUNICATION.

Asia is clearly a good place to be for wealth managers – at least from the perspective of the growth statistics highlighted by various industry reports and surveys.

According to the World Wealth Report 2014 by Capgemini and RBC Wealth Management, for example, North America and Asia Pacific remained in a close race for the world's largest population of high net worth (HNW) individuals in 2013, with growth in the latter narrowing the former's lead to less than 10,000 individuals.

But while North America's HNW population expanded by 16% to 4.33 million, Asia Pacific's grew by 17% to reach 4.32 million. At the same time, the region's wealth expanded by 18% to reach US$14.20 trillion.

By comparison, Europe's HNW population grew by 12% to reach 3.83 million, and its wealth increased by 14% to reach US$12.39 trillion. Globally, the investible wealth of HNW individuals rose by nearly 14% to reach a record US$52.62 trillion.

The reality of the opportunity in Asia, however, is very different from the headline facts.

Christian Stauffer

EuroFin Asia Group

"There is a misconception between the overall amount of wealth growth in Asia and a part of that wealth which is actually accessible"

"There is a misconception between the overall amount of wealth growth in Asia and a part of that wealth which is actually accessible," says Christian Stauffer, chief executive officer and founding partner, EuroFin Asia Group.

Requirements and challenges arising from regulation, the investment environment, business strategy and costs, staffing, technology, client requirements and more, make it a lot more difficult than many people think it will be to be profitable in a credible and sustainable way.

Despite Asia being an attractive marketplace, judging by the numbers of millionaires and billionaires, as the size of the market increases the propensity for businesses to fail also rises, adds Nam Soon Liew, partner and financial services advisory leader for Ernst & Young in Asia Pacific.

BEING RATIONAL

Beyond the hype around Asia's wealth growth, being realistic about value propositions and objectives – and then

The Best Global Private Bank in Asia

Asiamoney Private Banking Poll 2012–2014

Practitioners of the craft of private banking

EFG 瑞士盈豐銀行

Rahul Malhotra

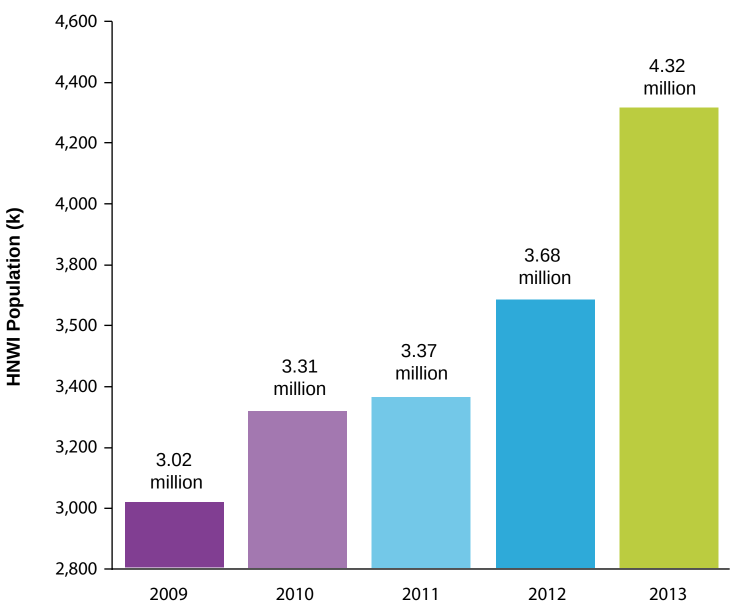
J.P. Morgan Private Bank

"Many institutions are reducing their exposures in locations where they are not dominant players"

prioritising – is the only way to succeed. After all, says Stauffer, the costs of doing business in general are rising at the same time as margins are shrinking. And this trend will continue for the foreseeable future.

Growth rates aside, market leaders agree it is imperative they drive a culture, both internally and industry-wide, that focuses on quality of service and advice, transparency and sustainability of the business.

ASIA PACIFIC HNW POPULATION GROWTH



Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey 2014

That will first depend on how organisations define the scope of their wealth offering. The discussion has mainly focused to date on investments for clients. Yet taking a step back, more advisers and firms genuinely need to embrace the potential for taking a more holistic approach.

As an extension of this is the opportunity that should follow via digital tools and other technologies to engage with clients to be meaningful in the planning space. This is especially important, given the role of technology as one of the significant game-changers which has emerged as part of the transformation of the industry.

In turn, organisations should also look to position themselves as intermediaries to connect clients, and provide them with peer insights, investment ideas, and so on.

"Given that Asia is diversified geographically, culturally, linguistically and with different generations of wealth creators and inheritors, the successful firms will be those who focus on their core strengths and look to other partners to help them in non-core areas," says Mark Nelligan, managing director at Pershing Securities Singapore.

Regardless of positioning, however, the one inevitability in the minds of most practitioners – and the ultimate rationality – is consolidation.

The sale of Societe Generale's Asian private banking assets to DBS in March 2014, for instance, and the move two months earlier by Falcon Private Bank to pass over its Hong Kong-based clients to EFG, are no coincidence.

The fragmented nature of the wealth management sector in particular makes it expensive to service clients today. "We are seeing a lot consolidation starting to happen in the industry

Richard Turner

Thomas Reuters

““The real challenge for this industry is around being able to adapt to the changes”

globally,” says Rahul Malhotra, head of South Asia at J.P. Morgan Private Bank. “Many institutions are reducing their exposures in locations where they are not dominant players.”

Michael Blake, general manager for Coutts in Asia, adds that from an industry perspective, he sees trends in regulation and economics creating consolidation across all markets. “Business models will evolve as a result.”

Amid the expectation of continued consolidation, Carol Wong, managing director for Old Mutual Global Investors in Asia Pacific, predicts that although the big banks will still exist, the mid-sized firms will struggle.

Adds Robert Cormie, managing director and head of private banking for BMO Private Bank in Asia: “There is a scale required to be profitable, and although a lot of banks are building up the infrastructure, they don’t necessarily have the size to justify it.”

It used to be that around US$10 billion in AUM was the minimum required to ensure a sustainable business, but that seems to be changing based on recent deals, he suggests.

In Wong’s opinion, Chinese private banks will be among the winners going forward. “Right now, they are still limited, but in 10 years’ time, they will be significant players.”

FINDING THE RIGHT MODEL

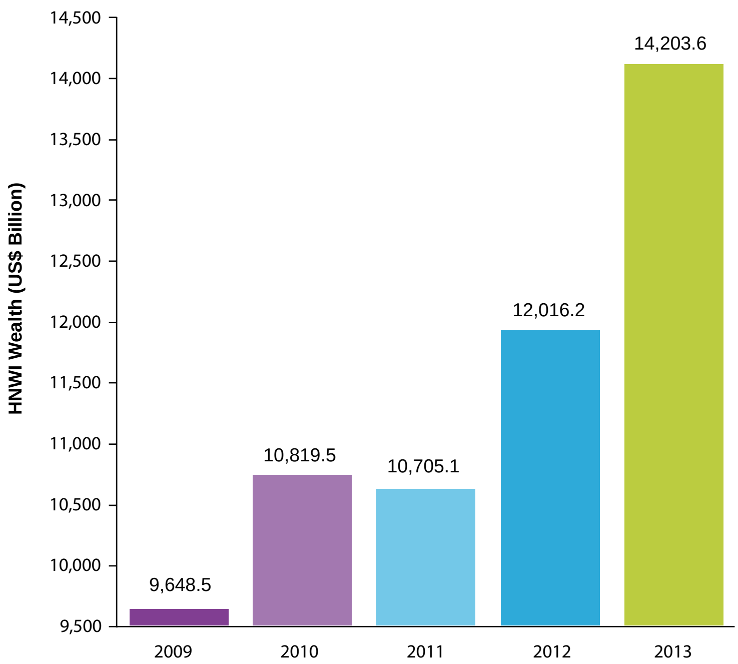
In addition to there being fewer wealth management providers overall in Asia going forward, there is little clarity on the optimal business model.

For example there is still a question-mark over the preferred approach of the emerging wealthy in Asia, says Richard Turner, head of market development, Asia, financial & risk, at Thomson Reuters.

It remains to be seen whether they will opt for a traditional private banking relationship, or take a more self-directed online route, he explains.

Knowing the answer is becoming increasingly urgent given the rate of growth in wealth, in particular among Asia’s middle class.

ASIA PACIFIC HNW WEALTH GROWTH (US$ BILLION)



Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey 2014

That will also then throw out a number of questions relating to infrastructure and servicing the requirements of clients, says Turner – for example, should firms outsource this? How do they deal with regulation? And how do they access information? "The real challenge for this industry is around being able to adapt to the changes," he says.

According to Stauffer, meanwhile, the banks need to pursue new strategies.

Some of them have applied the same business model in Asia as the one used back home in Europe, he explains. Yet Asian clients don't want the same offering. For example, discretionary mandates don't work as well in Asia because many Asian clients are entrepreneurs who are still building their businesses and need various services that most private banks are not able to provide today in the region."This is one of the reasons why the large private banking franchises that can provide services across the board – and cover multiple products and countries – have a better opportunity to grow their businesses," he says.

In addition, while Stauffer acknowledges that independent wealth management has a long way to go in Asia, he says there is a good opportunity for this segment to grow. "One reason for this is due to the generational change happening in Asia, as wealth transitions to the second and third generations. These family members have often been educated overseas and tend to have a better understanding of wealth management and the concept of the family office as being a separate entity from the family business."

Michael Thompson

PIMCO

"Regulation is playing a big role in Asia in terms of how business is being conducted"

In addition, while it is not typical of an Asian investor to delegate the task of wealth management to someone else, Stauffer sees that slowly changing. "This creates potential for an EAM to play a role in this process, especially given their independence and ability to represent the best interests of clients."

THE EURO-ASIA LINK

One of the noteworthy recent trends that is creating more opportunities for wealth managers stems from the increasing connectivity between Europe and Asia.

Interest is growing among HNW and ultra high net worth (UHNW) clients from both sides of the world in relation to accessing investments in each other's region.

"Rich Chinese like to buy properties in various cities around the world, especially in London. I saw a similar trend in Indonesia a few years ago," says Tee Fong Seng, market area head, Greater China, and vice chairman, private banking, Asia Pacific, at Credit Suisse.

This is also the case for other direct investments, real assets, private equity and other alternatives. Plus there is more and more focus from clients on wealth structuring, tax optimisation

Nigel Rivers

TMF Group

"It has already become practically impossible – and definitely irresponsible – to ignore these [regulatory] issues"

and business formation in other parts of the world.

According to Dr Henri Leimer, chief executive officer for LGT Private Banking Asia, one of the reasons why his bankers at LGT Bank are at ease with the concept of looking abroad for opportunities and products for their clients is because the size and scale of the local markets in Hong Kong and Singapore cannot meet all the needs of increasingly-sophisticated clients.

In terms of two-way trade between Asia and Europe, there are also a lot of transactions that take place outside of the traditional private banking service.

Mark Nelligan

Pershing Securities Singapore

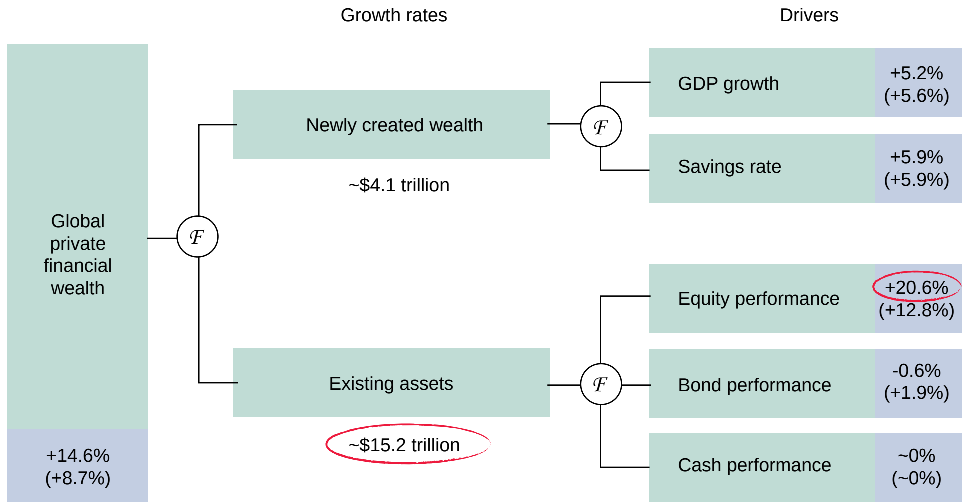
"The successful firms will be those who focus on their core strengths and look other partners to help them in their non-core areas"

"Many clients don't yet perceive that their private bankers are able to bring the right types of opportunities to them," explains Tee.

Further, adds Stauffer, there is a lot of European money wanting to access Asia that might not know how to do it beyond investing in conventional funds.

"For a large European family office, for example, there is a lot of appetite for private equity and real estate, but the number of reliable conduits they want to work with are lacking from the Asian market," he explains.This is where experience and track record count. "We have been in Asia for 10 years, so European clients consider us as one of the options for accessing Asia," says Stauffer. "As we are European in heritage, we are also able to better understand their needs."

THE GROWTH OF GLOBAL WEALTH IN 2013 WAS DRIVEN BY EXISTING ASSETS



Source: BCG Global Wealth Market-Sizing Database, 2014

ASIA PACIFIC AND ITS NEW WEALTH WILL ACCOUNT FOR ABOUT FOR ABOUT HALF OF GLOBAL GROWTH THROUGH 2018

Source: BCG Global Wealth Market-Sizing Database, 2014

THE REALITY OF THE REGULATORY BURDEN

Perhaps the biggest challenge for wealth management firms across the board is keeping up with continued regulatory change. There has been substantial change in international regulation and compliance requirements in recent years. At the same time, there has been huge growth in the internationalisation of wealth. These two issues have collided within the Asian wealth management sphere, explains Nigel Rivers, global head of private clients at TMF Group. In turn, that has created more of a requirement for administration and compliance.

It has already become practically impossible – and definitely irresponsible – to ignore these issues, he says. “Banks which try to avoid or ignore the reality of the regulatory situation will not be able to succeed in Asia,” adds Leimer at LGT Private Banking.

Whilst the responsibility fundamentally lies with the owner of the wealth, there is still as an onus on financial institutions. For example, FATCA and related tax treaties are forcing banks to do business with clients they are comfortable with.

So banks have to ensure they are dealing with the right types of clients and that they understand much more about their customers and their background. Failure to respond to the requirements of FATCA carries direct consequences. It also creates substantial penalties for relationship managers (RMs) if they are not compliant. “Regulators [also] seem to be very focused on KYC, AML and client onboarding,” says Liew at Ernst & Young. “This is especially important for those banks which outsource these operations to consider.”

The risks associated with outsourcing, however, include how these banks are governing the security and controls. Further, ongoing tests for client investment suitability are needed, to make sure the models are robust, and that they stick to the processes that have been put in place on product scoring, customer scoring, and so on. Rivers believes that the increased level of compliance will be an ongoing burden, and predicts that with three to five years, there will be one system to govern compliance and reporting across the globe. Essentially, he says, the need of many governments to boost tax revenue will remain, driving their desire to implement procedures that create greater visibility and initiatives like FATCA.

On the flipside, there are also opportunities that come from this, such as potentially involving the opening up the market through initiatives such as mutual recognition and other funds passporting schemes, says Michael Thompson, head of wealth management for PIMCO in Asia ex-Japan. “Regulation is playing a big role in Asia in terms of how business is being conducted.” ■

THE FUTURE FOR WEALTH MANAGEMENT IN ASIA

TAN SU SHAN OF DBS DESCRIBES THE FUTURE FOR WEALTH MANAGEMENT IN ASIA BASED ON THE UNIQUE OPPORTUNITIES IT OFFERS DIFFERENT PLAYERS, AND WHAT A SUCCESSFUL FIRM MUST DO TO DOMINATE.

There are various dynamics emerging in the Asian wealth management space, according to Tan Su Shan in a recent interview.

While there was a large influx of players into the Asian wealth management space in the early to mid-2000s, the post-Lehman Brothers bankruptcy years was something that changed quite dramatically.

According to Tan, a lot of global players have realised that unless they have scale, a diversified geographical location such as Asia is often not the easiest place to try and break into.

She explains that the nature of Asia, as a hub of wealth creation rather than wealth preservation, is a large factor in this.

Therefore, if banks are not prepared to deal with clients whose portfolios can be quite illiquid, then Asia may not be a place for these marginal players to thrive.

Therefore Tan highlighted that these issues, combined with the rising costs of doing business in relation to HR and compliance, are weakening the position of marginal banks in the Asian wealth management space.

AN ASIAN OPPORTUNITY

Furthermore, she believes the opportunity going forward favours Asian-based banks. Essentially, for an Asian client, they prefer to use a bank that they feel really understands their needs. Tan believes that in terms of the scale of the potential for DBS' business, this opportunity is huge, propelled by two key factors.

First is the increase in numbers of Asian middle-class consumers. Asia Pacific today has a middle class population of more than 500 million and this is predicted to expand significantly, and triple by 2020.

The second factor is the rise of the Asian mega-city, creating demand for housing and infrastructure, and in turn pushing up consumption and wages.

BEING RELEVANT TO CLIENTS

In addition to capitalising on these trends, DBS is also focused on the importance of always being relevant to their customers.

This concept is vital for the bank's future says Tan, as customers in the past have been subject to banks which have tended to create products that weren't in fact appropriate for their clients. ■

Tan Su Shan
DBS Bank

A NEW FOCUS ON COMPETENCIES TO DEFINE SUCCESS

SUCCESS IN TOMORROW'S WORLD OF ASIAN PRIVATE BANKING WILL DEPEND ON AN ORGANISATION ENSURING ITS STAFF HAVE THE REQUIRED SKILLS AND KNOWLEDGE TO BRING A VARIETY OF OPPORTUNITIES TO CLIENTS YET IN A FULLY TRANSPARENT AND COMPLIANT WAY, EXPLAINS TEE FONG SENG, MARKET AREA HEAD, GREATER CHINA, AND VICE CHAIRMAN, PRIVATE BANKING, ASIA PACIFIC AT CREDIT SUISSE.

For organisations such as Credit Suisse, with a value proposition committed to private banking, Asia is a growth region not just in terms of volumes, but also profitability.

This is supported by recent results. Within the region, the bank's AUM has increased by more than 30% in the past two years to CHF129 billion (US$142 billion), as of the end of the second quarter of 2014.

"More importantly," adds Tee Fong Seng, market area head, Greater China, and vice chairman, private banking, Asia Pacific, at Credit Suisse, "we have achieved it while significantly increasing profitability, which provides us with a stronger base from which to continue to grow the private banking business sustainably."

The ultimate goal, he explains, is to achieve a scalable business model with a top-performing management team and an efficient operating platform in order to allow for aggressive expansion in the region.

These are essential as client requirements increase and the regulatory environment becomes more complex.

BREEDING THE RIGHT SKILLS AND CAPABILITIES

The continued growth in private banking in Asia has sharpened the spotlight on leadership skills, management and banker competencies as ever-more critical components of a successful and sustainable business.

Credit Suisse is trying to ready itself accordingly. For the past two years, for example, the bank has implemented what it calls a "Frontline Leadership Model" for its Asian private banking operations. This involves defining the career paths and responsibilities for all its frontline staff with distinct yet equally-regarded management and client tracks.

"The last 20 years has been all about relationships; the next 20 years will be about competencies," says Tee.

Tee Fong Seng
Credit Suisse

> "The last 20 years has been all about relationships; the next 20 years will be about competencies."

In 2009, Credit Suisse was the first in the private banking industry to launch a mandatory certification programme, called the Frontline Training and Certification (FLT) programme, globally for all its employees which have direct client contact.

The training focuses on a range of investment topics, from the advisory process and mutual funds to alternative investments and structured derivatives. Non-investment topics such as inheritance planning, and Credit Suisse's integrated bank platform and cross-divisional collaboration, model are also covered. "As the customer is becoming more sophisticated and requires more information in terms of the investment landscape, we need to be able to explain in detail the risks and help clients construct the most suitable portfolios," he says. Such technical competencies include, for example, product knowledge, suitability, tax and succession planning.

BUILDING A FUTURE-PROOF PLATFORM

Another key aspect of long-term private banking success is being able to meet the demands and realities of operating within today's regulatory and compliance environment.

Tighter regulations are challenging the growth of private banking by making it very costly to do business. "The systems to enable banks to cater to the obligations around tax transparency, for example, cost many millions of dollars, says Tee.

Yet this can be turned to a business advantage going forward.

While he says that current business volume doesn't necessarily justify what the bank needs to do to meet US FATCA requirements, the effort is necessary for future growth. "Whatever we put in place today for the purpose of US compliance will become relevant to ensure compliance for many other countries in the years to come," says Tee.

And not many banks can invest the sums needed to be in this position.

This also ties in to the need to focus on competencies. To make sure the bank is well-positioned to capture the growth while avoiding falling foul of the regulators, all client-facing staff need to fully understand all regulatory requirements and to fulfil compliance obligations for future clients, no matter where they open their accounts.

"With increasing moves towards automatic exchange of information among many countries, the level of transparency required in client information will continue to evolve," says Tee.

WINNERS AND LOSERS

The challenges the industry is facing also inevitably bring with them changes in the competitive landscape.

While Tee says that the large Swiss banks have no choice but to strive for growth within the private banking space they live and breathe, he predicts there will be some consolidation in the form of mergers and acquisitions among smaller players.

This is because of the high cost of doing private banking today, and the expected cost increases to come.

The demands of clients as well as the regulatory landscape also dictate the business model to a certain extent.

"It is a pre-requisite for the types of clients that exist in Asia that a bank can offer private banking, investment banking and asset management," explains Tee.

"The pure-play approach is only possible if that bank is genuinely a niche player," he adds. ■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HOW UBS IS SHAPING THE FUTURE OF WEALTH ADVICE

UBS WEALTH MANAGEMENT HAS BEEN PROACTIVE AND FORWARD-LOOKING IN RESPONSE TO THE WELL-DOCUMENTED CHALLENGES THAT IT – AND THE WIDER INDUSTRY – HAS FACED POST-2008. ITS FAR-REACHING TECHNOLOGY- AND PERFORMANCE-INSPIRED MODERNISATION PUSH IS ALL ABOUT STRUCTURED, CONSISTENT AND RELEVANT ADVICE, EXPLAINS GEOFFROY DE RIDDER, HEAD OF STRATEGY FOR WEALTH MANAGEMENT.

The starting point for the overhaul of UBS Wealth Management was identifying and accepting that things needed to change.

That the world's (arguably) most watched private banking player did this earlier than most has meant that today, more than five years later, it is at an advanced stage of a new way of delivering advice.

"UBS Wealth Management offers a significantly different proposition than it did in the past," says Geoffroy de Ridder, head of strategy for wealth management.

But the specific strategy at UBS for achieving this goal, explains De Ridder, has centred on high-quality technology solutions, recruitment of the right talent and excellent financial advice.

HARNESSING THE DIGITAL REVOLUTION

For some institutions in the wealth sector, technology is essentially a dichotomy of threat and opportunity, depending on how individual firms view it.

According to De Ridder, there is no choice for a leading player like UBS but

Geoffroy de Ridder
UBS Wealth Management

> "The key challenge is how we organise ourselves to enable entrepreneurship and foster a digital bank."

This is partly inevitable. In an age of fast-paced technological breakthroughs and an ever-changing regulatory environment, it is vital for large banks which are serious about retaining their competitiveness in the wealth management space to remain abreast of these changes.

to harnesses this game-changer. "The key challenge is how we organise ourselves to enable entrepreneurship and foster a digital bank, to ensure digital channels emerge to capture the opportunity in the market," he says. The requirement to embrace technology in this way has led to substantial investment and is a topic very high on the agenda of the chief executive officer of the wealth business.

The first part of bringing the digital revolution to life is serving current clients and growing with them digitally. According to De Ridder, this means: automating the advisory process; be-

How UBS Advice works in practice

It uses an innovative portfolio-monitoring system to analyse individual client portfolios against a set of pre-defined criteria on a daily basis to identify portfolio quality issues and propose customised investment opportunities.

The system automatically feeds through to each client adviser five alternative ideas for correcting any potential breach in terms of risk or strategy in the client's portfolio, or to provide an investment opportunity.

This aims to align client portfolios with their chosen investment strategy and UBS views on global market developments. This is a service that was previously only available to institutional clients.

UBS Advice is designed for clients seeking timely, personalised investment advice, who, at the same time, wish to maintain full decision-making power over their investments.

The service is available at a contractually agreed fee.

ing more proactive by sending clients investment ideas which are tailor-made to their portfolios; and alerting them if there are breaches either in terms of risk or strategy. "This is digitising a lot of what our client advisers and research team have been doing in the past," he says.

This is a journey being taken not only with clients, but also with advisers, he adds, so they embrace these changes.

The other component of the new digital world UBS finds itself in is how to engage the younger, next generation, given how these individuals use different channels to interact with peers and banks alike.

"We are assessing what we need to do to capture this opportunity," he says. "There is a lot of buzz but few banks have truly succeeded yet."

De Ridder's view about how to achieve it is refreshing.

"The only way to go is to test, to invest and to listen carefully to our clients' feedback," he explains.

> "While advice must be tailored to the specifics of the market as well as to the client's individual situation, it should be consistent across the globe."

A third pillar relates to the younger generation within the bank's existing client base.

"UBS Wealth Management needs to ensure that younger clients are attracted by our value proposition in the digital space," he adds.

SHAPING THE FUTURE OF ADVICE

Bringing together many of these components and reflecting the overall strategy of UBS Wealth Management today is UBS Advice (see box).

Launched in Switzerland in 2013, UBS Advice has since been rolled out in other parts of Europe, and in Asia in March 2014.

"This is essentially a promise to deliver to clients the best of UBS in terms of advisory and investment ideas," says De Ridder. "And we provide this in a contractual way."

This stems from the organisation's desire to ensure there is only ever one "UBS client experience", he says.

Plus, the bank believes it cannot differentiate if it doesn't provide investment performance for its clients.

This means shifting towards being paid for the bank's advice, rather than its execution capability.

"This is a challenge," says De Ridder. "To overcome it, we need to ensure we can bring the best information-gatherers and smartest people – both internally and externally – to the table. They then guide this knowledge through a structured process, elaborating on the strategic asset allocation for our clients."

The new advisory process also involves cross-referencing whether each adviser has understood the client's needs, risk profile, investment expectations and other elements of the interaction.

This is done through a systematic process supported by a tool that demonstrates a client's resulting investor profile. All training is focused on delivering consistent advice.

"While advice must be tailored to the specifics of the market and to the client's individual situation, it should be consistent across the globe," he adds.

ADVISING FAMILIES

Another of the strategic developments in the new UBS is the advisory overhaul it has implemented in the way it tries to monetise the opportunities in servicing wealthy families.

For example, it created its business global family office (GFO) out of what De Ridder describes as a "true joint venture", both in terms of people as well as P&L, between the private wealth unit and the investment bank.

Dedicated to the most sophisticated family offices, the set-up involves a specific unit with people from the investment bank sitting next to advisers from the wealth management division, allowing clients to directly access investment banking flows and solutions.

FACING UP TO REALITY

The swift response of UBS to industry challenges has been crucial to ensure the bank's leadership position in the wealth management space. The barriers to entry of this business are increasing on a daily basis, mainly from a regulatory perspective. The material increase in the cost of compliance has impacted every aspect of the business, he adds, and will affect P&L structurally going forward. De Ridder says this is not just a temporary drag but it should be seen clearly as the new norm for doing business in wealth management.

"Within the banks operating internationally, I believe that only large banks can afford to work within this environment," he says. ■

> "Within the banks operating internationally, I believe that only large banks can afford to work within this environment."

A VISION TO BRIDGE AND SIMPLIFY GLOBAL CLIENT NEEDS

PAUL HODES, MANAGING DIRECTOR AND HEAD OF WEALTH MANAGEMENT, CONSUMER BANK, FOR CITIBANK IN ASIA PACIFIC, IS BUILDING HIS PLATFORM TO BE ABLE TO PROVIDE A MULTI-JURISDICTIONAL SOLUTION TO DEAL WITH AND SIMPLIFY AS FAR AS POSSIBLE THE GROWING COMPLEXITY AND GLOBAL NATURE OF THE LIVES OF WEALTHY ASIAN CLIENTS.

The size and scope of the wealth management business in Asia requires institutions to identify those areas where they can truly differentiate themselves in a way that adds value to their specific target clients.

One of the clear mandates for Citi, for example, is making its advisory offering stand out, says Paul Hodes, managing director and head of wealth management, consumer bank, for Citibank in Asia Pacific.

"This comes down to the selection of products, in terms of which funds and managers are best-in-class, as well as ensuring we are really giving customised and tailored advice," he explains.

For Hodes, overseeing 14 businesses across 12 countries in Asia, as part of Citi Asia's US$250 billion in assets under management as of the end of April 2014 across Citigold, Citigold Private Client, and Citi Private Bank, perhaps the biggest challenge is doing all this in a consistent way.

STARTING WITH CLIENTS' NEEDS

At its simplest, the focus for any wealth management provider needs to start with how it can meet a client's most important financial goals in a way that is right for that individual.

Being able to achieve this, however, relies on identifying these goals in the first place, says Hodes. "In other regions of the world, investors are more likely to come to a wealth manager with a clearer idea about what they want," he says. This might include help with retirement planning, for example, or advice on how to plan for putting their children through university education. "Asian clients often haven't delineated these needs as specifically in their minds," he adds.

Paul Hodes
Citibank

> "In Asia, we have to better understand the clients' needs beyond their own desire to make money."

This is also partly to do with the limited of use of segregated accounts in Asia for specific needs – either mandated by the government or tax-protected


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like they have in the US and Europe. "In Asia, we have to better understand the clients' needs beyond their own desire to make money," says Hodes.

Only then is it realistic to determine the returns which are required and appropriate for a client's goals.

There are also potentially different considerations for Asian clients based on typical portfolio compositions.

It is this globality, coupled with the need for clients to have immediate access to their wealth – and potentially from any of 130 to 150 key cities around the world at any one time – which is driving Hodes' strategy for the future.

The goal, he explains, is to be able to capture every type of need that a client has, regardless of the point of entry with the bank, and then support that

> "It is not about building a branch on every street corner, but instead in the right places to service our target client base of individuals of a certain level of wealth and who are globally sophisticated, and where those clients need us."

For example, says Hodes, these individuals might need to consider a specific final goal within the context of how they balance it against their real estate holdings and the multi-currency loans involved in this.

POSITIONING FOR ASIA'S WEALTH FUTURE

Hodes has no doubts that the number of investors and clients will continue to grow at a similar pace as we are seeing now.

At the same time, however, with globality and the increasing complexities in the lives of many HNW entrepreneurs, portfolios will get more complex.

client 24/7, whether these requirements are complex or otherwise.

"It is not about building a branch on every street corner, but instead in the right places to service our target client base of individuals of a certain level of wealth and who are globally sophisticated, and where those clients need us," he says, "and then delivering, whether face-to-face, digitally or over the phone."

The final piece, he adds, is to connect all of this centrally to make it available to the relevant relationship manager.

They can then be fully aware of all these points of interaction and that there are no outstanding issues. ■

More client-focused product offerings

There has been a continued movement where products which have historically been institutional in nature have become available within private banking and increasingly in consumer banking.

As consumers become more knowledgeable and sophisticated, demand will drive this trend.

More than ever, however, there is demand from investors for transparency. "We therefore need to make sure all customers have the right understanding of the risks of the more sophisticated products they are seeking," warns Paul Hodes. "That means we have to ensure there is sufficient clarity within the products."

At the same time, Citi has specific campaigns in many of the markets in which it operates to wrap in a client's account the use of investments, credit cards and insurance products, to incentivise clients to build long-term relationships with us.

"We look at our clients holistically and it is certainly beneficial for the clients as well as ourselves for clients to have more diversified holdings with us," explains Hodes. "They stay longer and they're better protected."

COMPONENTS FOR PROFITABILITY IN ASIAN PRIVATE BANKING

KONG ENG HUAT, CHIEF EXECUTIVE OFFICER, SINGAPORE AND SOUTH-EAST ASIA AT EFG BANK, OUTLINES THE KEY DRIVERS FOR GROWTH AND PROFITABILITY IN ASIA, CITING AUM, ANNUITISED REVENUES AND MANAGING COSTS AS CRITICAL FACTORS.

According to Kong Eng Huat in an interview, the key growth drivers for private banking in Asia include AUM and annuitised revenues. And a strategy based on implementing these simple ideas can facilitate a consistent level of growth for institutions going forward.

MANAGING P&L

For Kong, the importance of cost controls cannot be under-estimated. A key component is banker's compensation. Banks must focus on getting the recruitment right and also ensuring the bankers are compensated appropriately.

In fact, he believes that to aptly manage costs there must be a correlation between the way in which advisers are compensated and their overall contribution to the bottom line of the business. He therefore advocates a reward system that is tied to net income of the banker. This would simultaneously incentivise the bankers.

Leakage is a real issue, and the cost of continuous recruitment via headhunting fees and sign-on packages is too high to enable these organisations to be profitable explains Kong. Mid-sized players should focus their efforts on getting their recruitment right. This includes outlining expectations clearly and ensuring that private bankers understand the culture and the platform that they are getting into.

Kong is also keen to stress the importance of annuitised revenue to profitability, especially in periods of market volatility. He further highlights the importance for mid-sized players of embracing open architecture, rather than trying to build it in-house.

The adoption of fee-based models in charging and advising clients will also enhance profitability, and he is certain that once clients and banks reach a fee level which is satisfactory for both parties, this concept will gain traction and become standard practice. As more banks promote fee-based models, clients will also become more receptive.

MANAGING COMPLIANCE

Kong also cites a positive and functional relationship with the compliance team as essential to profitability. It is a key goal for banks to remain compliant in line with changes in the regulatory environment. To do this, the management team must work in collaboration with the compliance team. This will help all stakeholders develop a risk-based approach workable for all. This approach must be coupled with a sensible approach to risk. Kong says it is vital to distinguish high-risk clients from the regular clients a bank wants to on-board, and ensure the correct level of due diligence is done. ■

Kong Eng Huat
EFG Bank

A NEW STRATEGIC ROADMAP TO DELIVERING FIDUCIARY SERVICES

IF FIDUCIARY SERVICES PROVIDERS CAN OFFER OUTSOURCED CLIENT ON-BOARDING AND WHITE-LABELLING SERVICES TO PRIVATE BANKS, THEN MORE TIME AND RESOURCES CAN BE DEDICATED TO THE CORE WEALTH BUSINESS OF ADVISING CLIENTS, SAYS PETER GOLOVSKY, MANAGING DIRECTOR, GLOBAL HEAD OF PRIVATE CLIENTS AT AMICORP GROUP.

The demand for long-term, compliant international trust structures to enable wealthy individuals to manage their assets on a worldwide basis is set to significantly increase.

And in determining how to best meet these needs, private banks continue to strategically review the future of their trust and fiduciary businesses – in line with a similar approach across all aspects of their business model.

Outsourcing and portfolio segmentation has become an option that senior executives are looking at closely, says Peter Golovsky, managing director, global head of private clients at Amicorp Group.

Key to doing this successfully, however, is the need for robust engagement and governance models around client on-boarding, product and structuring expertise across multiple markets and jurisdictions, and the ability to integrate discussions and solutions around key regulatory changes such as the Foreign Accounts Tax Compliance Act (FATCA).

"The growing regulatory pressures in respect of compliance are leading to ever-higher standards of administration and accountability, yet the costs of implementation are also creating a drag on profitability," says Golovsky.

While the burden has been increasing for some time, few firms have prepared themselves for the investment required. This is therefore forcing them to re-assess their appetite about continuing to maintain their internal fiduciary capabilities.

"Firms that have invested will gain market share because the business need for trust and foundation solutions is only set to grow," he adds. "In addition to the regulatory environment, clients will require a broader set of structuring capabilities, rather than purely trusts and trust administration."

A NEW MODEL

Given that only 5% of high net worth (HNW) individuals are estimated to be using trusts, there is clearly work to be done in raising familiarity with these types of solutions. And this is particularly the case in Asia Pacific.

"Most trust operators are seeking to push for business 'upstream', by increasing the minimum client wealth thresholds, or 'cross-stream', by including broader corporate trust capabilities with a wider geographical reach," explains Golovsky.

Peter Golovsky
Amicorp Group

While bank-owned trust companies are focused on the former, independent trustees focus on the latter, he says. "The basis for using traditional trust structures tends to be focused on asset protection and family succession planning rather than on tax planning."

According to Golovsky, there are two clear ways that experienced players such as Amicorp can support private banks in meeting the growing needs among their client base for trusts and other relevant structures. This is first, through strategic partnering and client on-boarding; and secondly, by white-labelled fiduciary solutions.

The difference between the two models is substantial. "With the former, a global fiduciary services provider such as Amicorp acquires an existing portfolio of trusts and clients from a financial institution – generally a private bank," explains Golovsky. "With the latter, the financial institution maintains its own sales force and branding for fiduciary products, whilst engaging a fiduciary service provider to set up and manage the underlying trusts, foundations or company structures."

More importantly, this also provides the financial institution with the ability to maintain a capital item on their balance sheet in the form of the shares in the white-labelled solution. "This approach is a developing business model that is likely to grow significantly in the coming years," predicts Golovsky.

DIFFERENT DRIVERS

In offering on-boarding or white labelling, Golovsky expects that some private banks will respond to cost savings, while others will respond to their proposition enhancement.

"By evaluating what is 'core' and 'non-core' from a business model perspective, private banks are increasing their focus on client segmentation, service delivery and product sourcing," he explains, "thus reviewing their underlying operating models for how they deliver fiduciary services.

This is also now a more realistic option for the banks, given the prevalence of open architecture platforms to meet increased requirements and product or solution gaps, offering a best-of-breed approach to trusts.

Further, adds Golovsky, the globalisation of private clients, as well as single and multi-family offices, is such, that they are increasingly requiring access to jurisdictional and product expertise on a worldwide basis, combined with the ability to handle bulk transactions.

"For many wealth managers it is simply not viable to offer these without a strategic partnership in specific areas of their proposition," he says.

Other "disruptors" which highlight the need for new approaches to tackling the need for external support include: the ongoing trend of some banks electing to exit the fiduciary business – in whole or in part – with select markets or select portfolios; M&A in the banking sector and banks exiting a market, which result in trust portfolios being offloaded or outsourced; demand for 24/7 delivery and access to an increasing number of fiduciary solutions; and the need for solutions which cater for non-bankable assets and include real estate and operating businesses.

"All these developments are positive, but while we also see continued consolidation in the trust industry we expect very few valuable acquisition opportunities," says Golovsky.

"This is why on-boarding and white labelling appears to be the best way forward for some providers to grow their business," he adds.

KEEPING THE PROCESS SIMPLE

Key to making such an outsourced offering viable, however, is to ensure the bank's clients are not subject to changes in the levels of service or fees. "What simply changes is the person they speak with in relation to the administration of their structures," explains Golovsky.

At the same time, the process sitting behind this is extensive. It includes non-disclosure agreements with the bank, memorandums of understanding and terms of engagement.

Going forward, there is a need to discuss terms and procedures with the bank on the on-boarding process.

Once agreements are reached and in place, the client engagement can commence, explains Golovsky.

That includes KYC, due diligence, legal documentation and the transfer of the trusts. IT set-up and e-filing is initiated, and the on-boarding process has been completed – the client is now in communication with the fiduciary services provider directly. ■

Trust facts

Scorpio Partnership research in June 2014 said that there are an estimated 475,000 trust structures globally.

- This means that under 5% of global HNW clients are currently using trust structures
- The expected annual growth of the trust market is estimated at approximately 10%
- There are several main types of trust operators, with margins and profitability under pressure: bank-owned; private equity-owned; and independent firms – including boutique operators as well as global players

IN SEARCH OF A FUTURE-PROOF PRIVATE BANKING MODEL

PRIVATE BANKING IN ASIA IS UNDERGOING A TRANSFORMATION. REGULATION IS CLEARLY DRIVING BIG CHANGES IN THE WAY THE INDUSTRY OPERATES IN TERMS OF KYC, CLIENT SUITABILITY AND CROSS-BORDER BANKING. BUT OTHER DYNAMICS RANGING FROM TECHNOLOGY TO COMPENSATION TO ADVISORY MODELS TO PRODUCT OFFERINGS ALSO PROMISE TO SHAKE UP THE LOOK AND FEEL OF THIS SECTOR.

According to a report by The Boston Consulting Group (BCG) entitled "Riding a Wave of Growth: Global Wealth 2014", the growth of global private wealth globally surpassed expectations in 2013.

Much like other industry studies, Asia Pacific ex-Japan posted the strongest growth in private wealth. BCG cites this increase was 30.5% (its nearest rival was Eastern Europe at 17.2%).

And the research predicts that Asia Pacific ex-Japan will overtake Western Europe as the world's second-wealthiest region in 2014, followed by it surpassing North America as the wealthiest in 2018.

But the banks nonetheless need to take action on multiple fronts if they hope to gain market share and ensure profitability is in line with the growth story.

"It will take more time to evolve the Asian private banking business into a more mature and professional business model," says Dr Francis Koh, professor of finance (practice) at the Singapore Management University (SMU), and concurrently vice provost (special projects) and director of the MSc in Wealth Management Programme.

Michael Blake

Coutts

"Relationships continue to define private banking, and I don't subscribe to the idea that the industry will transform away entirely from that"

In Singapore, for example, despite a big push by the government in the wealth management space in 2004, the local market only has around 10 years of real experience.

"As a result, there is a much more pronounced fight over clients, business, territories and revenue," says Koh.

CHALLENGING ECONOMICS

According to the BCG report, a key driver in the rise of private wealth in the Asia Pacific region has been strong GDP growth over the past five years, especially in China, India, and Indonesia.

Nonetheless, the economics for wealth managers have been challenging for several reasons.

First, says the BCG report, and in line with Koh's comments, virtually all international players have been vying for a slice of the wealth managed in offshore centres such as Singapore and Hong Kong, where competition is particularly intense.

Secondly, adds BCG, local commercial banks have entered the market, notably in the lower wealth bands of less than US$5 million, further raising competitive pressures.

In addition, the mounting obligations and requirements brought about by tougher domestic and international regulatory and compliance have led to significant time, attention, resources and cost. This has been the same for every institution, regardless of size, location or model.

There is an urgent need to reduce the operational burden. "As an industry, we need to prudently collaborate to find the right level of controls that private banks need – and how can we deliver that efficiently and in sustainable way over the long term," says Peter Flavel, chief executive officer of J.P. Morgan Private Wealth Management in Asia, the high net worth business of J.P. Morgan Private Bank.

This is exercising the minds of the very best people in the industry, he explains. "Many organisations are addressing this in a tactical way, yet the strategic solutions are still some way off being found."

Finally, says BCG, client-acquisition costs are extremely high, because RMs with the experience required to attract, retain and serve high-value clients are in relatively short supply, driving up compensation.

Vish Jain, partner and managing director at BCG, says that even the most effective private banks are making 15% pre-tax profit on AUM. And then there is the required investment from the banks in terms of technology.

This makes the potential for success about whether firms have the right model, he adds, and whether this will be able to withstand short-term pressures to enable them to survive and be in a position to see real returns. As part of this, deeper penetration of existing wealth is an important hurdle for the banks to overcome.

CLEAR DIRECTION AND COHESION

Despite various challenges, several trends are reshaping this landscape. First, the rise of onshore wealth, driven by in-country GDP growth, is generating additional pools of wealth which can be targeted with more attractive economics and a lower level of competition than in traditional offshore models, says the BCG report. "For wealth managers, the average pre-tax profitability of onshore business is nearly double that of offshore business."

In addition, private wealth is now flowing to second- and third-generation families and individuals. Such a shift is expected to favour a product mix that is less reliant on transactional capital-markets products and more centred on longer-term, recurring-fee products such as funds, discretionary mandates and wealth protection offerings.

Further, explains BCG, wealth managers in Asia Pacific have developed better collaboration models with adjacent businesses such as capital markets, investment banking and commercial banking. "A key consequence has been far greater opportunity to expand relationships with HNW and UHNW clients into other lines of business, thereby spreading the costs of acquisition and retention. We have seen revenues stemming from collaboration among business lines reach as high as 35% of total revenues."

Finally, technology innovations that enable benefits such as deeper segmentation, data-driven lead generation and management, and multi-channel integration, are paving the way for business models that foster enhanced RM productivity and profitability, adds BCG.

"Technology will enhance response times, provide more access to different products and services, and enable more active portfolio management," says Mandeep Nalwa, founder and chief executive officer of Singapore-based Taurus Wealth Advisors.

Yet while technology will of course play a bigger role, Michael Blake, general manager for Coutts in Asia, says it is

important to not under-estimate the continued importance for this sector of human contact. “Relationships continue to define private banking, and I don’t subscribe to the idea that the industry will transform away entirely from that,” he explains.

A big change he says he foresees is that the industry will focus more on wealth structuring and longer term asset management, which he adds will be facilitated by technology.

At the same time, private banking in the future will be much more competency focused, says Nalwa.

This is important insofar as private bankers in Asia have to date mainly just been RMs; they only manage relationships and in the process, they execute some trades and make money out of it.

For them to do real private banking, Steve Knabl, managing partner of Swiss Asia, says they need to bring real value to clients. “This includes having the competency to propose the right investments and effectively acting as a CIO for their clients.”

When people come to work with Swiss Asia, for example, they need to be able to sell products outside of their area of expertise and be able to conduct a certain amount of research on their own, explains Knabl.

Further, predicts Nalwa, the rising importance of the adviser will encourage banks to offer more fee-based models.

VYING FOR PREMIER STATUS

As Asia’s global wealth prominence increases, Singapore and Hong Kong continue to vie for status as the region’s private wealth hub. They have different strengths and their own strategic ad-

TOP 25 PRIVATE BANKS WORLDWIDE BY AUM

Global Ranking	Institution	AUM (USD billions)	Growth 2013	Reporting currency	Global ranking move
1	UBS	1,966.9	15.4%	CHF	-
2	Bank of America Merrill Lynch	1,866.6	12.5%	USD	-
3	Morgan Stanley	1,454.0	17.5%	USD	-
4	Credit Suisse	888.2	9.5%	CHF	-
5	Royal Bank of Canada	673.2	5.6%	CAD	-
6	BNP Paribas	395.1	11.4%	EUR	1
7	Deutsche Bank	384.1	13.7%	EUR	1
8	HSBC	382.0	-4.0%	USD	-2
9	JPMorgan	361.0	13.5%	USD	-
10	Pictet	338.1	12.0%	CHF	-
11	Goldman Sachs	330.0	12.2%	USD	-
12	Julius Baer	282.5	40.7%	CHF	3
13	Barclays	233.2	15.8%	GBP	1
14	ABN Amro	231.7	8.9%	EUR	-2
15	Northern Trust	221.8	12.2%	USD	1
16	Wells Fargo	218.0	7.0%	USD	-3
17	Lombard Odier	198.0	12.8%	CHF	1
18	Santander	196.5	14.9%	USD	2
19	Bank of NY Mellon	185.0	3.4%	USD	-2
20	Credit Agricole	182.0	5.6%	EUR	-1
21	BMO Financial Group	171.7	7.3%	CAD	-
22	CIC	141.8	-2.9%	EUR	-
23	Societe Generale	116.3	3.6%	EUR	-
24	Bank Safra Sarasin	115.6	22.3%	CHF	4
25	Citi Private Bank	112.3	10.2%	USD	-

Note: All results are rounded

Source: Scorpio Partnership Global Private Banking Benchmark 2014

vantages, for instance in terms of geography to service their neighbouring markets. But they try to position their offerings to be the go-to centres.

According to Gerard Lee, chief executive officer of Lion Global Investors, asset and wealth management play to Singapore's strengths, given that the nature of these industries requires more process-driven operations. "The claim to fame for Singapore as an international financial centre in 10 years' time will be a global leader in private banking – having closed the gap with Switzerland," predicts Lee.

A lot of the expertise that exists today in Singapore's asset management industry has come from several key developments, he explains: the formation of its own currency in the mid-1960s; the formation of the Monetary Authority of Singapore and Temasek in the early 1970s; and the formation of Government of Singapore Investment Corporation (GIC) in the early 1980s. "From the mid-1980s, these organisations encouraged employees to take the CFA exam, in turn creating a critical mass of educated talent," he adds.

At the same time, Lee says there has been a long history of overseas investment experience, compared with many other countries in South-east Asia and in North Asia.

Yet Koh at the SMU doesnt think Singapore is likely to replace Switzerland as a global private banking hub. "Singapore's strengths are more in serving clients in the South-east Asian region, while Hong Kong is more of a centre for China and North Asia. Europe will continue to be served by Switzerland."

What is clear, however, is that both locations boast key strengths such as their core industry structure, industry expertise and underlying client demand. Plus, the jurisdictions have both demonstrated their ability to adapt and change, says Blake. "That's an important reason why they are successful."

Singapore also remains particularly appealing to global players which want to access Asia's growth.

For Falcon Private Bank, for example, despite exiting its Hong Kong business in early 2014, it remains committed to Asia. Chief executive officer Eduardo Leemann says the bank is using its Singapore booking centre as the hub from which it will execute a targeted regional strategy. "We don't want to exit Asia, given the opportunities that exist in this region."

The strategy now, he explains, is to focus its energy and attention on growing its Singapore branch as its private banking hub in Asia. This is also aligned with Leemann's prediction for the importance of Singapore in a global context going forward. "In 10 years' time, Singapore and Switzerland will be equal in size as private banking markets," he says.

The principle behind Falcon'a decision to exit Hong Kong – by "introducing" clients and certain employees of its local branch to EFG Bank – is not untypical of what many private banks, at least those of a similar size and scale, either have already or soon will need to contemplate,

The decision, says Leemann, came after the bank carefully weighed up the opportunity cost associated with maintaining an operation that hadn't achieved what it had initially hoped.

The office served as a base for marketing within Greater China, and to access Taiwan and China. However, it had only reached about half of the US$3 billion internal AUM target to make it worthwhile. And instead of choosing to spend what Leemann estimated to be a required CHF20 million (US$21.8 million) to achieve long-term success – for instance, on people and other resources, or even to buy assets from elsewhere – it opted to invest this capital in Russia and Africa.

Indeed, at the time of the Hong Kong announcement in early 2014, Leemann said the decision supported a "strategic ambition to become a leading emerging markets private bank focusing our business exclusively on markets where we have a sharp competitive edge".

Kim Nielsen

Nordea Bank

"It is important to create a straightforward client experience, regardless of the regulatory requirements"

The bank is also channeling more global accounts into Singapore. "Our new model is that if a client wants to book in Singapore, then this client is handed over to the office so it is a locally-based account," explains Leemann.

Hong Kong, meanwhile, is trying to close the gaps.

In Hong Kong, the compliance and regulatory standards have helped make it a better place for clients and banks, as it is now accepted as a proper regulated financial centre, says Dr Henri Leimer, chief executive officer for LGT Private Banking Asia. "This is crucially important for banks like us to grow our business."

Gerard Lee

Lion Global Investors

"Asset and wealth management play to Singapore's strengths, given that the nature of these industries requires more process-driven operations"

Among its benefits, Hong Kong is the Southern gateway for entering and exiting China, explains Eleanor Wan, chief executive officer at BEA Union Investment Management. "With the new stock investment scheme, Hong Kong is well-positioned to capture the opportunities derived and also plays an important role in the capital market development in China."

One area Hong Kong needs to further improve, however, is the qualification of bankers, says Alan Luk, head of private banking and trust services at Hang Seng Bank.

However, he adds, it is only possible to encourage them to take professional development courses. "We cannot force them. [And] no banks will want to let their relationship managers go just because they are not qualified or do not have professional certificates."

Yet both Singapore and Hong Kong require greater scale. "The scaling-up of the market also needs to be supported by appropriate architecture," adds Nam Soon Liew, partner and financial services advisory leader for Ernst & Young in Asia Pacific. "When that happens, the image of Asia in general, and Singapore or Hong Kong as specific private banking hubs, will be further enhanced", he explains.

WINNERS AND LOSERS

According to BCG, local commercial banks are benefiting from current trends by leveraging several attributes to build more robust, relevant and alluring private wealth franchises: extensive onshore presence, enabling privileged access to new sources of wealth; existing customer relationships in other divisions of the group, permitting lower acquisition costs; and larger scale, raising the amount of investment that can be dedicated to enhancing both productivity and the client experience.

"Conversely, the other wealth management models are leveraging their product manufacturing, advisory and execution excellence to successfully position themselves," adds BCG..

According to Liew at Ernst & Young, there will be a small set of players which will either have scale, or a differentiated proposition or a combination of both.

At the basic level, banks need to deliver what they promise to their clients.

"If a bank's investment horizon is long term and its interests are aligned with those of its clients, then sometimes vanilla products can be effective, and there is no need to over-complicate the advisory process or try to offer more sophisticated products," says Kim Nielsen, general manager, Singapore branch for Nordea Bank.

It is also important to create a straightforward client experience, he adds, regardless of the regulatory requirements. "That includes being transparent in the offering so that clients don't have to worry about the price they are paying. From this position it is then more realistic for an adviser to build trust."

Also, adds Liew, there will be more non-financial services players in the wealth management space to add to the competitive landscape.

As the client base becomes larger, in line with growth trends and future expectations, Nalwa at Taurus Wealth Advisors predicts that independent firms broadly will increase their share of AUM in Asia from roughly 2% to 2.5% today to a much larger proportion.

But which model ultimately will be the biggest winner? The jury is still out. ■

GETTING TO THE FRONT OF THE PACK

MALIK SARWAR, GLOBAL HEAD OF WEALTH DEVELOPMENT, GROUP WEALTH MANAGEMENT AT HSBC, TALKS ABOUT THE APPROACH THE BANK IS TAKING TO POSITION ITSELF AS THE GO-TO WEALTH PROVIDER FOR EXISTING CLIENTS AND PROSPECTS ALIKE.

For HSBC, the concept of remuneration for its relationship managers (RMs) directly tied to client goals and needs is key to becoming the "primary adviser".

The HSBC compensation model fosters meaningful conversations between its RMs and clients, explains Malik Sarwar, global head of wealth development, group wealth management at HSBC.

"This enables them to provide advice which is genuinely in a client's best interests by helping them achieve their dreams and goals for themselves and their families," he says.

In short, this will help to protect and grow wealth in a more planned, sustainable way, says Sarwar, by following two main objectives: constant engagement in the service and needs discovery process; and providing more information to ensure decisions are properly thought through.

CLIENT TARGETING

Where many banks fall short is being unable to properly differentiate their services for the specific client segment they are targeting.

"Most clients tend to have multiple banking relationships," says Sarwar. "Every bank wants to be the primary adviser, but achieving this comes down to what the target market is and how you differentiate your proposition."

For HSBC, the target is an affluent individual who is a "global citizen across multiple jurisdictions" and is served under the well-known Premier brand across the globe.

A CLEARLY-DEFINED VALUE PROPOSITION

Supporting its service model to deliver on this, explains Sarwar, is a value proposition consisting of five "Ps" that form the offering aligned to the bank's market positioning.

The first "P" is proposition. Whenever a client walks into an HSBC branch, he says the firm is crystal clear about what value it can bring to that client through the needs discovery process and how to help them achieve their financial needs and goals.

The second "P" is people. "HSBC is always committed to the continuing skill enhancement of our RMs through a globally-managed professional development programme," he says.

Malik Sarwar
HSBC

The third "P" is planning.

For Sarwar, this is a process that involves both RMs and clients, exchang-

ing ideas to come up with the most suitable plan for a particular set of needs.

"For example," he says, "if a client is planning for their two-year old daughter's university tuition fees, the plan should be growth oriented. In contrast, if they are planning to retire in 5 years' time, it should be more income and safety of principal focused."

information on markets, products and professional education.

There is also the wealth dashboard, which enables clients to view their portfolio performance, transaction history and asset holdings online.

Further, the goal-based financial planning tool allows for planning life goals

"Where many banks fall short is being unable to differentiate their services for the specific client segment they are targeting."

The fourth "P" refers to wealth platforms. This involves an integrated platform for RMs and clients and has three discrete elements.

This includes a platform for the RMs that allows them to effectively manage the portfolio of clients, with updated

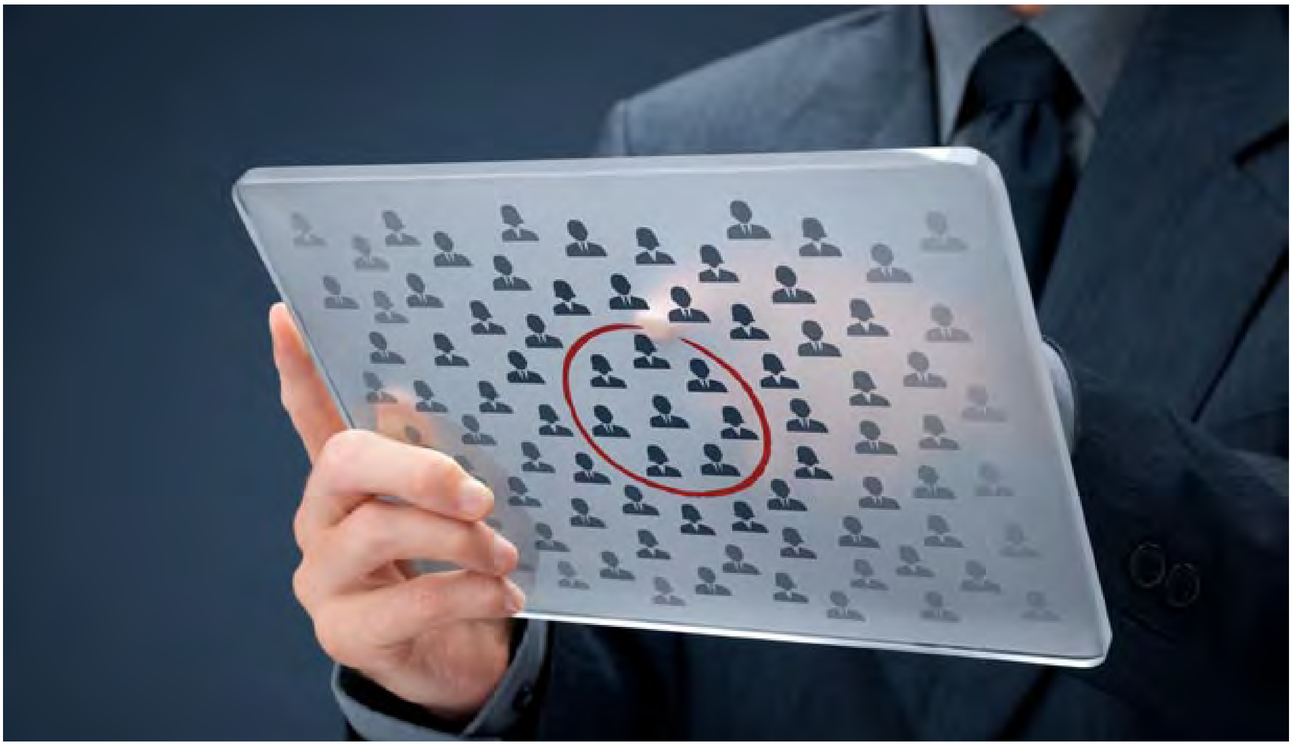
of protection, education, retirement, etc, adds Sarwar.

Last but not least is payout. This ties into the focus on remuneration to ensure clients are well serviced through an ongoing meaningful engagement, and their needs are fulfilled. ■

A new-look Premier

In May 2014, HSBC relaunched Premier, its flagship international banking and wealth management proposition for globally-minded affluent clients.

HSBC has reshaped its Premier proposition to better understand what's most valuable to its clients and as a trusted partner, help them take control of their personal economy – their home, family, work, passion and legacy – to meet their future aspirations. Premier provides clients with a dedicated relationship manager who through HSBC's new strategic financial planning tool can ensure they understand and cater for every aspect of their clients' needs, and help them set up a financial plan in line with their financial aspirations.



BNP PARIBAS MAPS OUT CLEAR ASIAN WEALTH PLAN

MIGNONNE CHENG, CHAIRMAN AND CHIEF EXECUTIVE OFFICER FOR BNP PARIBAS WEALTH MANAGEMENT IN ASIA PACIFIC, REVEALS HOW THE BANK HAS DEFINED SOME CLEAR OBJECTIVES AND A GAME-PLAN TO ACHIEVE THEM, TO MAXIMISE THE REGION'S WEALTH POTENTIAL.

BNP Paribas Wealth Management's presence in Asia Pacific spans several decades and geographies. Through its offices in Hong Kong, Singapore, Taiwan, China and India, it serves private banking clients from inherited to entrepreneurial wealth, and from conservative to aggressive investments.

But what it has achieved to date is just the start of what is likely to come within the region.

There is an expectation, for example, that by 2017 Asia will be on a par with the size and scale of the wealth in North America, and will have surpassed Europe, says the World Wealth Report 2014 by Capgemini and RBC Wealth Management.

And according to the same report, Asia Pacific is already a close second, with growth in the number of high net worth individuals of 17% in 2013 to reach 4.32 million, narrowing the lead of North America to less than 10,000.

"The wealth management business in Asia presents tremendous growth opportunities for all industry players, given the amount of wealth accumulation combined with low and simple tax regimes in most countries," says Mignonne Cheng, chairman and chief executive officer for BNP Paribas Wealth Management in Asia Pacific.

KNOWING CLIENTS BETTER

At the same time, the industry is developing a different look and feel about it. The biggest and probably most notable change is the regulatory environment.

The spotlight on transparency and the higher compliance burden has made everyone much more cautious that this industry is not without risk.

"People previously thought wealth management was a straightforward industry and that dealing with clients was much safer than in other financial services sectors," says Cheng.

Now, practitioners and institutions are very risk-conscious. This is especially true in emerging parts of Asia where the pace of wealth accumulation heightens the need to know clients as well as possible, and therefore they can avoid potential money laundering and other issues.

"It is important to know how they made their first million dollars," says Cheng. "That is not that straightforward sometimes."

Mignonne Cheng
BNP Paribas Wealth Management

While lending is also a key string to a wealth manager's bow, there is a need to be watchful of the potential risks. "Credit is often needed by Asian clients," she explains, but adds that while banks need to make sure they can get the right return when dealing with new markets, they need to closely analyse requests and suitability.

CLIENT-CENTRICITY AS KEY

The need to be closer to clients, and more knowledgeable about them, plays more than ever before in favour of BNP Paribas on the wealth side.

Indeed, the driving philosophy for the bank is client centricity, from onboarding to training to day-to-day conversations, explains Cheng.

In practice, that means trying to understand their needs and offering them products and solutions which suit their goals and risk profile.

But being client-centric is not just about mind-set, adds Cheng. "We need to have the tools and capacity to deal with ever-more demanding clients." And even that is not enough on its own. Everyone who works at the bank also has to know, understand and respect the rules when advising clients.

Part of this process, at the upper end of the wealth scale, for clients with US$30 million-plus in AUM, has involved the bank creating a key client unit, led by Anton Wong. This is to focus on developing the right capabilities as well as specific products to help clients enhance their yield in low interest rate environment.

In line with this, to train the relevant individuals to be able to service clients in this way, the bank brought in from the wider group an HR professional dedicated to the wealth management business. "Her job is to provide all types of training, for example on credit, product, regulation and compliance," explains Cheng. "She will also be responsible for doing relationship management certification at our campus in Singapore."

Cheng wants to set a standard where only when an RM passes the training can the bank be confident of them having the right skills to serve clients.

A CLEAR STRATEGY

Cheng is also more optimistic about the bank's chances of succeeding in today's highly-competitive and costly market due to its strategic focus.

She says BNP Paribas has made some specific changes to capture the region's growth potential. This is mainly defining a clear strategy about on which markets the bank wants to focus its energy.

"We rolled out our market approach a couple years ago, where we identified six markets, and picked the right individual to cover each of them. We will add a seventh soon by splitting one of these markets," says Cheng.

The key, she explains, is making sure clients are covered by the right profile of advisers.

"We also want to make our strategy much better known to our clients as well as potential hires."

To bolster its front office, the bank has been investing in a targeted recruitment plan. "We believe we need more salespeople to bring in clients, but we also recognise the need to strengthen our product platform, credit offering, and other key areas."

Yet that doesn't just mean the RM, but also team leaders.

Having a clear vision is also helpful in attracting new hires. "We already mapped out our ambition over the next few years," says Cheng. "And to deliver that, we have launched 13 projects – including client onboarding, product platform, technology, HR, and others."

Making the most of the opportunity

Mignonne Cheng says there are two key aspects of the wealth management industry as a whole that banks needs to be cognisant of if they want to make the most of the market opportunities.

The first one, is making sure everyone works together in the clients' best interests. Bankers cannot think about which products they want to sell to make revenue for themselves – and instead must be focused on the right products for their clients. "We need to be confident that we have done our jobs to manage client expectations by explaining to them all the up and downs of the products. Otherwise we will lose our credibility," says Cheng.

The other aspect of the industry in Asia that will determine its future success is the regulatory environment.

While this is out of the hands of the banks directly, they have to determine how to unlock opportunities in markets like China, India and Indonesia.

While these markets are still developing, as clients get wealthier they will start to need more advice, so the industry needs to work together to discuss with regulators how this can happen. "For example, we need to understand what the Shanghai Free Trade Zone means for what we can offer in terms of private banking products and services as international banks."

These get tracked on a monthly basis to ensure they are moving ahead, and the bank can make changes if necessary. "We don't have a crystal ball, so we have to be realistic and track our progress," she explains.

A key difference that Cheng highlights for BNP Paribas, however, is that the bank's goals are fully discussed, approved by management, and then they get documented.

INITIATIVES TO BUILD A TEAM APPROACH

Building a platform and culture to institutionalise client relationships is a key component of a sustainable wealth management offering.

A key characteristic of Asian private clients to date has been their desire to use their private banks simply for execution. That has largely been based on a mentality that has existed for more than 20 years since the industry started to develop in Asia, says Cheng.

A common concern among senior management in Asian private banking is the frustration that too many RMs still try to keep their clients all to themselves.

However, change is now being forced upon clients and bankers alike.

For example, with the world getting more transparent, clients need to consider where their assets are located and how they are structured. In addition, they need to be aware of opportunities in other parts of the world that their private bank might be able to introduce to them.

As a result, the focus for Cheng is how to encourage clients to seek more advice. "To achieve this, we want to make sure clients are served by more than one individual in the bank."

She is confident that two of the bank's key initiatives will be able to help address this problem.

These are: first, a specific focus on bringing more assets into discretionary mandates; and secondly, the introduction of the "investment counsellor" (IC) model.

With the first of these strategies, the bank is trying to encourage clients to give the bank more money to manage on a discretionary basis.

While around 40% of assets in Europe are in discretionary portfolio management (DPM), in Asia that figure is roughly 10% to 12%, says Cheng, highlighting the growth potential.

In addition, she adds, while clients used to question why they should give their bank a fee to manage their assets, post-2008 they realise they can lose a lot, and quickly.

"As the DPM business grows, this will in turn help clients become more professionalised," says Cheng.

The rationale for the IC model, meanwhile, is that instead of clients being covered just by an RM, the ICs will develop their own book of business.

"When we started this approach three years ago, ICs covered 2% of AUM," says Cheng. "Now it is 24%."

As this AUM grows, her expectation is that it will encourage clients to embrace the team concept – which will ensure they are not entirely dependent on the RM.

BEING MORE CREATIVE

A further challenge for all banks is coming from the broader investment environment and market volatility, leading to a large number of clients preferring to stay on the sidelines for the time being.

"We need to be more creative and to offer more innovative products," explains Cheng.

To achieve this, BNP Paribas has been partnering with the corporate and investment banking divisions to offer what Cheng calls a "total solution" to clients, especially in terms of derivative structures.

"This provides a point of differentiation from competitors which have not had a clear strategy for Asia, or lack the ability to offer an integrated approach," she explains.

Connectivity is also critical to the success of the upper end of the bank's client base – which is also its fastest-growing segment.

"The needs of these clients are very different," says Cheng.

"They operate like an institution. For example, they might want to invest in property in London for US$200 million. So we cannot serve them in the same way as the rest of our client base."

This requires them to utilise other areas of the bank, making the support network is a competitive advantage, says Cheng.

"We see encouraging results since the last quarter of 2013."

The interest in making the most of this connectivity is mutual.

The corporate and investment banking arm is also a source of business revenue for the wealth management business, adds Cheng. "We don't just introduce clients to them; we also rely on them referring clients to us." ■

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WEIGHING FAMILY OFFICES AGAINST PRIVATE BANKS

FAMILY OFFICES ARE BECOMING MORE AND MORE APPEALING TO ASIA'S MILLIONAIRES, TO MANAGE, PROTECT AND GROW ASSETS IN A DIFFERENT WAY THAN THEY HAVE BECOME USED TO FROM THEIR PRIVATE BANKS, SAYS STEWART ALDCROFT, SENIOR ADVISOR, ASIAN FUND MANAGEMENT, AT CITI, AND CHIEF EXECUTIVE OFFICER FOR CITITRUST.

Asia's wealthy are allocating more and more of their liquid assets into direct investment opportunities via family offices – and away from under-performing capital markets instruments through their private banks.

By extension, says Stewart Aldcroft, senior advisor, Asian fund management, at Citi, and chief executive officer for Cititrust, these clients are starting to ask questions about the value of their private bankers.

WEIGHING THE OPTIONS

A variety of factors have diverted the attention of high net worth investors from traditional investment products.

Equity investing, for example, hasn't been particularly high on their agenda recently, mainly due to China's poor performance. At the same time, fixed income seems to have passed what Aldcroft calls its "heyday", and hedge funds struggle to regain traction. ETFs, meanwhile, tend to be most popular among institutional clients.

As a result, there has been growing interest in family offices in Asia, in line with the desire of clients to embrace direct investments. "They are not closing their private banking relationships, but extending those that they already have," explains Aldcroft. "Even though family offices will continue to work with the banks, they are also expanding their own offerings."

This trend has seen bigger players like multi-family offices look to hire more senior industry practitioners from private banks, he adds.

And by giving wealthy families direct access to first-hand knowledge and information, they can negotiate directly with product manufacturers and investment firms for better terms.

While supportive of this model, however, Aldcroft says it pays to be prudent; multi-family offices can't do everything for a family and clients would be wise to diversify their investments and other risks.

Other wealthy families in Asia, meanwhile, simply want to maintain control of their money via family offices.

This is where smaller family offices come into play, says Aldcroft. They are often designed to protect a family's cash-related assets, since much of wealth in Asia is still tied up within the family business, and is often highly illiquid, he explains.

Stewart Aldcroft
Citi

For these smaller family offices, therefore, wealth preservation, together with avoiding significant losses, are key objectives, he adds. ■

MAKING THE CASE FOR FAMILY OFFICES IN ASIA

THE NUMBERS OF SINGLE AND MULTI-FAMILY OFFICES IN ASIA ARE SLOWLY INCREASING IN LINE WITH THE NEED TO SERVICE AND MANAGE THE GROWTH IN FAMILY WEALTH. BUT THERE ARE COMMON CHALLENGES AND CONSIDERATIONS IN STRUCTURING AND RUNNING THE OPERATION – FROM INITIAL SET UP TO ASSET ALLOCATION TO ENGAGING ALL TYPES OF SERVICE PROVIDERS.

The penetration of family offices in Asia is low and disproportionate to the rapidly-growing size of both the wealth pool and need to manage family wealth. But there is no doubt about the size and scale of their potential.

Published data points to an estimated 3,000 single family offices (SFOs) globally, with only around 100, or 3%, in Asia Pacific, managing US$1.2 trillion.

At least half of them were set up only in the last 15 years, suggesting that the concept of a family office is still relatively new.

Other factors support Asia's attractiveness. "To set up an SFO, the amount of family wealth under management is generally at least US$100 to US$150 million," explains Bernard Fung, head of family office services and philanthropy advisory at Credit Suisse Private Banking in Asia Pacific. "The Credit Suisse Global Wealth Report 2013 estimates that there are close to 34,000 ultra high net worth individuals (UHNW) globally with more than US$100 million in wealth, with 25% of these or more than 8,400 in Asia."

Yet, he adds, only 3% of existing global SFOs are in the region.

Bernard Fung
Credit Suisse

"More of our UHNW clients... increasingly need advice on structuring their wealth and management of liquidity for the next generation"

That Asia's potential for family offices remains largely untapped and that the evolution has happened lowly to date is of little surprise. Creating the right model takes time, especially as challenging geo-political, regulatory and investment environments continue. Appetite, however, is strong, so the number and level of sophistication of SFOs are growing rapidly.

Families also need to think about governance and structure of the family wealth. "UHNW clients with specific wishes should consider putting together their own structure but using external advisers and service providers as appropriate," says Richard Grasby, partner and head of trusts and private wealth for Maples and Calder in Asia. "This may include private trust companies, family fund vehicles and family wealth management entities."

A GROWING ROLE FOR FAMILY OFFICES IN ASIA

More specifically, as families in Asia become wealthier and more interna-


COMMITTED TO YOU

Philippe Legrand
London & Capital Asia

"Clients... are looking for a partner that can understand and help with all their multi-faceted needs, especially when those are not purely banking related"

tional in assets, mind-set and ambition, they need much more relevant solutions relating to estate, tax, legal and financial planning needs and expansion, leading eventually to generational wealth transfer, as well as global custody, liquidity events and the ability to access the capital markets as well as other corporate finance opportunities.

And especially for the next generation, they generally doesn't want to deal with the same advisers their parents have. They want to cut their own path, says Andrew Hendry, managing director of M&G Investments in Asia.

"They have grown up in different way than their parents did, so their mind-set is different,“ he explains. "This might mean that they don't want to adopt the same portfolios, but rather create their own. I've seen second-generation HNW clients with MBAs who want to leapfrog the basics of wealth management."

They also need the benefits that come from a central unit managing the family's personal affairs, philanthropic activities, book-keeping and possibly even support services such as the management of art collections, planes, boats, properties and other assets.

Although wealthy families invariably have arrangements of one form or another in place to look after their wealth and personal affairs, these tend to be made up of an informal grouping of some family members and staff that operate within the family business management office.

However, such informal organisations create several challenges over time.

First, explains Fung at Credit Suisse, business staff also involved in the private matters may be distracted or not always be able to prioritise between family and business duties. Secondly, dividing or segregating information to make sure no one person "knows everything" still requires at least one person to be able to manage the complexity, he adds. "This may potentially create disparate information silos that are less than desirable, and the risk of something unforeseen happening to the person with the 'full picture'."

Families also often find that such organisations react to changes rather than proactively anticipating them, and may not readily keep pace with the increasing complexity as the family and its wealth grows – or as the business or family circumstances change with the family's lifecycle.

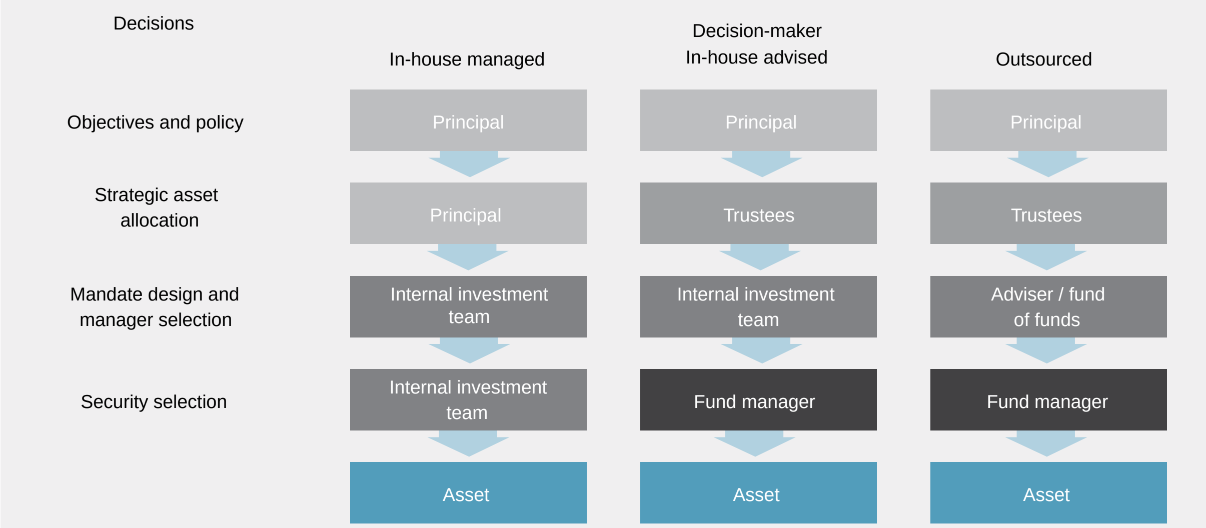
"Family offices facilitate a more professional and organised management of assets," says Shanker Iyer, founder and chairman of Iyer Practice Advisers, Singapore & Hong Kong. "They can also be effective in educating the next generation on wealth and succession planning."

For example, the emergence of the family office concept in Asia breaks down typical barriers where the private banker caters for the liquid "nest egg"

Richard Grasby
Maples and Calder

"UHNW clients with specific wishes should consider putting together their own structure but using external advisers and service providers as appropriate"

ILLUSTRATIVE FAMILY OFFICE DECISION-MAKING PROCESS



Note: The lighter the shade, closer are the principal-agents. Deeper shade indicates higher level of principal-agent concerns.

Source: World Economic Forum, Future of Long-term Investing, 2011

created from the enterprise while the corporate banker handles the family business and its balance sheet needs.

"Clients don't have such a clear segregation and are looking for a partner to understand and help with all their multi-faceted needs, especially when those are not purely banking related," explains Philippe Legrand, chief executive officer of London & Capital Asia.

Particularly in Asia, where many family businesses continue to grow vibrantly, Fung adds that business owners may find it hard to manage family financial assets and run the business at the same time.

"The family's wealth may also become the business," he says. "For example, when the family no longer fully controls management or ownership because of new private or public investors; the family office can enable the family to interact with the business in a manner that strengthens the perception of good governance."

The family office may also provide a focal point for the family to continue to work together on other new business or non-business enterprises.

So if a family office can relieve the administrative burden for the family, the wealth owner might develop a systematic way of organising the family's increasingly complicated lifestyle and freeing up time to pursue personal interests and passions, says Fung.

In line with these benefits, as familiarity with family offices improves, it is less likely to be about investment-centric or succession-centric family offices, and more value-centric.

That brings both worlds together and can create sustainability.

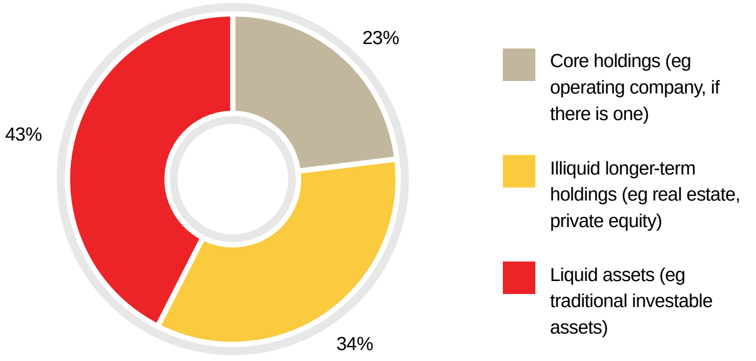
Fung says there are other less easily quantifiable advantages of family offices – but arguably of equal if not greater value: strengthening the family unity; a fuss-free generational transfer of stewardship over business and wealth; and preservation of the family's legacy and enhancement of its reputation.

FAMILY OFFICES FOR THE RIGHT REASONS

Making the case for a family office is not always as clear-cut as the demand gap might suggest it would be.

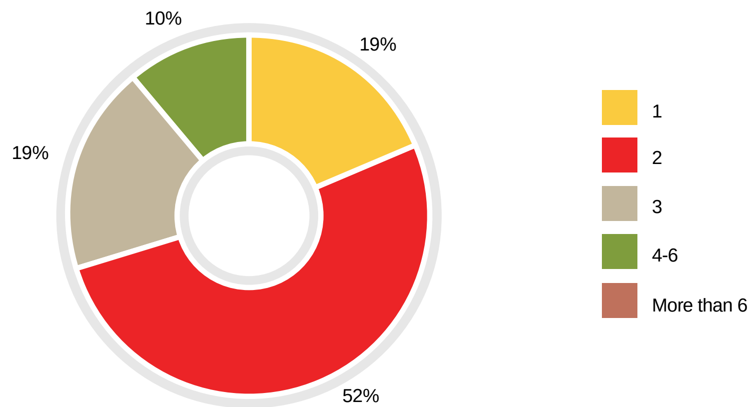
There is danger that clients think that an SFO – or a multi-family office (MFO) – is right for them based on the wrong drivers. They are not just a fad. Instead, they require detailed planning, clear commitment and the involvement of multiple stakeholders and external advisers at each step of the process.

AVERAGE DISTRIBUTION OF THE FAMILY'S TOTAL WEALTH



Source: The UBS/Campden Wealth Asia-Pacific Family Office Survey 2013

NUMBER OF FAMILY GENERATIONS SERVED



Source: The UBS/Campden Wealth Asia-Pacific Family Office Survey 2013

A family office (synonymous with SFO) is an organisation that manages the wealth and personal affairs of a family or several branches of that family.

Besides managing and investing the family's wealth, it also plans for that family's future in a multi-generational sense, deals with tax, legal and estate planning, preparation of the next generation, philanthropic activities, bookkeeping and may even go as far as providing supporting services such as the management of art collections, planes, boats, properties and other assets.

Families and their advisers must answer several questions to determine the best approach. These include:

- Why should a family set up a family office? Is this relevant to this particular family?
- What are the different types of family offices? Which of these is best suited to this family?
- What services are generally best performed in-house, and which should be outsourced?
- How are family office professionals most effectively recruited and managed?
- What needs to be included in a family office business plan?
- What are the different stages involved in setting up a family office? How can these be assessed along the way to ensure relevant and best practice?
- What are the major risk areas, and how can these be managed?

This is easier said than done properly. Plus, there are many different views on what the term "family office" actually means in Asia.

"Family offices can range from a professionally managed entity to an informal arrangement run by the family," explains Iyer of Iyer Practice Advisers.

Asset size tends to be the main differentiation between SFOs and MFOs – the two more formal types of family office. However, many MFOs are mainly focused on investment and are effectively fund managers, says Iyer.

Ultimately, the type of family office depends on what services and products clients want and need – for example, whether these relate to tax and estate planning or to property management, rather than them being just for investment management.

"As complexity of a client's needs and wealth increases, then this overrides asset value as the determining factor," explains Iyer.

He also highlights some pitfalls of having a family office.

"[These] include the administration cost as well as the resultant lack of

Trends to shape the development of family offices in Asia

- **Family businesses run by a multi-cultural next generation** – the influence of second and third generation children, who often have grown up in one culture, studied abroad in another and lived in a third, will result in families more open to new ideas such as venture capital, philanthropy and social entrepreneurship
- **The rise of family offices for mainland Chinese families** – these are likely to have unique attributes such as a focus on tax and risk management, especially relating to their personal safety as well as political risk
- **Private equity appetite** – there is likely to be, more than ever before, a greater number of private equity products and private investments backed by a single or multiple families
- **Family offices from new perspectives** – there will be a wave of entrepreneurs who will be successful through the service, technology and hospitality industries

Shanker Iyer

Iyer Practice Advisers

"Family offices facilitate a more professional and organised management of assets"

confidentiality as the family office staff become increasingly aware of the family's total wealth."

It is notable that Singapore has benefited specifically from an increase in the number of wealthy individuals from abroad looking to relocate to set-up various robust structures to manage their wealth.

This is aligned with Singapore's growth as a centre for private wealth and an attractive tax regime, explains Iyer of Iyer Practice Advisers.

"Foreign professionals, typically with a banking background, have increasingly set-up MFO-type structures to provide wealth management solutions to relevant clients in South-east Asia," he says. "There has been a corresponding increase in law firms and trust companies to support this activity."

This is also a part of the wealth management business that is becoming increasingly important to private banks.

It is a core offering for UBS Wealth Management, for example. "We have invested significantly in meeting the needs of our clients as they look at preserving wealth and building a legacy for themselves and their future generations," says Yan Lau, head of family services for UBS Wealth Management in Asia Pacific.

UBS launched its "Global Family Office" service globally in 2010 to focus primarily on its 250 largest institutional-like or professional family office prospects and clients, who represent around 2% of its total UHNW client base around the world.

"Our family services unit provides expertise on philanthropy, family legacy building, wealth planning and other non-financial services," adds Lau.

Meanwhile, Credit Suisse held a forum in Hong Kong in mid-2014 for 150 attendees from both established and emerging SFOs from Asia Pacific and Europe – a unique event for the region of that scale.

Yet it was a response to the demand from a growing number of emerging Asian SFOs for peer-to-peer sharing of best practices, addressing common challenges and provides a unique network and exchange platform. The bank set up a family office services and philanthropy advisory team in Asia Pacific in 2011 as part of its Solution Partners unit within the private banking and wealth management business – to work closely with the bank's investment banking division to originate, structure and market customised solutions for UHNW clients. ■

CLIENT CONNECTIVITY CORE TO DEUTSCHE'S WEALTH PROPOSITION

AS THE GROWING IMPORTANCE OF REAL MONEY IMPACTS THE DYNAMICS OF WEALTH MANAGEMENT IN ASIA, ONE CLEAR OBJECTIVE IS DRIVING DEUTSCHE ASSET & WEALTH MANAGEMENT'S STRATEGY AND SEGMENTATION IN TERMS OF THE CLIENTS AND GEOGRAPHIES IT TARGETS – RELEVANCE.

Brand, product and client positioning have become critical components of wealth management success in Asia as the nature of the business continues to rapidly evolve.

In five to 10 years' time, for instance, it is unlikely that the industry will look much like it does today – in terms of how technology is used and how banks interact with clients. Plus, more consolidation seems inevitable.

Being more rational and targeted about which markets and segments to be in, therefore, is vital to ensure sustainability and profitability.

For Deutsche Asset & Wealth Management (DeAWM), the focus is not AUM, but rather relevance to clients through the right level of engagement.

"The more assets a client has with DeAWM, the more relevant DeAWM can be to them," says Anurag Mahesh, head of wealth management coverage for DeAWM in Asia Pacific. "This is not just in terms of their wealth management needs, but also across their corporate, capital-raising and trading requirements. These UHNW clients are also the fastest-growing wealth segments within Asia."

FINDING THE RIGHT MEASURE OF SUCCESS

Despite traditional financial indicators that many wealth management organisations use as benchmarks, DeAWM has no interest in adding relationship managers (RMs) just to bring in AUM.

"I am not sure that a single-minded focus on bringing in AUM leads to a sustainable business in the long run," explains Mahesh.

"It is more important to be relevant to the clients in the segment that you have chosen to focus on," he adds.

Success is also about avoiding segments where the institution cannot add value, he says. "Not doing something is sometimes more important than doing something which might have a negative repercussion on the brand."

"Given the focus among Asian clients on wealth creation, this plays to the bank's capabilities to help entrepreneurs and families with a combination of their corporate and private wealth needs," says Lok Yim, head of wealth management coverage for DeAWM in North Asia.

Anurag Mahesh
Deutsche Asset & Wealth Management

The bank's clients are looking to get access to other parts of the institution, says Mahesh.

"Our RMs are able to connect other parts of the organisation, while being aware of where we are able to help clients in the way that they might need," he explains.

DeAWM - at a glance

- 175,000 clients serviced from around 140 locations across APAC, Europe, and the Americas
- ≈1,000 relationship managers dedicated to private individuals and high net worth clients
- Eur279 billion assets under management for private clients (as of December 31, 2013)
- Comprehensive wealth management services to investors with in excess of Eur2 million assets

These services include:

- Customised investment advice and products
- Lending solutions
- Wealth planning
- Corporate finance partnership

Ultra high net worth (UHNW) clients are looking for bespoke solutions, adds Kin-Mun Kwong, head of wealth management coverage for DeAWM in South-East Asia. "The typical UHNW family is served on average by four to five private banks, but those organisations which can provide the private investment banking activities will win the largest mandates," he says.

These clients now also have a much better awareness of the differences in the quality and strengths of various players, he adds.

While local banks are useful for these clients for lower-cost lending and accessing funds, the real value to anyone within the UHNW category comes in terms of private equity and more structured financing.

"This means focusing on servicing clients' needs in relation to non-flow structured solutions," adds Yim, "such as cross-border lending and single-stock financing."

DELIVERING ON THE PROMISE

Banks who can work in a seamless way to tap global resources internally will forge ahead in today's environment, says Kwong.

Other players will increasingly struggle to deliver and execute in the way clients want and need.

Yet DeAWM is also very much aware that the toughest aspect of one-bank delivery is internal.

That is to do with how banks are organised, and whether a bank is predominantly a wealth franchise or otherwise, says Mahesh, adding it is also driven by the the firm's overall strategy.

In practice, it has created key client and corporate finance partners to ensure that it can deliver the most relevant content to them through the RM.

In terms of risk management, for example, it is becoming increasingly important to help clients access solutions. And these clients are more and more focused on managing risk alongside enhancing returns.

"They realise that their businesses are exposed to similar economic and business cycles, so they want to address these issues," says Mahesh.

DeAWM can help them do this in two key ways, he explains.

First, it can help its clients access capital market instruments to mitigate risk embedded in their portfolios. And secondly, it can help connect asset management expertise in a seamless fashion now that it is integrated within the wealth management business, which then enables clients to access solutions around alternatives, real estate or fund derivatives.

Lok Yim
Deutsche Asset & Wealth Management

"This is something unique to us as an institution and enables us to monetise various requirements of the types of clients we target," says Mahesh.

It can also create solutions based on global needs, adds Yim.

"For example," he explains, "there has been a focus on being long on the RMB for the past two to three years, but now CFOs in China realise that they need to start hedging that FX risk as their businesses start to go global."

Banks without an asset management, investment or corporate banking capability, or institutions which lack in-house experience in terms of providing derivatives on funds or alternatives, are likely to find it more difficult to compete at the upper end of the wealth spectrum.

"The supermarket approach of wealth management of the past, following the everything-to-everyone model, is no longer viable," says Mahesh.

The concept of charging clients fees then becomes a reality.

"This only becomes a relevant conversation when you start to provide a value-add for clients," adds Yim.

IMPLEMENTING THE SEGMENTATION STRATEGY

Mahesh highlights three key components of creating a sustainable and profitable business: branding in terms of what the organisation stands for; technology in terms of delivery and execution; and product in terms of diversification and risk mitigation.

"Brand is increasingly important," he says. "We have a brand that stands for innovation and for being solution-oriented in a bespoke way. Asian clients can connect with this."

To build on that, however, execution is 99% of the strategy.

"We need a robust platform, which means the right technology, and the right people, and we are investing heavily into this globally," he adds.

In terms of the product infrastructure, Mahesh sees some change in relation to the previously-accepted view that Asian clients want to be in charge of their wealth.

Instead, a meaningful strategy is to focus much more on annuity products, providing the potential for risk mitigation through diversified building blocks of ETFs, mutual funds and derivatives solutions around these.

In addition to wealth bands, DeAWM is also focused on geographies where it can be most relevant to clients.

From a South-East Asian perspective, for example, Indonesia is still the key market, reveals Kwong, then followed by Singapore.

"Having onshore branches across the region for the institutional business helps with the brand among clients," Kwong adds.

PRIORITISING OBJECTIVES WHILE STAYING PROFITABLE

Meeting the various needs of a wealth management business today is a big challenge for everyone, but at least it is a level playing field.

Today's environment is not about generating business, but rather doing the right thing for the client.

"This message comes from our board, so having it set from the top down helps us drive the business forward," says Kwong.

It is no longer, therefore, about product pushing.

Ultimately, RMs have to change their mind-set and embrace this approach because these are the new rules of the game, he says.

Indeed, the crux of the type of business DeAWM is targeting from a wealth standpoint continues to be RMs.

"I have learned over the years that driving them into being pure salespeople creates short-term thinking," explains Kwong.

Kin-Mun Kwong
Deutsche Asset & Wealth Management

"We need to build on the bank's strengths, rather than driving the bankers too hard if they are already performing at a high level where they can maintain good levels of profitability," he says.

Retaining RMs is also about treating them fairly and providing a platform and framework to facilitate their ability to do a good job for their clients.

"We think from the banker's perspective in relation to our product platform," adds Yim.

This means in terms of what support the firm needs to give to that banker and how it can help connect clients to other parts of the business, not necessarily sell anything directly.

The quality of its people are a key success factor given this strategy. "The focus is productivity rather than headcount," he adds. "People are very important in servicing this segment." ■

HOW TO CREATE A CLEAR STRATEGY FOR LONG-TERM SUCCESS

PRIVATE BANKING IN ASIA TODAY FACES A HEAVY REGULATORY BURDEN, A HIGH COST BASE AND EXPECTATIONS OF MORE INDUSTRY CONSOLIDATION. TO BE PROFITABLE, INSTITUTIONS NEED TO BE FOCUSED ON THEIR STRENGTHS, ON BEING EFFICIENT AND ON BUILDING AND MAINTAINING A SOLID PLATFORM, SAYS DR HENRI LEIMER, CHIEF EXECUTIVE OFFICER FOR LGT PRIVATE BANKING ASIA.

Making private banking profitable in Asia is far more difficult than many people might think.

There are some obvious challenges – and costs – stemming from the broad regulatory and investment environments, and these impact all participants. But it is how an individual institution responds to these, and how it builds and positions its overall offering and platform which will determine its sustainability as a viable business in the region.

Yet Asia is not an easy market in which to succeed.

"A relatively large number of players have been investing in their Asian business for the last 10 to 15 years to achieve this, and still don't make a profit," explains Leimer.

GETTING THE BALANCE RIGHT

Too often there is a mis-match between an organisation's assets under management (AUM) and the size of its operations. Over-capacity often comes from a lack of systems, processes and an efficient organisational mind-set, making a healthy balance between assets, returns and costs less feasible.

In Leimer's view, banks with US$10 billion in AUM or lower are less likely to be profitable; those with US$15 billion-plus have a better chance, he says.

That is assuming they can keep costs of people and processes under control.

Further consolidation in Asian wealth management, therefore, seems inevitable, he adds.

Henri Leimer
LGT Private Banking

> "The starting point for any organisation serious about succeeding in this space is having a good asset base and a solid platform. Those components will lead to healthy revenues, and that will guarantee profitability."

According to Dr Henri Leimer, chief executive officer for LGT Private Banking Asia, the starting point for any organisation which is serious about succeeding in this space is having a good asset base and a solid platform. "Those components will lead to healthy revenues, and that will promote profitability," says Leimer.

It is certainly a concept that is now increasingly discussed, especially since the announcement of the Societe Generale sale of its Asian private banking assets to DBS Bank.

Leimer points to that as a wake-up call for other banks. "It only takes one player to be a first-mover, and others will quickly follow."

After all, banks need to make rational decisions. For example, in situations where a private banking business comprises less than 1% contribution to the overall group's profit, it becomes hard to justify any management attention.

Yet there is often a lot of time, energy and resources spent on building a platform and proposition in Asia.

"I think a lot of international private banking players will go back to their home markets within a few years' time," predicts Leimer. "Then they can be competitive in those areas of their business, in their home markets, where they have a stronger, clearer value proposition."

CREATING A PATH FOR SUCCESS

Sufficient scale and a solid platform are also required in Asia to ensure the required level of tailoring of the offering to clients' needs.

This is getting more important as the Asian client base continues to increase in terms of sophistication, says Leimer. "Private banks need to cater for all private clients – not only for those who want to trade, but also for those focused on asset allocation and discretionary mandates," he explains

This relies heavily on the bank's technology platform, including good trading infrastructure.

"This takes a lot of constant investment in the necessary systems," says Leimer, adding that it is essential for smaller banks to also be able to provide a similar service as clients get at the largest organisations.

At LGT, for example, Leimer explains that the firm is undertaking what it calls a "Smart Banking" initiative, which will launch in mid-2015.

"This will signal a more sophisticated use of tools and technologies to bring the group to the next level," he adds.

Another aspect of creating a sustainable offering is growth that is measured and manageable.

This plays perfectly into LGT's hands. "It is about growing slowly, and with the right people, rather than filling budgets and headcount targets," explains Leimer.

He says that is more challenging for private banks which are part of a large listed company, where the strategic direction is impacted by senior management making decisions with share prices and options in mind.

"As we are privately owned, it allows us to really think in terms of a horizon of three to five years, rather than quarterly or even annually," says Leimer.

Building a successful proposition

Henri Leimer suggested some key components of building a profitable private banking business:

- Grow with the right people
- Hire slowly after doing thorough due diligence
- Invest in the technology platform and dealing systems to guarantee you can deliver
- Challenge yourself to improve
- React to competition

10-YEAR VISION

Thinking further ahead, Leimer says LGT's focus, as a group, is to position its Asian business as a major growth contributor. "We are well-positioned for this. Already 20% of the overall group's clients are in Asia and our AUM is US$18 billion." ■

A GROWING NEED TO DEFINE INDEPENDENT MODELS

AS THE CONCEPT OF INDEPENDENT WEALTH MANAGEMENT FURTHER DEVELOPS IN ASIA, IT IS INCREASINGLY IMPORTANT TO CLARIFY BLURRED DEFINITIONS AND MORE CLEARLY DISTINGUISH THE SERVICES OF FAMILY OFFICES, INDEPENDENT ASSET MANAGERS (IAMs) AND OTHER FIRMS LICENSED TO OFFER INVESTMENT ADVICE TO WEALTHY FAMILIES.

Defining independent models has become ever-harder.

At a time when the industry wants to be clear in its value proposition and service offering to its target clients, there is more and more overlap in what different types of organisations promote as their expertise and range of services.

The desire by many of the growing number of family offices currently operating in Asia to become more profitable is forcing them to venture beyond their core competencies and to offer direct investment advice.

At the same time, some IAMs believe they can build more sustainable models by taking on more of an active role in advising on the full range of wealth-related needs.

That includes family governance and business succession planning, as well as portfolio management.

Yet this blurring of roles, which is worrying some practitioners, threatens to cause further confusion and uncertainty for clients about the value of independent models.

Jason Lai
Thirdrock

"The family office models need to demonstrate offerings beyond what a private bank can provide"

(RE-)DEFINING THE LINES

The opinion of many practitioners is that family offices should provide completely holistic advice.

Whether as SFOs servicing a single family, or as MFOs representing the small group of several individual families which engages them, what they offer should range from concierge services such as paying school fees, to running the bank accounts and overseeing personal spending budgets, to managing the shareholdings of individual family members in the business.

These same commentators strongly believe that a family office, whether multi or single, should not have as its main objective a focus on managing money. That, they say, might detract from their role as a kind of administrator for the family wealth.

"The family office models need to demonstrate offerings beyond what a

private bank can provide," says Jason Lai, group managing partner and chief executive officer of Thirdrock, "particularly in the private investment space, and in other financial services such as asset management, corporate finance, succession and tax planning, stripped of all the red tape."

But when it comes to the investment portfolio, many practitioners at IAMs say the family office should engage external bankers and fund managers for the necessary expertise.

By contrast, an IAM should focus on managing assets. "The IAM is viewed as a platform that MFOs and SFOs can tap into so that they are empowered with universal banking capabilities; it is a sub-set of the family office," explains Lai.

According to Sylvie Khau, head of advisory, financial products, for independent, asset managers at Vontobel Financial Products (Asia Pacific) Pte Ltd, Asian investors have typically seen their wealth flourish through running businesses. They don't have the same tradition of wealth heritage as exists in Europe.

This difference tends to translate into Asian HNW individuals developing a very pragmatic sense and certainly a higher degree of risk-taking in their wealth management options, she says.

As a result, the IAM model is supported and acceptable in Asia. "The values of independence of advice and alignment of interests are of prime concern and appeal, to preserve their hard-earned fortune," she explains.

THE CHALLENGE OF BEING ALL-THINGS-TO-ALL-CLIENTS

One of the biggest challenges for many family offices has been consistently making enough money to justify their more holistic role. In response, some of them have been bidding to manage the family's financial assets, too.

This means they can then charge a fund management fee to help them bring in more revenue.

Some US and European family offices have also adapted their models for Asia to provide both family office services and fund management.

Pure family offices are therefore rarer to find in Asia; they are increasingly applying for a licence from the regulators to manage assets.

For IAMs, meanwhile, their role has become more than just managing a client's money.

As trusted advisers, they tend to have clients coming to them to want to discuss aspects of their family and business which are more than the adviser's duty, theoretically, to get involved in, explains Anthonia Hui of AL Wealth Partners.

This includes providing more of a family office-type offering, including concierge-style services – such as booking hotels, buying concert tickets or paying school fees.

Discussions might also focus on business advice or consolidation of assets among various banks.

That has driven a lot of IAMs to realise that they are more than just an extension to the banker or an asset manager, adds Hui.

Yet by crossing over into providing a wider range of services, this impinges on the domain of family offices. To do this successfully is easier said than done. Two notable characteristics of many Asian families include the fact

Defining IAMs, MFOs and SFOs

Practitioners seem to agree on one thing about independent wealth management models: they are difficult to define.

In particular, they say, the distinction between an MFO and an IAM is unclear because many MFOs are increasingly doing the same as IAMs, and vice-versa.

However, a "pure" definition of each type of firm might be considered to be the following:

- **IAMs** – operate as a "trusted adviser" with a core competency in managing the financial assets of their clients.

  This includes managing segregated portfolios on an advisory and / or discretionary basis
- **MFOs** – provide more concierge and family-centric support services to a (small) number of families.

  Financial investment services often being sub-contracted to private banks or IAMs to handle.

  However, MFOs centralise the administration of investment matters, as well as direct investment opportunities for their clients
- **SFOs** – manage all aspects of a single family's business and personal wealth needs, similar to an MFO, but strictly limited to one family

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Adding value

Regardless of the definition of independent wealth managers, the key is to add value by working hand-in-hand with the client and always representing their best interests.

"Independence enhances the quality of services and investments," says Lucie Hulme, chief executive officer of TriLake Partners.

"It provides clients with a greater range of choices and allows for greater flexibility in the face of fast-changing circumstances."

In line with this, an independent model provides impartiality in the choice of investment products, explains Hulme.

It allows the search for the best possible products available in the market and ensures that decisions are made taking into account different investments views."

"The fundamentals of the independent model have never changed and they are the reasons why this business model has been so successful in Europe and now in Asia," she says.

"The key to the model, I believe, is to be small enough to maintain the exclusivity of a boutique, but large enough to have access to expertise wherever it may lie."

Lucie Hulme

TriLake Partners

"Independence enhances the quality of services and investments."

that they generally have poor knowledge about how to manage wealth, plus while they view wealth as a must-have symbol, they don't always understand the emotional burden and potentially negative consequences of having so much wealth. But not many IAMs want to help families deal with the emotional burdens and issues they face. Many advisers try to take the emotion out of it by looking at static numbers, structures and outcomes.

Some of them even think that it is up to the client to deal with the emotional elements, and that their role as an adviser should only be about the investment side.

> "The fact that many IAMs are calling themselves MFOs doesn't help in providing any clarity for clients."

Another challenge, says Hui, is working out how to charge the client for this.

Family offices tend to charge fees to clients based on an annual charge or on a time-allocation basis.

Traditionally, bankers and asset managers have been paid for the transactions they execute for their clients, so charge based on fees for advice, or on their AUM.

However, the fact that many IAMs are calling themselves MFOs doesn't help clients differentiate what's on offer.

Benoy Philip of Sundaram Asset Management Singapore says that those players with no clarity on the type of independent model they are following may face challenges in positioning their offerings.

Further evidence of the blurring of the lines in this segment of the industry can be seen by the most recent annual Monetary Authority of Singapore (MAS) survey sent to holders of MAS licences. For the first time, the survey included a category for family offices as well as independent asset managers – and grouped them together.

UNDERSTANDING ASIA'S HURDLES TO GOING INDEPENDENT

DESPITE WIDER ACCEPTANCE OF INDEPENDENT WEALTH MANAGEMENT ADVICE POST-2008, MANDEEP NALWA, FOUNDER AND CHIEF EXECUTIVE OFFICER OF SINGAPORE-BASED TAURUS WEALTH ADVISORS, SAYS CHALLENGES SUCH AS THE AVAILABILITY OF SENIOR BANKERS, COMPLIANCE COSTS AND THE RELATIVE IMMATURITY OF THE MODEL IN ASIA POSE OBSTACLES TO THE FURTHER GROWTH OF THIS INDUSTRY SEGMENT.

One of the notable trends within wealth management in the aftermath of the 2008 financial crisis was the uptick in numbers of bankers who were open to the independent approach, in theory.

However, while the appeal of joining an independent asset management company (IAM) in Singapore and Hong Kong lured some high-quality talent and the emergence of a number of players, this industry has not gathered the momentum that many players might have hoped. "Six years ago, when I talked to senior bankers, they wanted to join IAMs, whereas now, they want to work within a larger institution again," says Mandeep Nalwa, founder and chief executive officer of Taurus Wealth Advisors.

Such a reversal seems to have been driven by several factors, including the higher regulatory and compliance burden, a shift in customer behaviour and a lack of traction to date for IAMs.

HIGH HURDLES

The costs of running a business in today's environment – especially regulatory compliance – have impacted the landscape for IAMs significantly.

Without significant set-up capital in many cases, combined with the need for the right infrastructure and manpower to manage the compliance side of the business, a lot of IAMs have found it difficult to get going and attract customers, says Nalwa.

On the other hand, some banks have weathered the storm post-2008, refocusing on growth. They are therefore willing to raise compensation levels, making the decision to move to these institutions something that Nalwa describes as "an easy call" for bankers who might have otherwise considered an IAM as a logical career step.

The way investors are now interacting with their advisers has created another hurdle for growth of IAMs in Asia.

Even though there was a loss of trust for banks among many clients which lost money during the financial crisis, there has been a notable move towards more self-directed investing.

Nalwa says the investments being made into property markets across South-east Asia, the Middle East and the UK, for example, make it difficult for IAMs to play a role given that their specialty is often in fund investing.

Mandeep Nalwa
Taurus Wealth Advisors

The stage of development of the IAM model in Asia has also had an impact on the industry's growth trajectory. Many wealthy Asian clients, who are often self-made, find it more difficult to acknowledge and embrace the independent model, says Nalwa. There are also no benchmarks for things like advisory fees, he adds. ■


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MAKING STRIDES TOWARDS A MORE ROUNDED IFA OFFERING

AS SINGAPORE-BASED IFA FIRM AAM ADVISORY CONTINUES TO INVEST IN ITS PEOPLE, TECHNOLOGY AND OVERALL ADVISORY PROCESS, IT IS ALSO NOW FORMALLY PROVIDING TAX AND ESTATE PLANNING GUIDANCE TO CREATE A MORE ROUNDED OFFERING, EXPLAINS CHIEF EXECUTIVE OFFICER MATTHEW DABBS.

A small but important development in the IFA landscape in Singapore has given AAM Advisory an opportunity to further its ambitions to create a more holistic offering.

Individuals licensed as Financial Adviser Representatives by the Monetary Authority of Singapore (MAS) are now permitted to advise clients on tax matters and trusts. And Matthew Dabbs, chief executive officer at AAM Advisory, is focused on this as a catalyst for further expansion.

This is amid his efforts to continue to develop in-house training initiatives to grow the firm's adviser base, and implement technologies to improve efficiency and the customer experience.

SUCCESSION PLANNING

Being licensed to provide more formal guidance to clients on tax and intergenerational wealth planning is of significant strategic value as an add-on to existing products and services.

On the one hand, in line with the ever-growing need for more transparency and disclosure to comply with domestic and international taxation laws, financial advisers need to incorporate such discussions in their conversations with clients. And on the other, it is becoming increasingly important for clients to put in place robust and relevant succession planning. "We want to help clients ensure their assets are in the right type of trust structure, and are allocated correctly," says Dabbs.

Being able to advise on taxes and trusts is also a way to generate new sources of business – starting with existing clients. For example, in bringing in Ian Black from Friends Provident International as technical specialist for tax and wealth, he will support the advisory team, and provide the scope to revisit each portfolio to see what else the firm can do for that client.

DRIVING GROWTH

On its own, however, these new services won't create the complete advisory offering. To tackle what Dabbs calls a "struggle to find enough quality and talent", the firm has invested in training, with an in-house programme to educate and grow its team of advisers.

"New advisers spend time with all our teams, from compliance to the product team, and then they sit seven exams before they can start advising clients."

Matthew Dabbs
AAM Advisory

Further efforts to streamline the advisory process have involved heavy investment into the firm's back-office capabilities.

For example, explains Dabbs, there is a report-writing team which helps the advisers to present their recommendations in a consistent format with all the necessary disclosures. ■

HOW TO BE THE GO-TO BANK FOR WEALTHY INDIANS

VIKRAM MALHOTRA, GLOBAL HEAD OF BARCLAYS' WEALTH MANAGEMENT UNIT SERVING THE SOUTH ASIAN COMMUNITY, EXPLAINS WHAT IT TAKES TO BE SUCCESSFUL IN SERVICING THIS SEGMENT, BUT ALSO THE NEED TO MODERNISE THE OFFERING TO MEET THE NEEDS OF A YOUNGER GENERATION OF CLIENTS.

From macro-economic and demographic perspectives, there is no doubt that wealthy Indians should be a sweet-spot for private banks. But the cornerstone to success with this client segment is nothing less than a genuine level of trust in the banker-client relationship, says Vikram Malhotra, global head of Barclay's wealth management unit serving the South Asian community.

His track record proves he is well-placed to understand their mindset. By taking this approach, and combining it with what he can offer in terms of Barclays' diversified product range and its digital platform, the bank's assets under management from Indian clients has increased 40% over the last year.

BANKING ON EXPERIENCE

As someone with many years of experience in dealing with Indian customers, Malhotra says they can be characterised as more self-directed than most. They also have an affinity for Indian-related products and asset classes.

Many clients are also looking for more efficient ways of trading, and Barclays has been able to provide solutions typically offered by investment banks.

He says there has been an increasing interest in sophisticated trading instruments like interest rate swaps, currency swaps and non-deliverable swaps.

Malhotra is confident the firm has the capabilities to service customers wherever they may be based.

Indian entrepreneurial families based across regions not only have private banking needs, but also corporate and investment banking requirements; and Barclays can satisfy this appetite across geographies.

But with self-directed clients, banks need to match these individuals with bankers who have experience in understanding their needs and can guide them, rather than being product focused. "Having a senior banker makes a big difference," says Malhotra, "because they are not product pushers." He has seen the benefits of this, with around 80% of his Indian clients coming from referrals by existing clients.

Meanwhile, to service the emerging crop of younger Indian customers who are technologically savvier than their parents and open to exploring new markets, Malhotra says Barclays has been investing in its digital platform.

Vikram Malhotra
Barclays

First, it can facilitate straight-through-processing to attract customers who prefer e-banking. The bank is exploring the use of a biometric voice system to identify customers. This innovative system – already used in the UK – reduces the authentication time per customer by about 20 seconds and provides an enhanced customer experience. ■

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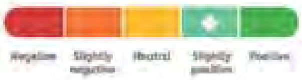

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MORGAN STANLEY REALIGNS ASIAN PRIVATE WEALTH STRATEGY

MORGAN STANLEY'S ASIA PRIVATE WEALTH BUSINESS DIFFERENTIATES VIA DISCIPLINED CUSTOMER SEGMENTATION, BEST-IN-CLASS INSTITUTIONAL IDEAS, PRODUCTS AND TALENT, AND THROUGH ITS EXPERIENCED BANKERS, SAYS VINCENT CHUI, MANAGING DIRECTOR AND HEAD OF ASIA INSTITUTIONAL EQUITY DISTRIBUTION AND PRIVATE WEALTH MANAGEMENT.

Morgan Stanley's private wealth management business today has a very clear client segmentation strategy: active asset and business owners.

These are typically ultra high net worth (UHNW) clients who are familiar with the marketplace and actively make investment decisions for themselves, their families and, in many cases, their businesses, says Vincent Chui, managing director and head of Asia institutional equity distribution and private wealth management.

"They are also the ones who appreciate most the talent, product and content of a bulge-bracket firm like Morgan Stanley," he explains.

In response, the bank has undergone a realignment of its strategy in this space to ensure it can deliver that by adopting the same disciplined and sophisticated approach to its private banking business as it does to its institutional business.

CREATING A CONDUCIVE ENVIRONMENT

Morgan Stanley started integrating its wealth management business with the institutional platform in mid-2013.

Given the overbanked nature of Asia in relation to the traditional private banking business, senior management took a close look at whether, by continuing to try to build out an offering in the same way it had been, the bank would be able to properly differentiate itself and really add enough value to its core client segment.

The outcome was to refocus, to meet rising expectation and sophistication of its targeted UHNW client segment.

> "UHNW clients are also the ones who appreciate most the talent, product and content of a bulge-bracket firm like Morgan Stanley."

Vincent Chui
Morgan Stanley

In practice, that means offering its core competencies – its franchise, trusted and experienced bankers, and institutional-quality solutions.

As part of this, Chui, an 18-year veteran of Morgan Stanley and the head of the bank's institutional equity dis-

A private wealth commitment

The Morgan Stanley Private Wealth Management business is founded on five basic principles:

- **Confidence** – a firm that has navigated over 75 years of market cycles
- **Access** – comprising many top minds and powerful resources
- **Focus** – specialised services designed exclusively for wealthy individuals, families and foundations
- **Insight** – a unique perspective into a complex financial world that leads to strategies to meet a family's needs
- **Personal service** – the highest level of attention provided to the limited number of families it serves

tribution business in Asia, also took on the additional role as head of private wealth management.

His combined management role allows him to leverage his experience and relationships to work with partners in investment banking, equity, fixed income and investment management. In turn, that gives the firm's private bankers unprecedented access to – and support from – the rest of the organisation to deliver firm-wide talent and resources to clients on the wealth side of the business.

In doing this, the firm empowers its bankers with a very entrepreneurial culture and holistic revenues-style approach to target business which delivers value to clients and makes commercial sense to the firm.

The refocusing of the business also led to the bank wanting to take a more targeted approach to where and how it can add value.

With its more streamlined and integrated organisation, the focus is on countries where Morgan Stanley has critical mass and where it sees significant upside from new business.

That means targeting the right customers in the Greater China region and selected ASEAN countries.

LEVERAGING THE FIRM'S TOTAL OFFERING

On the product side, flow, funds and capital markets – including asset financing – are of the highest importance and are fully integrated with the firm's institutional platform.

"Some of our best product and trading talent resides within the institutional side of the firm," says Chui. "Why reinvent the wheel to create a different product organisation if we can offer the same talent and expertise to our private banking clients?"

To bring the reality of the integrated offering to life, two-way business referral between private bankers and investment bankers is now the norm. They often work in partnership to ensure that issuers' corporate and private wealth needs are attended to.

> "Two-way business referral between private bankers and investment bankers is now the norm."

"This degree of symbiosis is particularly evident in the new-issues business where patience is an important virtue," says Chui.

Private bankers take care of day-to-day needs of potential issuers. Such relationships allow them to bring in the investment bankers when the timing is right. In 2013, for example, one out of three of the capital market opportunities with non-State Owned Enterprises that Morgan Stanley pursued in China were sourced, directly or indirectly, by the firm's private bankers.

Further, since the bank has the largest equity prime brokerage footprint globally and in Asia, this provides a pipeline of hedge fund principals as potential clients for the wealth business.

In addition, it allows the funds business unit of the private bank to have excellent access to and early look at some of the best investment talent in the world, including funds which are soft-closed to new investors.

Ultimately, Chui is cognisant that Asia's UHNW clients have plenty of choice and most use multiple service providers. He says these clients view the value of each differently based on what the client perceives as that firm's strength.

"We want them to put us in the bucket where they consider us as trustworthy, smart, able to provide best-in-class solutions which are relevant to them, and also able to connect them to the rest of the Morgan Stanley network, both locally and globally." ■

HOW UOB IS BOLSTERING ITS PRIVATE BANK

UNDER THE LEADERSHIP OF ONG YENG FANG, UNITED OVERSEAS BANK (UOB) WANTS TO GRADUALLY BUILD OUT ITS PRIVATE BANKING BUSINESS, INITIALLY BY LEVERAGING INTERNAL RESOURCES, UNTIL IT BECOMES THE GO-TO ASIAN PROVIDER FOR RELEVANT PRODUCTS AND SOLUTIONS.

Ong Yeng Fang is realistic about the style and extent of the private banking offering she wants to build under her leadership at UOB.

The wealth management industry has been growing rapidly, especially in Asia. And with the history of UOB tied to generations of Asian entrepreneurs and businesses since its founding in 1935, the bank has set its sights on expanding its private banking business.

"Our immediate goal is to leverage our internal resources to expand. This is a gradual process and I am committed to ensure excellence in every step of the implementation."

STRONG FOUNDATIONS

The strength of this banking group's consumer franchise combined with the breadth of its product range has been the catalyst for senior management to become more focused on growing the private banking arm.

One of the main goals, says Ong, is to leverage existing strengths in people, products, technology and its one-bank approach where both retail and wholesale services are under one roof.

The bank's private clients, she explains, often have intertwined personal and corporate wealth needs, so they would benefit from wholesale and investment banking support. And as an Asian bank with an extensive history, UOB is well-placed to understand the importance of cultivating these types of long-term relationships.

INTERNAL TALENT

One of the main ways the private banking arm will be able to deliver this broader suite of products and services is through its front-line staff having the right conversations with clients.

In line with this, Ong says the bank is committed to training, nurturing and retaining the best bankers currently working in the consumer bank. This will give them an opportunity alongside the existing team of 60 senior client advisors in the private bank.

As well as building more employee loyalty this way, it will create an improved client experience by ensuring consistency. "The core group of bankers who have been with us for a long time know the products and understand the solutions relevant to their clients," she adds.

Ong Yeng Fang
UOB

Once the private banking business is more developed in Singapore, UOB will then look to extend its reach.

It will introduce private banking services to Thailand, Indonesia and China, says Ong, where the group has a strong retail presence and a large commercial banking client base. ■

DEFINING UOB'S FUTURE WEALTH OFFERING

DENNIS KHOO, HEAD OF PERSONAL FINANCIAL SERVICES AT UNITED OVERSEAS BANK (UOB) IN SINGAPORE, REVEALS THE PRIORITIES AND DIRECTION FOR GROWING THE INSTITUTION'S WEALTH MANAGEMENT BUSINESS.

UOB's Dennis Khoo is confident that he can create a more compelling value proposition in the local wealth management industry in Singapore than many of his competitors. "I believe that customers can be better served – by making the complex simple, and by truly understanding the customers' wealth creation goals and risk appetites."

CUSTOMER SEGMENTATION

The starting point is to make the bank's wealth management business clear to existing and potential customers. To achieve this, UOB segments customers based on assets under management (see box).

Segmentation at UOB

- Up to S$100,000 – Personal Banking
- S$100,000 to S$350,000 – Wealth Banking
- S$350,000 to S$2 million – Privilege Banking
- S$2 million to S$5 million – Privilege Preserve
- S$5 million or higher – Private Banking

This straightforward method makes it easier for the bank to provide tailored products and services that these different segments may need, explains Khoo. "We need to understand customer needs and bring products to each of them to fulfill that need," he says.

PRIORITIES

To ensure the bank is really meeting customers' needs, Khoo says his priority is to explore the value of how wealth management tools can benefit the customer through digital and mobile channels. This is inspired by the new generation of customers which are interacting with banks in a totally different way, in turn making online platforms which facilitate the process a vital component of any wealth offering. "The use of multi-media to educate customers is key," he adds. "Yet most banks are a long way off."

But it isn't just about having a digital platform; usability is a key differentiator. This is where Khoo believes the real battle is, given the amount of time and effort required to get this right.

Dennis Khoo
UOB

Ultimately, Khoo says success depends on whether a bank can provide simple advice that customers can identify with, and that enables them to formulate a strategy which is easy to implement and works. ■

WHY FOCUS IS THE KEY SUCCESS FACTOR IN ASIA

RECENT CONSOLIDATION WITHIN ASIAN WEALTH MANAGEMENT HIGHLIGHTS THE NEED FOR CLEARLY-DEFINED STRATEGIES AND CLIENT SEGMENTATION TO FUEL PROFITABLE GROWTH – BACKED UP BY OPERATIONAL EFFICIENCY AND A LOWER COST-TO-SERVE, SAYS NAM SOON LIEW, PARTNER AND FINANCIAL SERVICES ADVISORY LEADER FOR ERNST & YOUNG IN ASIA PACIFIC.

Profitable growth, operational efficiency, and a lower cost-to-serve are three critical goals for market players striving for success within the reality of Asian wealth management today.

"There is a realisation among institutions that they either need scale or they must focus on a particular customer segment to be successful," says Nam Soon Liew, partner and financial services advisory leader for Ernst & Young in Asia Pacific.

This notion follows the market exits of some big players, and even some niche firms, in the face of various challenges.

Compressed margins is one of them, as is the increasing difficulty for organisations to differentiate their products realistically to create a sustained competitive advantage, explains Liew. Other hurdles to profitable growth include catering to a more sophisticated client base with a broader range of products and services via open architecture, lowering the overall cost-to-serve, and keeping clients sticky enough given that many engage several private banks at the same time.

Further, there are the inevitable regulatory and compliance requirements.

IN PURSUIT OF INTEGRATION AND EFFICIENCY

No longer is it realistic for individual firms to expect to be all things to everyone, says Liew.

"For example, the current model where large universal banks do everything is disintegrating. Plus, customers will also change and they have more avenues now – they can look to non-financial service providers for simple products and services," he explains.

Nam Soon Liew
Ernst & Young

> "There is a realisation among institutions that they either need scale or must focus on a particular customer segment to be successful."

According to Liew, one of the ways universal banks can respond is to integrate their back offices – either with the commercial banking or investment banking businesses.

They can then derive first-level cost savings such as shared services. But this only goes so far.

Cost savings relating to the wealth management platform and the front-office are not possible through the same integration due to the differences in the nature of the businesses.

This is where wealth management must embrace the role of technology.

"People need to recognise the importance of streamlining the number of applications that support the business and improve integration," says Liew.

With banks already working to solve this, Liew says many of them are currently focused on aspects of the platform that impact the customer first, followed by change-the-bank processes that can improve efficiencies.

LIFTING THE QUALITY OF ADVICE

Whether industry participants can make the most of Asia's potential, and build focused businesses that are profitable and scalable, depends on their ability to grow the talent pool and, in turn, increase the quality of the advice being given to clients. "In the current marketplace, there are not many players who can give tailored investment advice at the upper end of the client spectrum, especially when dealing with entrepreneurs who have already proven their savviness," explains Liew.

Compounding the problem is the fact that some private bankers have left the wealth segment to work within hedge funds, private equity firms or other investment management roles.

So even if larger numbers of clients become more willing to pay for advice, a lot of advisers are not experienced or qualified enough to spot opportunities and then give relevant guidance to their clients. "Banks need to focus on lifting the overall competency of these advisers," adds Liew.

OPENING FOR REGIONAL BANKS

The shifting landscape and exit of several international private banks presents a golden opportunity for regional consumer banks to increase their share of voice in the wealth management space, says Liew.

He explains that there is a potentially vast customer segment which would prefer banking with their local firm.

This is in part because of their loyalty to the organisation, if that bank helped them with their business growth in the early days, for example. That might still be the case even if, from a wealth management perspective, these banks probably offer a more limited range of products and services.

As a result, they would need to diversify, especially in line with the trend of wealth transfer to the next generation, which has high expectations.

"Several regional banks serve SMEs and have entrepreneurs as customers," says Liew.

"If they can provide private banking services then they can increase share of wallet beyond just their corporate banking relationship." ■

DEALING WITH A NEGATIVE PERCEPTION

TIM NICHOLLS, DIRECTOR OF PARADIGM CONSULTING, EXPLAINS WHAT STEPS BANKS SHOULD TAKE TO TACKLE NEGATIVE MEDIA AND SENTIMENT, ALONG WITH DENTED CLIENT TRUST.

Many companies involved in the wealth management industry have had to face up to a crisis of trust from the wider public at some point in recent years.

While an individual client may have a strong and meaningful relationship with their adviser, damage to the brand or the wider perception of reputation can undermine even the strongest personal bonds over time.

"Coverage in the news of mis-selling of products has created uncertainty, and it seems to be a recurring story in the media about wealth managers actively assisting tax evasion," says Tim Nicholls, director of Paradigm Consulting, and former head of communications, Asia Pacific, at HSBC Private Bank. "Even one poorly-managed matter can undo months or years of good work and reputation."

TACKLING A TRUST DEFICIT

Since trust has been at all-time lows in the financial sector, how do banks tackle a tide of negative media and sentiment? "There are plenty of case studies of individuals trying to manage this and doing more harm than good," says Nicholls. Further, communications has got more complex in the interwoven nature of audiences – the media is fragmented and suppliers can be clients, making the segregation of messages even harder.

But he is optimistic for how wealth management can emerge from what has generally been a low-point in terms of reputation. "With the changes occurring in the industry, those who engage well have an opportunity to come out stronger."

And he doesn't just mean the regulatory changes providing comfort to the investor base. "Arguably, now more than ever, investors need help. Bombarded with news across platforms and the 'disruptive' companies changing financial services as well as the client user-experience by bringing more and more options to a client's smartphone, they are looking for trusted advisers."

LEADING BY EXAMPLE

According to Nicholls, a chief executive or leader has a responsibility to "own" the management of reputation, rather than delegating it. Some steps he advises include:

- Planning, with a well-thought out strategy to engage stakeholders
- Keeping messages smart and simple, short and honest
- Ensuring ongoing communication, not a single press release
- Being aware of how to deliver messages in the way they're intended and of which format is best for each individual leadership style
- Taking responsibility for bad news

Tim Nicholls
Paradigm Consulting

EVOLVING THE DISTRIBUTION PARTNERSHIP IN ASIA

AS ASSET MANAGEMENT COMPANIES CONTINUE TO BUILD THEIR PRESENCE IN ASIA WITH A SHARP FOCUS ON WOOING WEALTH MANAGERS, THEIR LEVEL OF SUCCESS WILL DEPEND ON THEIR ABILITY TO CLEARLY DIFFERENTIATE THEIR OFFERINGS AND RELATIONSHIPS WITH VARIOUS DISTRIBUTION PARTNERS.

Asset management firms from around the world are, inevitably, looking to ride the Asian wealth wave.

They are building their presence, brand and product offering in Asia with an eye to expanding distribution capabilities, reach and scale.

But just as growth and profitability for wealth managers by no means automatically go hand-in-hand, asset managers need to focus on certain strategies, sectors or other specific objectives which make sense to the distribution community if they can make the most of the opportunity – not just for today, but for the foreseeable future.

Amy Cho

Pictet Asset Management

"Who will be the most successful firms will depend on a combination of internal and external factors, like their product offering and their commitment"

"Who will be the most successful firms will depend on a combination of internal and external factors, like their product offering and their commitment," says Amy Cho, managing director and regional head of business development for the firm in Asia Pacific (ex Japan), Pictet Asset Management.

But while this sounds simple, Asia is composed of very different markets and local adaption is a must. "There is no one standard product or approach that will fit all local adaptation needs," says Cho.

BUILDING LONG-TERM PARTNERSHIPS

According to Madeline Ho, head of wholesale fund distribution for Asia Pacific at Natixis Global Asset Management, there are certain things that private banks want from asset managers today compared with five years ago:

- Having the right products at the right time
- Access to just a few managers but with broad capabilities and which can bring them best-in-class through a single access point
- To be able to generate alpha for clients through products which perform
- The ability to support them locally

Whether at the passive or active end of the spectrum, Trevor Chudleigh, head of business development at Fullerton Fund Management, interprets the main goal for private banks to help meet their needs in sourcing the right products and delivering investment

performance as finding a good quality partner, on the ground, and with good quality products.

Being able to meet this need, therefore, requires a well-known brand across countries and even continents.

To date, Fullerton Fund Management has amassed US$10 billion in assets under management, split roughly one-third in equity, one-third in fixed income, 13% in alternatives and the rest in balanced products.

Olivier Pacton, co-head of the private bank investment group HSBC Private Bank, agrees with the specific focus on partnerships.

"Asset managers spend a lot of time understanding our products. We try not to think of it as a pure distribution relationship, but more of a partnership," he says.

Simon Hopkins

Milltrust

"The industry must step up and focus on customer profit"

"The focus on fund passporting is attracting more companies to look for a presence in the region."

For example, he explains, the bank works together with the asset managers to discuss the form that funds should take, and the best way to approach a particular investment.

Jane Fung, head of funds distribution for Principal Global Investors in Asia, has a similar way of thinking when selecting distributors to work with. "The partners we work with are those where we want to build long-term relationships," she says.

Target distributors for her firm, for instance, are those with a clear strategy and good corporate governance, but which are not too self-sufficient in terms of their own product offering.

While the Old Mutual group, meanwhile, has already had a presence in Asia for 20 years, Paul Feeney chief executive officer of Old Mutual Wealth, says he sees Asia as an amazing opportunity in working alongside clients to create structures that effectively service their needs in both the wealth and asset management space.

"An emphasis on client service is our priority for the business in the Asia region," he says.

Increasing the penetration of funds in Asia will also be a positive outcome of a good client experience, adds Ho at Natixis Global Asset Management.

"If an investor has this, they will be more likely to invest again."

Paul Feeney

Old Mutual Wealth

"An emphasis on client service is our priority for the business in the Asia region"

Eleanor Wan

BEA Union Investment Management

"People remain confident in Asia's growth potential and it is a good place for long-term investment"

"The regulatory environment is slowly improving, but each country is different and the markets remain very domestic."

A professional experience means that the fund will be professionally managed, she explains.

"And if the distributor is charging active fees, then the manager should be managing the portfolio actively, instead of being a benchmark hugger."

Old Mutual Wealth, for example, has also been working closely with its partners on the ground to create such client satisfaction.

In line with this, it entered into a strategic partnership in mid-2014 with Jardine Lloyd Thompson, one of the largest brokers in Asia.

The aim, says Feeney, is to ensure that the distribution of new products is effective and efficient via the 50 or so well-known private banks in Hong Kong and Singapore that Old Mutual Wealth wants to target.

This strategy is being deployed for the firm's innovative new life cover solution, the Silk Life Plan, which Feeney says has more depth and range than any product the firm has launched to date in Asia.

KEEPING THE CUSTOMER FOCUS

However, Simon Hopkins, chief executive officer of Milltrust International, says he has concerns about how the asset management industry has been evolving. He says he fears that larger players have too much power over banks, in terms of marketing budgets being too persuasive.

As a result, the more sophisticated and boutique offering can get left behind – something which Hopkins says is not a positive thing for the industry.

However, he believes that once customers realise their investment returns are no longer what they are looking for, there will be a backlash, leading to a rejection of larger names and a shift towards boutique asset managers which generate alpha. He encourages global players to look at some of the more successful models in the UK, which essentially propose a broader offering than a standard banking platform. In short, he explains that the industry must step up and focus on customer profit.

Trevor Chudleigh

Fullerton Fund Management

"The goal for private banks to help meet their needs in sourcing the right products and delivering investment performance is to find a good quality partner"

Rather than continually measuring performance against other asset managers, institutions must measure themselves against the market, he adds.

OPPORTUNITIES

Asian fund passporting is one of the opportunities which asset managers point to as a part of their excitement around their wealth management partnerships in Asia.

The focus on fund passporting is attracting more companies to look for a presence in the region, explains Cho at Pictet Asset Management.

"The barriers to entry are reasonable, so fund management companies can choose a centre to leverage on the relevant passporting regime," she says.

Fund passporting would also improve the efficiency of the region's asset management industry and provide investors with more investment and diversification opportunities, higher returns and better protection, says Andrea Muller, chief executive for Principal Global Investors in Asia. "As a result, mutual funds could become a more important component of retirement planning for investors in Asia," she explains.

For fund passporting to make sense, however, Ho says the ability to tap into larger markets is required to provide the economies of scale.

"For now, the benefits will be more for local managers than international managers who are using Luxemburg-domiciled or Dublin-domiciled funds," she explains.

There also continues to be a lot of interest by local clients in Asia. After all, people remain confident in Asia's growth potential and it is a good place for long-term investment, says Eleanor Wan, chief executive officer at BEA Union Investment Management.

"Most investors have a home bias, especially in Asia," she says. "And as an emerging market, there are a lot of untapped areas and developments in the region which look solid in comparison to other developing markets."

A CHALLENGING ENVIRONMENT

Asset managers cannot, however, be complacent. "The regulatory environment is slowly improving, but each country is different and the markets remain very domestic," says Muller at Principal Global Investors.

That makes it more difficult to create a strategy which can be scalable, and therefore profitable, she explains.

According to Mark Konyn, chief executive officer of Cathay Conning Asset Management, more effort and attention also has to be placed on manag-

ing client expectations in the advisory space – and hopefully exceeding them – rather than focusing too much on transactional fees.

Advice needs to be of a much higher quality, he says.

Further, adds Konyn, there are concerns that the talent pool hasn't necessarily been replenished in the style many people would like to have seen. A lot of competent individuals have left the industry post-2007, he says.

Yet the structures for attracting and developing new talent have not necessarily being in place. He explains that this is particularly relevant in an environment where best-practice standards are continually moving forward.

Moreover, as clients continue to get more sophisticated, and seek greater transparency and advice, the industry must implement these higher standards into how they develop the talent of the future.

There is also the potential for technology to influence the asset management space, seen through the example of Alibaba – along with other Chinese technology companies – and the resultant unprecedented inflow of funds in the past 12 months.

For technology platforms to compete against financial services institutions, however, Hopkins says there needs to be a change in the levels of regulation that these platforms are subject to.

Fee reforms, a global phenomenon, and a necessary outcome post-2008, are another challenge confronting the relationship between distributors and asset managers.

While there has been an unwillingness to embrace international developments in terms of transparency and advice-based fee models, this is expected to change in the near future.

BEING TARGETED

Part of an asset management firm's ability to different itself is knowing the relevant level and type of support to each wealth manager.

For the wholesale side of the business at Principal Global Investors, for example, Fung says the focus is on being streamlined as a sales team, to be able to give investment advisers more regular support in terms of presentation materials, in multiple languages, which can support them in their conversations with end-clients.

"We need to hone in on a few select strategies based on what we expect to be best-placed to be effective and popular with clients, based on the market dynamics in the short to medium term," she explains.

There will also be a growing requirement over the next few years to be able to service the needs of discretionary managers.

That will involve working more closely with these teams which are emerging with the various private banks, explains Fung.

"This means creating tools and information to help them provide structured advice to their clients."

From a technology perspective, a better-resourced and structured portal would enable them find and access the information they need, she says.

"For example, funds and strategies need more detailed explanations, to clarify any differences.

So for our multi-boutique approach, we need to make clear what we have on offer, and update clients on the individual strategies. This includes the portfolio concentration," she adds.

> *"This business is about creating returns, but it is also about creating trust. We therefore provide skills to help people explore areas of the market or navigate difficulties. Communication skills make a big difference."*

Beyond the wealth managers themselves, there is a lot of scope for asset managers to provide more value-add to end-clients – besides only product performance.

"Our ability to communicate to end-clients is an important part of our value proposition," explains Michael Thompson, head of wealth management, Asia (ex-Japan), PIMCO.

"This business is about creating returns, but it is also about creating trust," says Thompson. "We therefore provide skills to help people explore areas of the market or navigate difficulties. Communication skills make a big difference."

Next Generation Client Onboarding

Financial institutions are facing new challenges through digital channels and the increasing regulatory requirements.

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WHY CLIENT ONBOARDING NEEDS TO BE AUTOMATED

MARK BUESSER, CHIEF EXECUTIVE OFFICER OF IMTF, EXPLAINS THE VALUE OF AUTOMATED AND CONSISTENT PROCESSES TO HELP BANKS OVERCOME THE CHALLENGES OF THE CLIENT ONBOARDING PROCESS IN WEALTH MANAGEMENT.

One of the biggest ongoing challenges banks face today is how to cope with increased complexity due to additional and changing regulatory policies.

This is being felt in particular at the client onboarding stage within the wealth management business.

A lot of data, documents and signatures are required from the client, while the whole process has to be compliant with all regulatory requirements (KYC, FATCA, MiFID, suitability, etc).

"The response must be to strive for higher efficiency and to proactively ensure a positive customer experience, especially during this first part of what is effectively a 'sales' phase," says Mark Buesser, chief executive officer of IMTF.

Consistency and automation, therefore, is the way forward, he explains.

CONSISTENT PROCESSES

Whether onboarding is guided by an individual relationship manager (RM) or is done in a self-service way in the case of an online bank, the process is basically the same.

"The same data is required from the client and the same documents and forms, etc have to be produced and signed to make it to a valid contract," explains Buesser.

And in the background, the same compliance verifications and checks, such as KYC, risk-ratings and PEP-checks, need to happen, he adds. Even the user interface, adapted to each bank's corporate identity, must be similar, including guidance and advisory information in both cases.

The only differences are with respect to client identification and (digital) signatures, but proven and automated in both cases.

Workflow and case management in the back office are identical.

REDUCING ERRORS

Consistency can also help alleviate the high error rates that form the main obstacle to efficiency in today's onboarding processes.

Such errors happen, explains Buesser, due to the lack of respect for mandatory steps, data and documents. And with regard to cross-border onboarding, he says the complexity becomes too large for any individual to be expected to fully stick to the rules.

"This is where an automated and single process comes in," he says, "to be able to dramatically reduce these errors and increase efficiency, as well as reduce

Mark Buesser

IMTF

the time needed for the onboarding," explains Buesser.

In his view, next-generation client onboarding solutions should cover, end-to-end, all functions in one rules-based application to support the entire relationship opening workflow.

"RMs, clients and back-office staff need to be completely guided through the whole process," he explains. "A rules engine must ensure the right data is captured and the right documents – such as pre-filled forms, contracts and welcome letters – are produced, signed and returned to the bank and more."

GENERATING CONTRACTS AUTOMATICALLY

Once all data is captured and verified, Buesser says that the most effective solution for the client onboarding process would be to automatically generate all contracting documents.

Going one step further, the signature of the client and the RM should be captured electronically, for example on a tablet, plus be fully compliant with data privacy laws such as those in Singapore, he adds. "At the end of the process, a client should receive an individualised welcome package, automatically generated, with no further signatures needed."

TAKING AUTOMATION ONE STEP FURTHER

A key objective for banks should also be the automation of risk-rating and suitability checks, via a rules-based and integrated application. "A powerful and highly-flexible rules engine can provide a full set of KYC and due diligence functions and actions to ensure secure identification, good data and complete compliance," says Buesser.

If this rules engine is integrated with an onboarding interface, he explains, then the entered data can be immediately checked in the background against any internal or external white-list, embargo list or PEP list, for example.

"This provides an evaluation in real-time and instant interaction for enhanced due diligence and undesirable clients," he adds. ■

Fully-automated onboarding

Through ICOS, IMTF offers a fully-automated onboarding solution that provides a single point for capturing all data, documents and signatures, explains Mark Buesser.

The capturing process can be done on any device or channel – PC, tablet, web – and in any language, he says.

"The process is guided and intuitive, which makes it very effective and reduces errors and the workload. It is built as a dynamic, rules-based and context-sensitive questionnaire with only the relevant questions and information visible."

The solution also allows the convenient capturing of passport, ID and pictures, and comes with an integrated business card and ID card reader, enabling the recording of the basic customer data with one click.

HOW MATURITY AND COMMITMENT WILL MEET ASIA'S TALENT NEEDS

ACCORDING TO PETER FLAVEL, CHIEF EXECUTIVE OFFICER OF J.P. MORGAN PRIVATE WEALTH MANAGEMENT IN ASIA, A TEAM-BASED APPROACH IS THE MOST REALISTIC WAY THAT INSTITUTIONS SERVICING THE HIGHER END OF THE WEALTH SPECTRUM CAN MAKE UP FOR THE LACK OF EXPERIENCED BANKERS. BY COMBINING THIS WITH TARGETED TRAINING AND HIRING, FIRMS CAN GO SOME WAY TOWARDS PLUGGING THE TALENT GAP.

Peter Flavel
J.P. Morgan Private Bank

Despite already significant growth in the US$10 million to US$30 million segment in Asia, Peter Flavel, chief executive officer of J.P. Morgan Private Wealth Management in Asia, the high net worth business of J.P. Morgan Private Bank which targets this group of clients, is expecting more.

His priority – similar to that of his counterparts – is bringing more of that wealth within the private banks.

One stumbling block is the fact that some of this wealth is inevitably used for holding on deposit or within other parts of a client's consumer bank. But, says Flavel, there is also a lack of supply of wealth managers to attract these types of clients.

"We try to overcome with this challenge by adopting a model where, while the banker is accountable and responsible for the quality of advice they give to the client, they deliver this through a group of people who are on the team," he explains.

BROADENING THE TALENT POOL

The J.P. Morgan way doesn't mean a group of specialists which the banker selects, but a team of relevant people based on an institutionalised approach.

Bankers who understand this approach realise that they look better, and can provide better advice, by partnering with experienced individuals more specialised than them in certain areas, and therefore who add value to a client, says Flavel. "It is clear that everyone benefits from this approach. Plus, it enables the bankers to focus on their specific role, rather than trying to be an expert in all areas."

Yet this is a model only really viable with clients of a certain wealth, given that it is inevitably more expensive for the bank to run because there are more resources allocated to each client.

There are two other ways for banks like J.P. Morgan to boost headcount of competent bankers and advisers.

The first, says Flavel, is via the bank's three-year analyst and associate programmes. "I would like to think that this is the most significant way in which we will grow our future bankers and advisers. Not many organisations like us have the same commitment to training, given the cost and the long-term nature of the view required."

The second avenue is to hire more mature financial services practitioners. A lot of successful private bankers, for example, have been commercial bankers for 10 years or so, explains Flavel. "They know about account management plus they understand balance sheets, credit, and other key aspects of finance as a great starting point." ■

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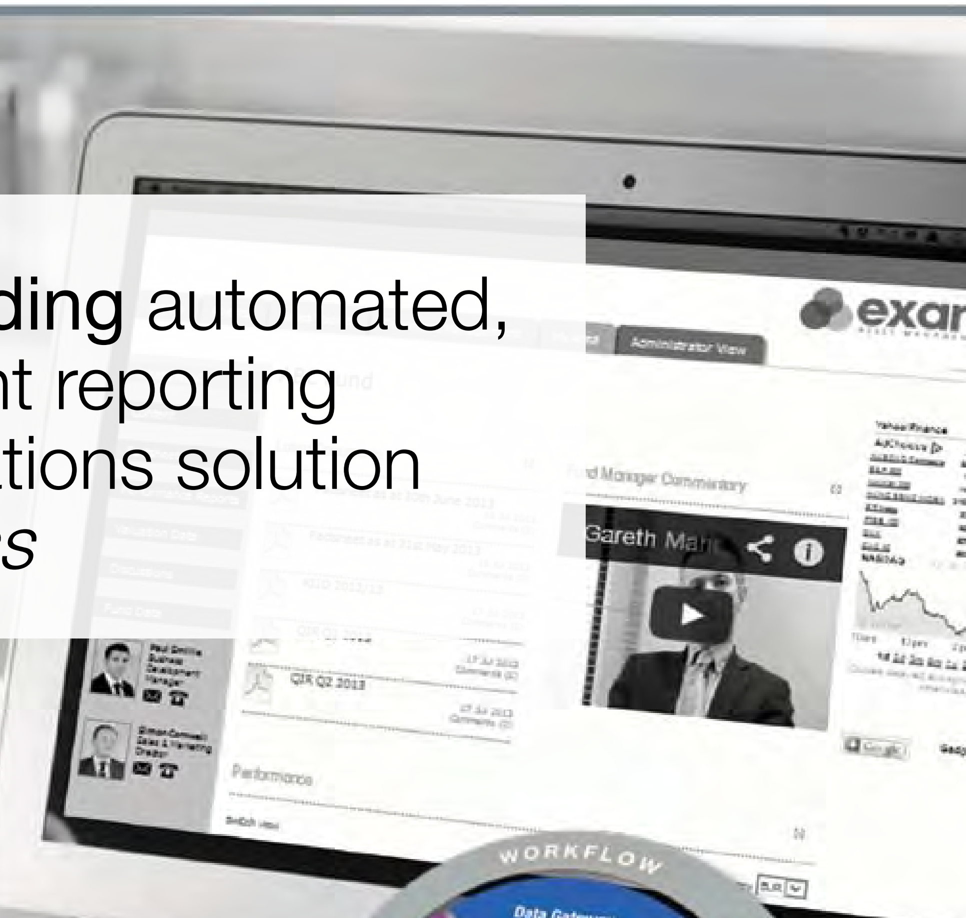

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FINDING THE RIGHT WAY TO GROW

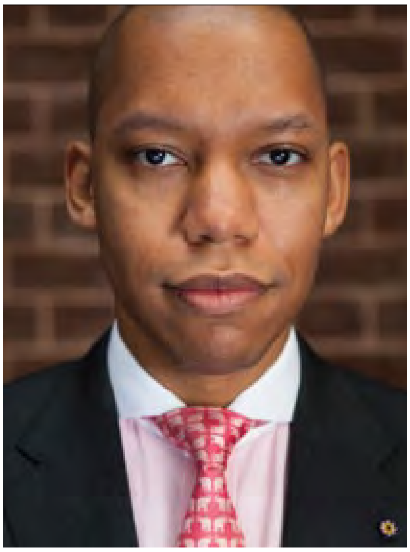
WEALTH MANAGERS TRYING TO MAKE AN IMPRESSION ON AN ULTRA-WEALTHY CLIENT CAN ONLY BE SUCCESSFUL IF THEY USE THE INTELLIGENCE THEY HAVE ON THAT INDIVIDUAL IN A METHODICAL AND TARGETED WAY, SAYS MYKOLAS RAMBUS, CHIEF EXECUTIVE OFFICER OF WEALTH-X.

Having access to data and a few interesting insights about an ultra high net worth (UHNW) individual is certainly a step in the right direction for private wealth managers looking to grow their book of business.

But data for data's sake is not enough to be useful in the way such clients want and need to be serviced. Data with meaning is more useful still. But data with meaning plus a strategy is what advisers should strive to achieve.

wealth managers around world, we can identify the leading practices that these individuals and organisations need to apply to systematically grow and succeed," explains chief executive officer Mykolas Rambus.

It is a kind of intelligence with focus. Not a scatter-gun approach based on a numbers game. Details about wealth, income, passions, philanthropic interests, affiliations, politics, advisers, families and biographies only go so far.



Mykolas Rambus
Wealth-X

"When I talked to many private banks and multi-family offices three years ago, especially in Asia, they didn't tend to have a clear or convincing marketing and sales strategy. Yet they were spending tens of thousands of dollars on advertising and client events."

While Wealth-X is renowned for its collection of curated research on the ultra-wealthy, with net assets of US$30 million and above, what it offers can only be effective for prospecting if applied strategically.

"Based on a vantage point as a result of working with thousands of private

TARGETED MARKETING

For Rambus, the excitement and satisfaction comes when he can match a relationship manager (RM) to his or her ideal UHNW client. "When I talked to many private banks and multi-family offices three years ago, especially in Asia, they didn't tend to have a clear or convincing marketing and sales strategy. Yet they were spending tens of thousands of dollars on advertising and client events, for example, even though these were not focused on a target client as such and didn't contribute to the revenue of the firm."

At its simplest level, most organisations were unable to articulate who their perfect client was.

"We would ask them to explain who they wanted to work with, who they believed was right for them in terms of their own company and brand, as well as their products and services, and what they thought was the best way to match their advisers to these groups of clients," says Rambus.

In turn, that created a lot of inefficiency and wastage in the client acquisition and development process.

Things have changed to some extent, and are continuing to do so.

"We try to help anyone who is working with the ultra-affluent – financial institutions, not-for-profit organisations and luxury brands – to match-make," says Rambus. "We can help them find this needle in a haystack."

FINDING THE PERFECT CLIENT

The objective with every interaction between an RM and an UHNW prospect should be to identify the right individual, engage them and build a trusted relationship. No time or energy should be spent on individuals who are not a fit for the organisation or individual adviser; they will just be a distraction.

"If an RM is more naturally aligned, and likely to be successful, with just five or 10 prospects, then it is better for them to only focus on that small group" says Rambus.

To make this happen requires a commitment by the organisation and RM alike, he adds.

That starts with them avoiding the urge to simply follow their competitors by adopting a broad-brush approach to marketing and advertising. Once institutions have identified the ideal type of client, they then need to develop a specific way to target them.

"This doesn't mean arranging another golf outing, or smart dinner," he says. Instead, he explains, they need to create a more emotional reaction from these prospective clients to the organisation's brand and offering.

Rambus says that the RM must find a point of connection.

That might be in terms of a club, mutual acquaintance, family member, hobby, or other aspect of the prospect's lives.

"They need to be able to find a way in, but also to then provide a different experience for the client," says Rambus, "given that this individual should now have been pre-selected and pre-screened to match what the institution and RM are trying to offer."

LOOKING CLOSER TO HOME

Being focused in the prospecting process also means knowing where to look for new business.

"Many organisations make the mistake of looking outside the firm for new clients before they look at their own database," says Rambus.

Yet this often misses several thousands of records, at least for large banks with a retail presence and other lines of business. "These are all people with whom the bank would have done business with in the past, but those individuals might not before have been identified as billionaires who were being under-serviced," says Rambus.

By segmenting and screening clients based on their wealth or other criteria, RMs can discover valuable names in their own databases to be able to pursue as high-value leads, he explains.

Another invaluable but often under-utilised source of clients are referrals.

"This accounts for a vast amount of business done with UHNW clients," says Rambus.

The way that RMs have approached referrals before, however, has been organic and inefficient.

"If someone asks you something like 'do you have anyone you think we should be talking to, or who you would like to refer', then most of the time it is difficult to think of someone," he says.

"But when people ask a similar question in a direct way, the outcome is different," he adds.

For example, an RM could say instead: "I'm going to be in Shanghai next week, and I would love to meet someone in XYZ industry. Is there anyone you know and can recommend?"

Doing their homework and being aware of the connections of the client they are talking to, is going to lead to a referral for an RM in 90% of cases, says Rambus, rather than 10% by adopting a generalist approach.

DOING THE RIGHT DUE DILIGENCE

While best practices, good habits and discipline are critical components of a prospecting strategy to make the most of information which might be available to an RM, the importance of due diligence cannot be overlooked. Too many RMs spend time with prospects who are not yet pre-cleared by the compliance team, says Rambus.

This might involve anything from six to 18 months in wooing an ultra-wealthy individual who the organisation cannot on-board anyway.

An essential element, therefore, is wealth verification. That is at the core of the KYC process for wealth managers and is a separate and distinct process from negative news verification.

"The UHNW population, whose wealth can correspond to innate customer risk, is increasingly under scrutiny for source of wealth details, tax transparency and disclosure," says Rambus.

> "The UHNW population, whose wealth can correspond to innate customer risk, is increasingly under scrutiny for source of wealth details, tax transparency and disclosure."

Only by quantifying wealth can RMs hope to interrogate transactions both individually – by comparing with investible assets – and in aggregate.

According to Rambus, the solution is to bring together wealth intelligence and KYC to enable businesses to meet compliance needs and mitigate risk.

In reality, he says, the Wealth-X Diligence (WXD) product, launched in mid-2014, provides organisations with enhanced dossiers on UHNW individuals, detailing their source of wealth, significant litigation or sanctions, political inclinations and connections, wealth breakdown and analysis, business activities and asset holdings.

It also incorporates the elements of anti-money laundering and anti-bribery and corruption checks, to ensure that clients discharge their regulatory responsibilities and also understand any risks that may present themselves when dealing with a given UHNW individual and/or their known business or other associates.

"The worst thing that can happen for an RM," says Rambus, "is to spend time prospecting an UHNW individual who might look like a great fit, but who will not pass the compliance checks."

For the organisation, this means wasted dollars in sales and marketing. ■

Key features of Wealth-X Diligence (WXD)

- With WXD, clients can enjoy a single view of their UHNW clients by combining wealth analysis with other essential KYC checks
- WXD reveals the individual's source of wealth, underpinned by Wealth-X's proprietary valuation methodology
- It provides detailed information on PEP status, sanctions, significant litigation, and any other adverse information such as the vulnerability to dealing with proceeds of crime
- It enables clients to properly understand social and business networks through the characterisation of PEP and known associate relationships.

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For more information on how Private Client Services can assist, please contact:

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IS SINGAPORE THE GO-TO MARKET FOR TALENT DEVELOPMENT?

ACCORDING TO DR FRANCIS KOH OF THE SINGAPORE MANAGEMENT UNIVERSITY, SINGAPORE HAS PUT IN PLACE THE INGREDIENTS TO BE THE GO-TO PLACE TO HELP ADDRESS ASIA'S SHORTFALL IN TERMS OF WEALTH MANAGEMENT TALENT.

Local private banks in Asia have a lot to look forward to as the flurry of compliance-led mandates limit the extent of offshore private banking, and as the growing numbers of wealthy in Asia require more attention.

"Following Switzerland, Singapore will become more important as an onshore banking centre, too," says Dr Francis Koh, professor of finance (practice) at the Singapore Management University (SMU), and concurrently vice provost (special projects) and director of the MSc in Wealth Management Programme. "As many wealthy clients reside in Singapore, onshore will become more important."

However, before those institutions with domestically-focused businesses can map out their strategy, they need to overcome an obvious stumbling block – a limited supply of talent.

Koh says that applies both to hard and soft skills, ranging from knowledge and experience in terms of serving clients effectively, meeting compliance mandates, and achieving performance.

To address these shortcomings, he points to the various training programmes and educational initiatives which have been developed in Singapore, as part of the industry's bid to position itself as the regional wealth hub – and in turn, a solution to the training shortfall.

ASIAN HUB

Singapore has for many decades been an Asian hub of some sort, ranging from export/import trading to financial services. And, as Koh explains, it is no stranger to providing services to neighboring countries and training professionals from them.

From a private banking perspective, Singapore's role as a regional centre stemmed from a desire by clients to locate their assets there as a safe haven. Yet that wasn't just for tax reasons; it was also because of its sound legal system, developed infrastructure and high levels of service.

In recent years, Singapore has also honed the expertise and experience at its fingertips to create a culture of training and education for professionals working with the industry.

And this isn't just to enhance the competency of local practitioners. Banks from across Asia send staff to programmes run by SMU and other institutions.

Francis Koh
Singapore Management University

The aim, says Koh, is that when those individuals return to their countries to help build private banking businesses at their own organisations, they can also better educate clients about wealth management services.

Via university and post-graduate courses dedicated to the various skills and knowledge required to work within wealth management and private banking, and combined with the regional training centres set up and run locally by leading global banks, Singapore has tried to position itself to plug the talent gap.

Koh says that the resources and infrastructure are in place to be able to develop the soft skills that industry practitioners need.

These include, for example, connecting with clients, understanding their needs and offering suitable solutions.

In addition, through courses run by SMU in particular, he adds that there is a lot of focus on delivering hard skills, too.

Koh is proud of SMU's role in driving the development of talent in Singapore and further afield. And in particular, in line with the emerging needs of Asia's wealthy, he explains that the University has been creating relevant programmes accordingly.

CATERING TO BUSINESS-OWNING FAMILIES

For example, given the increase in inter-generational wealth transfer and planning for the next generation, SMU established the Business Families Institute in 2012.

The goal, explains Koh, is to educate practitioners to guide and advise business-owning families in developing, harnessing and leveraging their family and financial capital across generations, to perpetuate an enduring family legacy within their communities.

"Succession planning is important," he says. "Being able to manage family wealth and their businesses, and the role of family offices, are growing areas for private banks."

MEETING INFORMATION TECHNOLOGY NEEDS

SMU has also responded to the digital revolution with its offering, adds Koh.

Already recognised internationally for its innovative research and education, SMU's information system programmes are run in partnership with both government and private companies in the data analysis field.

For the private banking industry, individuals with the right skills to analyse and process client data can add value to institutions by enabling them to cross-reference investment patterns, in turn learning more about their behaviour and how to better serve them. "All banks have useful data, but they might not have the time, tools or expertise to analyse them. Business analytics will be able to help," says Koh.

CATERING TO ALL TASTES

Ultimately, for fresh graduates, Koh says they should view wealth management like the medical profession. "You can be a general practitioner or a specialist, it depends on your interests," he says. "People can do a degree in different fields and end up as wealth managers." ■

WHY BANKS MUST INVEST IN LEARNING AND DEVELOPMENT

INVESTMENT IN LEARNING AND DEVELOPMENT CAN CREATE A REAL COMPETITIVE ADVANTAGE FOR ORGANISATIONS, AND SHOULDN'T JUST BE SEEN AS A BOX-TICKING EXERCISE, SAYS NICK POLLARD, HEAD OF INTERNATIONAL LEARNING AND PROFESSIONAL DEVELOPMENT AT COUTTS.

It is a myth that the real differentiator for a private bank is linked to product, platform or technology. Indeed, these are relatively easy parts of the business to replicate. But the reality is that the one thing which is always unique about any organisation is its people.

"Having a reputation for having great people creates a significant competitive advantage," says Nick Pollard, head of international learning and professional development at Coutts. "Deciding not to invest in the skill-sets of your people for three years, for example, would be like deciding not to create any new product, during that timeframe."

There is a positive knock-on effect in the eyes of clients, too. "Clients want to deal with organisations which are safe and whose reputation is intact," he adds. "They want to deal with professionals, who are interested in them and their businesses, and who are interesting people themselves, to be able to form the bond of trust that is key to any successful relationship."

A SHIFT IN MIND-SET

While there is a reasonable level of understanding among practitioners in Asia about products, the shortfall is more obvious when it comes to their ability to have a conversation about those products and how they fit within an individual's risk appetite. "And unless banks are prepared to commit to changing that, it isn't possible to improve the situation", says Pollard.

That becomes ever-more important as the regulatory environment gets tougher. "The execution around the advisory process is critical," he says.

A NEW APPROACH

The approach to building the talent pipeline in Asian private banking to date has consisted of hiring advisers who firms believe have a proven track record and a large book of business, and then paying them more to move.

Yet this is ineffective for many reasons – not least because with every year that passes, the client assets that an adviser can actually bring with them falls. "The economics of resourcing through hiring will become too costly for many competitors to survive," explains Pollard.

To buck the trend, he says the approach must be to think about the career development of existing staff, as well as to bring in people at a younger age and then train them in-house. These factors also help as part of the strategy to retaining promising talent, adds Pollard.

Nick Pollard
Coutts

"The thinking of many institutions about the benefits to all parties is too short term," he says. "They don't look enough at how to nurture talent." ■

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A NEW WAY TO BANK CHINA'S WEALTHY

ALAN LUK, HEAD OF PRIVATE BANKING AND TRUST SERVICES AT HANG SENG BANK, DISCUSSES HIS PLANS TO OPTIMISE HIS OFFERING – WHICH WILL AT THE SAME TIME HELP HIM TO TAP OPPORTUNITIES FROM THE GROWING NUMBER OF WEALTHY CHINESE BANKING IN HONG KONG.

Hang Seng Bank, like many other Asian banking brands, is building a private wealth business off the back of its consumer banking franchise.

This approach of segmenting individuals with investable assets equivalent to US$1 million or more means the bank can do more with this already-large – and growing – pool of customers.

Yet this presents its own challenges. "The essence of consumer banking is about commoditisation, making sure the platform is as standardised as possible and that compliance mandates are fulfilled," says Alan Luk, head of private banking and trust services at Hang Seng Bank. "However, private banking customers often want tailor-made products, so another round of due diligence needs to be done."

An increasingly appealing way to avoid such a duplication of time and effort is to bring discretionary mandates to the portfolio construction process for these clients. While a relatively new concept in Asia, Luk thinks it has potential.

Plus, it ties into his strategy to access the ever-larger number of high net worth individuals coming from mainland China to bank in Hong Kong.

A WIN-WIN SOLUTION

In Luk's opinion, Chinese clients are well prepared to embrace this model.

In comparison with markets like Hong Kong and Taiwan, where younger generations who have been educated overseas have often been exposed to discretionary portfolio management (DPM) models, the wealth in mainland China is much newer, held typically by 40-year olds focused on wealth creation by growing their businesses.

But there is a growing realisation among them that they need to manage it properly also.

Discretionary mandates also serve the needs of the clients amid a tightened regulatory environment in relation to executing individual transactions.

For example, explains Luk, with due diligence taking longer than ever before, managing portfolios on a discretionary basis, therefore, can better serve customers' needs, he says.

To date, Hang Seng Bank has seen success in attracting wealthy Chinese ethnic families through referrals. Luk says the bank is also finding other ways to acquire new customers, including through immigration agents.

Alan Luk
Hang Seng Bank

"Those mainland Chinese who want to emigrate to Hong Kong have to invest HK$10 million," he explains, "and once they register with the government, they will have to find a bank." ■

THE GOLDMAN SACHS APPROACH TO SUCCESS IN CHINA

CHINA IS CLEARLY A WEALTH MANAGEMENT SWEET-SPOT OF THE FUTURE. WHILE IT HAS ALWAYS BEEN A KEY MARKET FOR GOLDMAN SACHS IN CORPORATE AND INVESTMENT BANKING TO DATE, RON LEE, HEAD OF PRIVATE WEALTH MANAGEMENT FOR THE BANK IN ASIA PACIFIC, EXPLAINS THE INCREASING FOCUS ON LEVERAGING THAT ACCESS TO DRIVE GROWTH FOR HIS BUSINESS.

A bank with the kind of track record of Goldman Sachs in the development of China's capital markets is clearly well-placed to tap this experience, access and contact base for other lucrative segments of the market.

And wealth management is one of the most alluring.

"For us, China is filled with lots of opportunities," says Ron Lee, head of private wealth management for Goldman Sachs in Asia Pacific.

And he is confident that the direction and strategy in the wealth space is different from the approach his competitors are taking.

"The business I would like to be similar to when the Asian offering matures is the Goldman Sachs US private wealth management business," says Lee.

CREATING A SUCCESSFUL FRANCHISE IN CHINA

In short, opportunities come through the private wealth channel.

Lee and his team then give these clients the access they seek to the expertise of the overall bank's offering.

"From the client's perspective, we are acting as a unit to wealthy individuals, whether in managing their wealth or in helping construct a portfolio appropriate to their risk and return appetite, or in giving them access to our deal-making capabilities," he explains. In practice, this means access to private equity opportunities, to the firm's investment banking platform, and to cutting-edge trading ideas. This connectivity applies internally, too.

Ron Lee
Goldman Sachs

> "The business I would like to be similar to when the Asian offering matures is the Goldman Sachs US private wealth management business."

"In China we represent a unit through which the rest of the firm can access wealthy individuals in the country," says Lee.

For example, he explains, the private wealth management division was recently able to connect another unit of

Goldman Sachs with a Chinese private wealth client over a property transaction in Tokyo.

AN EVOLVING VALUE PROPOSITION

The revenue model for Goldman Sachs' private wealth business in the US is comprised of approximately 10% brokerage and 90% discretionary, and has reached a scale which is yet to happen in Asia.

It is because of this scale that Lee says the platform is more developed, as is the talent pool, which has grown in-house and more clearly understands the firm's value proposition.

Lee's unit, by contrast, has evolved over the past three years since he joined from the 90:10 ratio, and is now split roughly evenly between brokerage and discretionary.

The rise of the fee-based component and discretionary activity has come, he explains, as a result of the post-2008 combination of lower leverage, a tighter regulatory environment and dampened investor risk appetite. "This has been an organic process, which was based on us favouring growth first, and the mix of revenue second," explains Lee.

It also shows the movement towards a value proposition based on being able to demonstrate its role as what he describes as a "trusted adviser".

CONDUCIVE MARKET CONDITIONS

Moving to a more discretionary approach for its Asian clients has been a notable achievement.

When Lee joined the division, he says it was almost unheard of for a Chinese investor to be open to considering high single-digit returns via a diversified portfolio of financial investments. They would instead want to invest in their businesses with the objective of compound annual growth rates of 30% to 40%, he explains.

There was also a view in the post-2008 environment, he adds, that staying in RMB was probably far safer than US dollar investments.

Yet these same investors look at the world differently now. "The trade-off between having a diversified portfolio of financial investments is much less than it used to be," he adds.

"The broad consensus is that the RMB is more likely to depreciate than appreciate over the medium term."

Leveraging the firm

The private wealth advisers and investment professionals are focused on coordinating the resources of the division and the firm to:

- Help clients develop wealth and investment management strategies to match their goals and risk tolerance levels
- Identify investment opportunities to help clients reach their objectives
- Leverage the bank's execution capabilities and provide attentive client service
- Introduce clients, where appropriate, to the broader network and resources of Goldman Sachs

Further, for a lot of ultra high net worth individuals, they say China has gone from feeling like a safe place to operate to one where there is more insecurity, explains Lee. Such changes, he says, are positive for the wealth management industry in general, and for his business ambitions in particular. ■

CARVING A PATH TO SERVING CHINESE HNW CLIENTS

AS MANY FOREIGN BANKS STRIVE TO BUILD RELEVANT PRIVATE BANKING OFFERINGS TO MEET THE OFFSHORE NEEDS OF CLIENTS FROM MAINLAND CHINA, IT IS THE HONG KONG BASED CHINESE INSTITUTIONS WHICH ARE POTENTIALLY BETTER-EQUIPPED TO SERVE THIS GROWING SEGMENT OF POTENTIAL CUSTOMERS, SAYS HELEN KAN, EXECUTIVE DIRECTOR, ALTERNATE CHIEF EXECUTIVE OFFICER AND GROUP HEAD OF PERSONAL & BUSINESS BANKING AT CHINA CITIC BANK INTERNATIONAL.

Thanks to the gradual opening up of China's financial markets, institutions such as China CITIC Bank International (CNCBI) can be increasingly relevant to mainland clients by leveraging the combination of their parent banks' onshore operations with their Hong Kong business to offer offshore accessibility.

"Customers in mainland China are looking for diversification," says Helen Kan, executive director, alternate chief executive officer and group head of personal & business banking at CNCBI, the offshore commercial banking arm of China CITIC Bank (CNCB). "Our relationship with our parent bank enables us to penetrate this segment."

According to Kan, serving mainland customers' offshore banking needs calls for a good understanding of their mindset and cultural attributes at the bank from top management to frontline relationship manager levels. She believes CNCBI is uniquely positioned with this advantage over other foreign banks and local players.

SMOOTH ONBOARDING

Wealthy mainland Chinese individuals looking to open banking accounts in Hong Kong can do so by means of an account-opening witness service via designated personnel at CNCB in China. With proper documentation, clients will then have a face-to-face meeting with CNCBI in Hong Kong to complete the process.

Those clients who deposit HK$1 million or more are part of the CITICfirst programme, which enables them to invest in the Hong Kong financial markets. For clients with US$1 million-plus, CNCBI provides private banking services and a wealth of tailored solutions.

DIVERSIFICATION

The aspirations of most mainland Chinese investors for portfolio diversification can be fulfilled by a wide spectrum of investment opportunities in Hong Kong, both in terms of asset class and geographical perspective. Further, there is growing interest in life insurance, says Kan. "Clients want wealth preservation, accumulation and increased protection."

Another investment angle sought after by these clients is the immigration route. Clients are able to apply for the Capital Investment Entrant Scheme if they invest HK$10 million or above in the local market, she remarks.

Helen Kan
China CITIC Bank International

Going forward, Kan predicts the range of RMB products will increase and provide more growth opportunities to both banking institutions and clients. "This provides ample opportunity to all players in wealth management." ■

Overview

Ongoing Support

Need a little help keeping the pieces together?

As you know the regulatory overlay is increasing every year. Compliance responsibilities can be time-consuming and overwhelming even for a large team. ComplianceAsia will put your mind at rest and help ease your compliance burdens.

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THE ROLE OF OFFSHORE JURISDICTIONS IN THE PRC

KRISTIAN WILSON, A SENIOR ASSOCIATE IN THE SINGAPORE OFFICE OF BEDELL CRISTIN, LOOKS AT SOME OF THE DRIVERS FOR OFFSHORE JURISDICTIONS SUCH AS THE BRITISH VIRGIN ISLANDS (BVI) TO PLAY SUCH A SIGNIFICANT ROLE IN STRUCTURING FOREIGN DIRECT INVESTMENT (FDI) INTO AND OUT OF THE PEOPLE'S REPUBLIC OF CHINA (PRC).

The BVI is the fourth-largest recipient of global FDI inflows (receiving US$92 billion in 2013) and the second-largest investor in the PRC, providing US$10.4 billion, or 9.1%, of inward FDI into the PRC in 2010.

But why is a small island located in the Caribbean both a significant recipient of global FDI and a leading contributor of FDI into the PRC?

Many observers have tried to answer this question by suggesting that offshore jurisdictions are used in the PRC to avoid taxes and to enable the round-tripping of funds. That is a process whereby funds are routed offshore to return to the PRC as "foreign" capital and therefore allow PRC companies to utilise certain tax and legal advantages given to foreign investors.

However, these arguments are built on faulty analysis and poor data and fail to look at the wider picture. Recent Chinese legal developments have restricted the ability of Chinese enterprises to round-trip funds.

However, despite the implementation of these restrictions on round-trip investments, the popularity of the BVI has continued to grow. This suggests that there are other more important drivers behind the popularity of this jurisdiction.

LEGAL, ECONOMIC AND POLITICAL CONTEXT

To understand what has led to the popularity of BVI companies in the PRC, it is important to look at the legal, economic and political context which gave rise to the use of offshore jurisdictions.

The PRC has been in a continual state of development, opening up to the world and moving towards a more market-oriented system. This led to the PRC experimenting with different legal and economic regimes, such as the special economic zones, which operated with different tax and regulatory regimes to the rest of the PRC.

Moving offshore was simply an extension of the same concept.

Similarly, with the move to a more market-based system, the PRC was left with inadequate corporate laws that were not well suited to modern international commerce. As a result, the BVI was frequently used by PRC enterprises as a means to overcome legal and regulatory deficiencies in the Chinese legal system.

Kristian Wilson
Bedell Cristin

The BVI was a natural choice for Chinese investors given it was a common-law jurisdiction with a modern commercial court whose ultimate court of appeal was the Privy Council in London. As a result, the BVI offered legal stability, commercial flexibility and a modern corporate law.

INWARD FDI

Certain features of Chinese law and the PRC economy have inhibited the growth of PRC companies.

As a result, the BVI was used as a platform to access international capital and to rely on the legal rights and remedies offered by a mature and modern common-law jurisdiction.

In terms of law, BVI companies were frequently chosen due to the inherent advantages of its legal system – minimal regulatory interference and a high level of corporate flexibility. Foreign law contracts are enforceable in the BVI and the law provides for certain rights and remedies available to shareholders and creditors.

BVI companies have also been used in private equity deals in the PRC. Investors have historically had concerns about investment in the PRC due to the weak shareholder protections, inadequate corporate legislation, risk of government intervention and uncertain market conditions.

> "80% of the PRC's outward FDI flows headed towards three economies from 2003 to 2006, namely Hong Kong, the BVI and Cayman."

In terms of finance, lending in the PRC was traditionally the sole preserve of state-owned banks.

This resulted in preferential treatment for state-owned enterprise, whereas private enterprise found it difficult to access finance.

By relocating in the BVI, these entrepreneurs were able to access the international capital markets, as lenders and investors were more familiar with BVI companies and comfortable with the common-law concepts underpinning the jurisdiction.

Similarly, lenders preferred BVI companies as security could be taken over their assets or shares. Additionally, offshore companies were chosen for the purposes of international listings, as it was not feasible to use PRC companies owing to a number of institutional and legal factors in the PRC which impeded the listing of their shares.

OUTWARD FDI

Offshore jurisdictions also play a significant role in outbound investment by Chinese enterprises. According to an OECD review of PRC outward investment, 80% of the PRC's outward FDI flows headed towards three economies from 2003 to 2006, namely Hong Kong, the BVI and Cayman.

Offshore jurisdictions have been popular tools for outward investment, given legal and policy limitations in the PRC which have inhibited investment. For instance, PRC enterprises had a number of domestic constraints including a cumbersome government approval process, problems with access to finance, a lack of currency convertibility and a lack of experience.

In addition to internal constraints, PRC enterprise faced external constraints, such as the problem of negotiating complex foreign regulations, the need to ensure legal certainty in the investment structure, the need to protect investments against risk, and the need for corporate flexibility.

For example, BVI companies have been used as holding companies. One study of listed Chinese companies on the HKSE, NYSE and Nasdaq found that of 72 sample firms, 42 had one or more BVI holding companies. It was observed that these holding companies were generally used as a means to control the underlying operating companies and to effect any acquisition or sale of the underlying companies at the offshore level. As a result, corporate transactions could rely on the flexibility and certainty provided by BVI law in multi-jurisdictional transactions.

BVI companies are also frequently used to structure joint-ventures, as they were used as a means of sharing legal and financial risk. Taking Africa as an example, BVI companies have frequently been used in African FDI as the joint venture, acquisition, holding or investment vehicle. However, PRC investors have encountered risks in African investment due to the unstable nature of the local business, political and legal environment.

The legal systems in African countries are often undeveloped and unfamiliar to Chinese investors and carry the risk that, in the case of disputes, the dispute may not be settled efficiently or effectively.

As a result, offshore companies have been used as they permit access to a familiar and stable system of law and ensure that disputes can be settled in a neutral jurisdiction where no party has a home-field advantage. ■

BREEDING SUCCESSFUL PERFORMERS

FINDING, TRAINING AND RETAINING MORE CAPABLE, COMPETENT AND ENTHUSIASTIC INDIVIDUALS IS A HURDLE THAT ASIAN WEALTH MANAGEMENT IS YET TO OVERCOME. EFFORTS ARE UNDERWAY VIA VARIOUS FIRM-SPECIFIC AS WELL AS INDUSTRY-WIDE INITIATIVES, BUT PROGRESS IS SLOW - AND THE LIMITED PIPELINE CONTINUES TO HOLD BACK THE INDUSTRY FROM MAXIMISING ITS POTENTIAL.

Wendy Tsang

BOCHK Private Banking

"One of the main challenges is a lack of competent talent and increasing cost in human capital development"

Despite the drive towards automation and the increasing engagement of technology at all levels of wealth management, most industry leaders are adament that it is still fundamentally a "people" business.

On the one hand, this is a positive thing given the need for – and benefits of – personalised service and tailored advice. On the other, however, there continues to be a dearth in Asia of the right "people".

"The private banking industry in Asia faces a human resource constraint and this is a challenge for further expansion," says Andrew Hendry, managing director of M&G Investments in Asia.

Indeed, one of the main industry challenges is a lack of competent talent and increasing cost in human capital development, adds Wendy Tsang, managing director and head of private banking at Bank of China (Hong Kong) Private Banking.

In the past, she explains, some banks aiming at boosting profitability quickly had encouraged front-line staff to sell products. But for the long-term development and growth of the business, Tsang says organisations need to train and retain front-line staff who can be trusted advisers to clients, understand their dynamic needs and offer them a total solution.

IN NEED OF AN INDUSTRY SUCCESSION PLAN

This is not so easy to achieve.

The departure of a growing number of senior, experienced practitioners from Asian wealth management also raises questions about how the industry can maintain quality and consistency in the delivery of advice going forward.

This is made more difficult by the fact that the wealth management industry is still far less institutionalised than other parts of financial services, such as corporate and investment banking.

"This poses some big challenges for the industry," says Mignonne Cheng, chairman and chief executive officer for BNP Paribas Wealth Management in Asia Pacific. "We have to ask ourselves – and answer – the following question:

who, in five to 10 years' time, will be able to deal with our key clients when older advisers leave the industry."

To overcome this barrier, and give newcomers the experience of managing client portfolios, Cheng says the priority is to train them to succeed the first-generation of advisers. That also ties in to the objective of matching the right advisers to the right clients.

That is happening under her watch in relation to the process of inter-generational wealth transfer.

"As clients pass down their businesses and assets to the next generation, my mission is to train our younger RMs to deal with this next generation. They need to establish a relationship with these younger clients, rather than the patriarchs," says Cheng.

More broadly, to train the relevant individuals to be able to service clients in the way Cheng says is required, the bank brought in from the wider group an HR professional dedicated to the wealth management business. This is to provide all types of training, for example on credit, product, and regulation and compliance.

"That person will also be responsible for doing relationship management certification at our new campus in Singapore," she explains.

Cheng wants to set a standard where only when an RM passes the training can the bank be confident of them having the right skills to serve clients.

For Goldman Sachs, meanwhile, it has significantly increased its hiring of summer interns and fresh graduates to try to address the supply constraints, explains Ron Lee, head of private wealth management in Asia Pacific.

"Since 2011, we have brought in around 35 individuals through this programme," he says. "In a decade's time, this generation of bankers will have become seasoned private wealth management professionals leading our business. They will build on the firm's legacy for the future."

Andrew Hendry

M&G Investments

"The private banking industry in Asia faces a human resource constraint and this is a challenge for further expansion"

ENHANCING COMPETENCIES

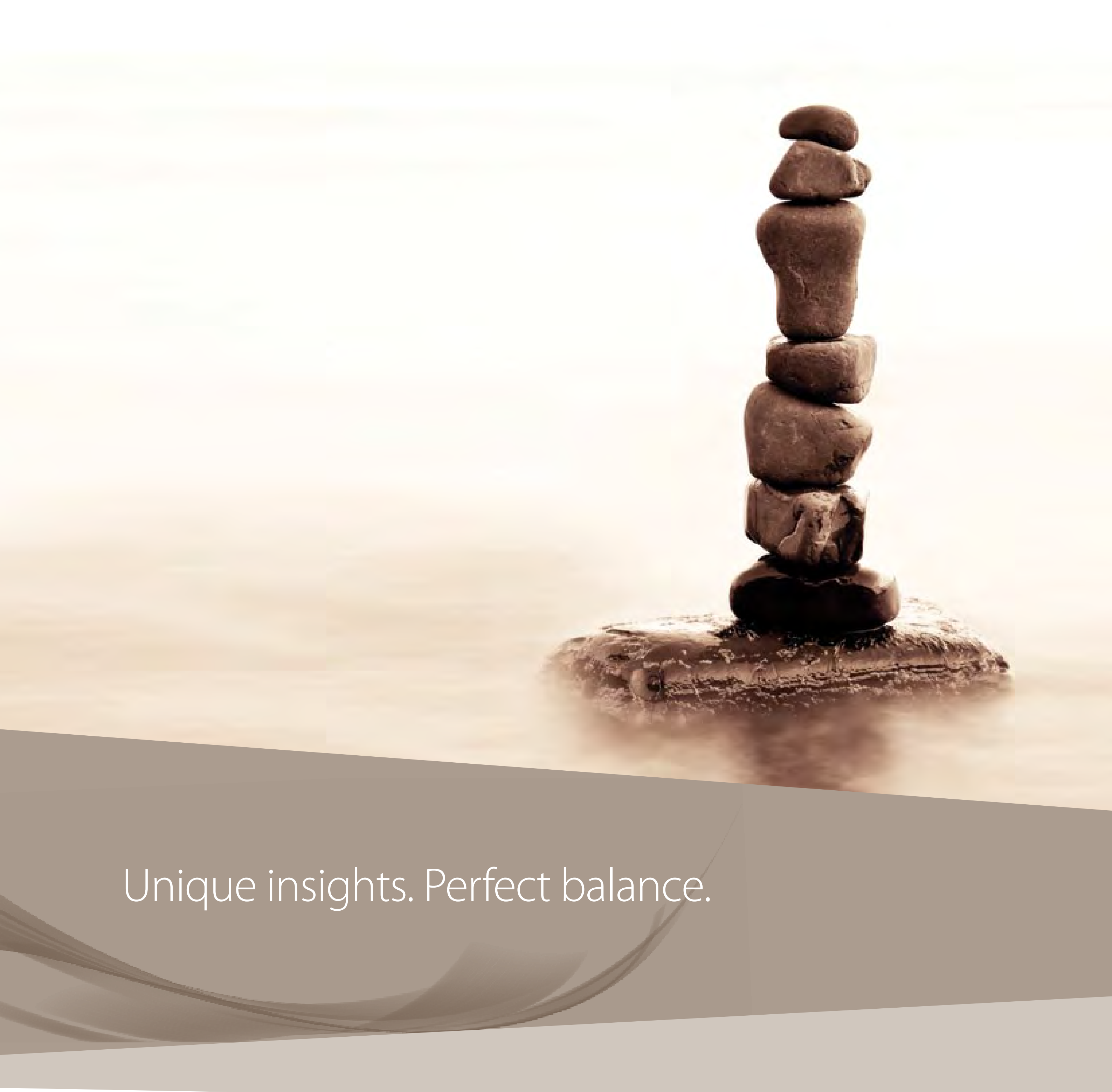
The fact that RMs still move from one organisation to the next relatively frequently, combined with a lack of fresh talent, makes it more difficult to develop and grow the private wealth management business, say practitioners.

Yet the new Enhanced Competency Framework (ECF) for private wealth management practitioners in Hong Kong is a starting point for the local market, says Tsang at Bank of China (Hong Kong) Private Banking. She says the ECF has specified the competency requirements of client-facing staff, to discern the qualities of private wealth

KEY PERFORMANCE INDICATORS FOR THE INTERNATIONAL WEALTH MANAGEMENT INDUSTRY

Key performance indicator	Average percentage change YoY	
	2013	2012
AUM	19.7%	8.7%
Net new money (NNM)	-13.6%	23.7%
Income	10.9%	2.3%
Expenses	14.0%	2.0%
Ordinary profits	1.7%	5.3%
Key performance indicator	2013	2012
Cost-income ratio	83%	80%

Source: Scorpio Partnership Private Banking Benchmark 2014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management practitioners. "A systematic way of training will attract newcomers to the industry over time and will foster the grooming of human capital," she explains.

Gerard Lee, chief executive officer of Lion Global Investors, acnkoledges that the need to further enhance competency is always a key factor at every stage of a market's evolution.

"But it takes time to develop within any newly-emerging industry," he says.

Singapore, for example, despite its impressive efforts in recent years relating to training and wealth management competency standards, continues for the time being to have to rely on talent from around the world at this stage of the development of the wealth and asset management industries.

A TEAM-BASED APPROACH FOR ASIA

One of the pitfalls for the industry in Asia which has perpetuated the talent shortage is the mind-set of many advisers towards servicing clients – Asian RMs traditionally believed they should keep their clients to themselves.

In the newer wealth markets of Singapore and Hong Kong, for example, there has been more of a rush to acquire clients, explains Dr Francis Koh, professor of finance (practice) at the Singapore Management University (SMU), and concurrently vice provost (special projects) and director of the MSc in Wealth Management Programme. "They also compete more because margins are thinner, and there is less of a DPM-type service."

However, changes are happening because clients who used to only trust their RM and didn't care about the institution now realise they can derive more value and be better protected if they are exposed to a team, explains Mandeep Nalwa, founder and chief executive officer of Singapore-based Taurus Wealth Advisors.

"This has created more of a team approach," he says.

"And for independent firms like us, for example, we have no desire to overstep the boundaries and take the bankers out of the picture. The aim is to provide the best solutions for clients."

But it still tends to be the more senior bankers who understand that clients' needs are best served by a team-based service, adds Nalwa.

An approach that Singapore IFA firm AAM Advisory has taken, for example, has been to focus on advice by providing advisers with a high level of support and training, and to ensure transparency in the processes, explains chief executive officer Matthew Dabbs.

The aim is also to make AAM Advisory an attractive place to work for the right individuals, he adds.

"We also have a three-person in-house investment research team. We could outsource this function, but we can maintain more control over implementation and execution if we do it ourselves," says Dabbs.

"Plus, a representative from the team often accompanies advisers in client meetings, and we find that this helps to show the client we are focused on providing independent insights based on intelligence, rather than doing a product push."

Further, there is a six-person report writing team which allows consistency and quality in the reports and advice offered. It also enables the adviser to spend considerably more time servicing clients. "AAM recently recruited our own in-house tax and trust expert (Ian Black ex FPI) to ensure the client is completely advised in all areas," adds Dabbs. "Finally, our four-person compliance team completes the total support package."

Ultimately, he says he tries to ensure his advisers have more time to focus on the quality of the advice they are giving their clients.

KYC AS ANACQUISITION TOOL

Noor Quek, founder and managing director of NQ International, say there

Julia Leong
PwC

"Banks need to review the compensation and incentive structures for their advisers"

are three critical principles of her version of KYC to enable bankers to win and retain clients more effectively: know your client; know your corporation; and know your characteristics.

And if front-line bankers and advisers can follow this approach, then Quek is adamant their success levels will greatly improve.

"The private bankers who will be successful going forward are those individuals who are good at listening to the needs of their clients, but at the same time are professional enough to be able to assemble the right teams of specialists to advise clients on the particular issues they face."

"The adviser-client relationship will be based on mutual trust and respect, meaning that the client will feel reassured and the service they're getting will be much higher," she says.

First, knowing and understanding the client is obviously essential for any wealth manager seeking a successful, profitable relationship over the long term. But fully knowing a client means understanding their legacy, too – how they made their money, where it originated from and where they want it to go. "To create structures to help the family move forward bankers must respect the dream of the person who started [the business] or created the wealth," she explains.

At the same time, successful bankers understand, pre-empt and plan around the issues that their clients may face going forward – before the client starts thinking about them.

Secondly, is the extent to which a wealth manager really knows the strengths and weaknesses of their own organisation – and works within these parameters.

For example, advisers must learn the art of referring and pooling specialists to assist clients with achieving their bigger picture goals – which often means at the portfolio level.

The third and final string to a wealth manager's KYC bow is being aware of the key characteristics both of their clients as well as themselves.

This is particularly important in Asia given the amount of new wealth which continues to be made, says Quek.

CREATING THE RIGHT FRAMEWORK

According to Julia Leong, partner, financial services at PwC in Singapore, the private bankers who will be successful going forward are those individuals who are good at listening to the needs of their clients, but at the same time are professional enough to be able to assemble the right teams of specialists to advise clients on the particular issues they face.

Given that wealth is such an emotional topic, clients want to work with advisers they trust and can work with, she adds.

However, for banks to achieve this, Leong says they need to review the compensation and incentive structures for their advisers.

Within the industry at the moment, the alignment isn't yet there. Leong says that it is rare to find banks which are remunerating advisers based on the outcomes for clients. And where it does exist to some degree, it is a component which is much more limited than it needs to be.

Tee Fong Seng, market area head, Greater China, and vice chairman, private banking, Asia Pacific, at Credit Suisse, says that pure revenue-driven compensation is a thing of the past, based on efforts by regulators to change this. "This will be one of the big shifts in the private banking industry." ■

THE CHANGING ROLE OF FEES IN FINANCIAL SERVICES

MARK KONYN, CHIEF EXECUTIVE OFFICER OF CATHAY CONNING ASSET MANAGEMENT, DISCUSSES THE POTENTIAL IMPACT FOR ASIA GOING FORWARD OF RECENT GLOBAL CHANGES IN HOW FEES ARE PAID FOR DISTRIBUTING FINANCIAL PRODUCTS.

Fee reforms have been a global phenomenon, and a necessary outcome post-2008.

Yet in Asia, there is still a distinct unwillingness to embrace these international developments.

But, according to Mark Konyn in an interview, things will inevitably change.

FEE MODELS IN ASIA

Konyn has no doubts that the changes which have occurred in this area of global financial services are a reaction to the financial crisis and its aftermath.

Essentially, as the world has become more transparent, fees have had to follow suit, he explains.

While Asia hasn't yet fallen under such scrutiny, Konyn believes it won't be long before this model becomes more commonplace within the region.

LEVELING THE PLAYING FIELD

It seems strange, he says, that global firms can operate under one set of rules in Europe or the US, and then different rules within Asia.

As a result, he explains that transparency in relation to fees will soon become market norm.

And that would obviously create a radical shift in relation to the notion of distribution partnerships, as well as to the style in which these partners are paid.

TRANSPARENCY AND REGULATION

It is the focus by regulators on transparency that is driving Konyn's predictions for the future in Asia.

He says he expects to see regulations coming soon.

This will be implemented in order to restrict the manner in which commissions are paid and for which distribution fees are met.

This idea isn't necessarily new to Asia, adds Konyn, given that a lot of asset management desks in Asia which are run by European or US firms are already employing practices that they follow in their home markets.

Mark Konyn
Cathay Conning Asset Management

That means they do not receive retrocessions or commission.

Instead, they are paid transparently.

These practices will more than likely eventually influence the other financial services players in this market, too, explains Konyn. ■

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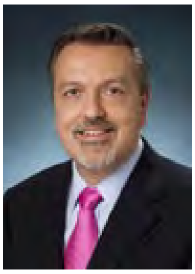
The Group has over USD3.9 billion of assets under management (as of December 2013), is employee owned and is SFC(HK), SEC(US) and FCA(UK) regulated.



Philippe Legrand - CEO
Philippe brings nearly 30 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. Before setting up L&C, he was Deputy CEO of BNP Paribas Wealth Management North Asia, a group for which 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 nearly 30 years of experience in the International financial Industry. Before founding L&C Asia, she was Managing Director at BNP Paribas Wealth Management. Her experience of close to 20 years in wealth management also includes managing senior private bankers in both BNP Paribas, ABN AMRO and Rabobank. Prior to that, Sanam held various positions at Ernst & Young and the Rockefeller Family Office. Sanam is fluent in English, Cantonese, Hindi and Sindhi.

Benson Wong - Managing Director, Corporate Advisory
Benson brings nearly 25 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 acquisitions at ING Barings. Benson speaks fluent English, Mandarin, Cantonese and Shanghainese.

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REDEFINING THE INVESTMENT EXPERIENCE

LEONTEQ SECURITIES AG IS TAKING ITS AWARD-WINNING OFFERING TO A NEW LEVEL WITH FURTHER WHITE-LABELING AND PLATFORM DEVELOPMENT INITIATIVES TO HELP INVESTORS IDENTIFY BETTER, MORE RELEVANT INVESTMENTS, AND IN MUCH LESS TIME.

Investors and financial intermediaries alike continue to grapple with challenges such as identifying the "right" products, the lack of transparency and portfolio reporting, and the relevance of investment information.

In many cases, the majority of time in the investment process gets spent trying to find suitable structures and assets rather than on execution.

The solution comes down to creating greater efficiencies via automation.

It then becomes realistic to expect better investment decision-making and at the same time a more intuitive, user-friendly customer experience.

Leonteq is making significant strides towards this. It has launched what it calls a "Smart Data" initiative and entered into a cooperation with Avaloq as the latest extensions of its business plan towards redefining the investment experience for end-users.

"Our focus is on increasing the productivity of our investors on both sides of their cost structure," says Jan Schoch, chief executive officer of Leonteq Securities AG.

Upstream in the value chain, this means faster and more accurate investment design and execution; downstream, it is about facilitating faster product set-up and trade matching within the investor portfolio, as well as an increase in risk transparency for portfolio reporting.

FINDING THE RIGHT PRODUCT

The essence of the Smart Data business is to provide more end-user analytics to investors, to drive and automate the investment decision process for clients.

This will put an end to sifting through the seemingly endless universe of combinations of underlyings and payoffs investors face when trying to customise the "right" product,

The process involves product selections and proposals being generated by Leonteq's product engines based on direct input parameters of the investor – specifying their investment objective and historical behavioural patterns.

"The principle idea is derived from the fact that the human brain is not capable of assessing and capturing all possibilities and combinations of investments in an acceptable amount of time, if even at all," explains Schoch. "Speeding up investors' research time while increasing the quality of their findings will lead to significant productivity gains for them."

Jan Schoch
Leonteq Securities AG

There are benefits for other aspects of the investment process, too.

Better diversification and improving risk/return profiles are two examples. "Historically, the average investor focuses only on a limited universe of underlyings leading to a sub-optimal portfolio allocation," says Schoch.

"The new tools will support and enable the investor to look outside the box and broaden the universe of possibilities within their investment horizon and strategy."

One of the firm's existing products, The Underlying Optimizer, already demonstrates the power of enhanced analytical capabilities. Deployed in September 2013 on Leonteq's own platform, it enables intermediaries to come up with the optimum basket of underlyings within a personalised universe for a given structure.

"We can optimise almost 3 billion combinations of underlyings in 2 minutes with this tool," says Schoch.

PRE-EMPTING THE INVESTOR

Schoch's ultimate goal is to understand an investor's thought process and objectives using Big Data technology.

"Nowadays, close to 1 million different structures are created on our platform every year," he explains. "Thanks to such a rich database of historical pricing and product requests, we are now in a position to identify trends within the investor crowd but also within a sub-group of peers, ultimately leading to better personalised investment proposals for our investors."

The firm can therefore observe, in real time, the most popular sectors and underlyings, the average risk profile of its

Doing more in Asia

Leonteq is also expanding its range of products and services under its own name in Singapore, following approval of its capital markets license by the Monetary Authority of Singapore.

While the local sales and distribution team was established in 2012, the license now allows 15-person Leonteq Securities (Singapore) to operate as an independent business entity licensed to deal in securities.

This will serve as the company's hub in Asia, including its business in Hong Kong, founded in 2010.

Jan Schoch says the firm is committed to a long-term investment in this growing market and is optimistic about further developments in Asia.

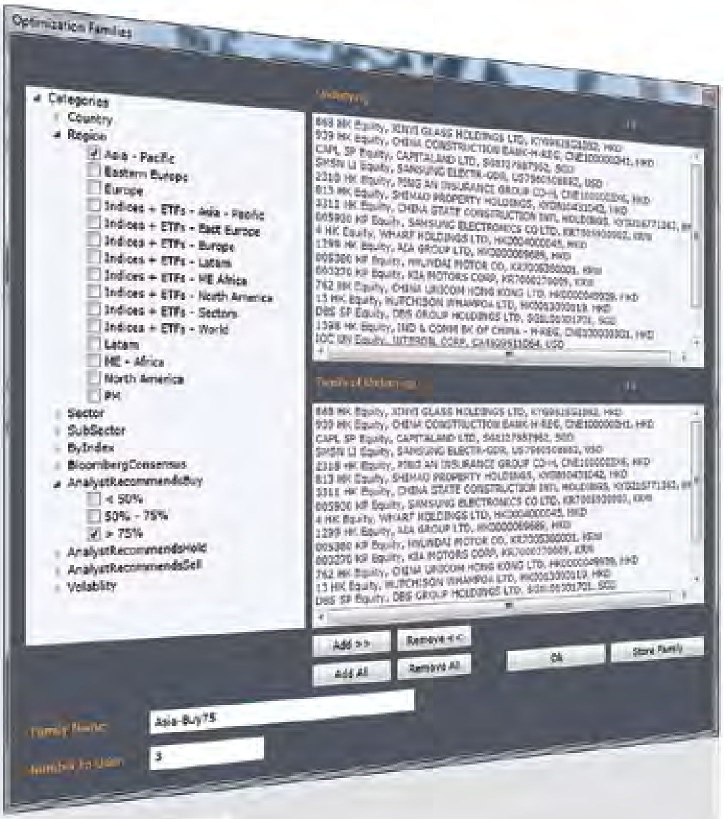
To support this expected growth, Leonteq has also moved into new premises in Asia Square Tower 1.

Sales and distribution in Asia of Leonteq's products combined those of its white-labeling partners contributed roughly 15% to Leonteq's total operating income in 2013.

Adds Schoch: "The industry is at the start of using technology as an enabler to industrialise the entire sector. We will continue to develop tools and servicesto help overcome issues relating to the lack of transparency and the relevance of investment information."

investors as well as the evolution over time of such parameters. These can subsequently be plotted against market conditions, the macro-economic situation and other factors.

The vision is that the investor will only have to design an investment universe by using selection criteria like sector, region and implied volatilities. The platform will then instantly deliver an optimised basket of underlyings for an optimised structure. "The investors also get product suggestions based on their investment profile and see the average investor profile," adds Schoch.



EFFICIENT PROCESSING

The firm has also become increasingly focused on tapping the know-how it has built up to take care of all aspects of investment product creation. That translates to the downstream part of the value chain.

This has resulted in a new commitment to various aspects of trade processing, such as booking, product creation within a system, and risk reflection within the investor's portfolio. And the desire to automate the after-trade cycle for the benefit of its investors is supported by its strategic partnership as of mid-2014 with core banking provider Avaloq.

In practice, this will become visible through increased automation in multiple areas, such as trade entry, product set-up and position reporting, ultimately leading to reducing the time investors require to monitor their positions in the portfolio.

"This focus on downstream features targets more productivity for our investors but also more transparency and visibility when it comes to their risk management," explains Schoch. ■

THE SWISS ALLURE WITHIN ASIAN FINANCIAL ADVISORY

THE SWISS-ORIGINATED INDEPENDENT ASSET MANAGEMENT MODEL HAS GATHERED A CERTAIN AMOUNT OF MOMENTUM IN SINGAPORE AND HONG KONG. THIS HAS LURED SOME OF THE MAJOR STRUCTURED PRODUCTS PROVIDERS TO SERVICE THESE PLAYERS, INCLUDING QUALITY-DRIVEN SWISS FIRMS, SAYS SYLVIE KHAU, HEAD OF ADVISORY, FINANCIAL PRODUCTS, FOR INDEPENDENT ASSET MANAGERS AT VONTOBEL FINANCIAL PRODUCTS (ASIA PACIFIC) PTE LTD.

One of the outcomes of the 2008 financial crisis has been a focus by end-investors in Asia on the quality of the financial advice they receive.

This has paved the way for the development of independent asset managers (IAMs) in Asia, and especially in markets like Hong Kong and Singapore, says Sylvie Khau, head of advisory, financial products, for independent asset managers at Vontobel Financial Products (Asia Pacific) Pte Ltd. “Their unbiased positioning provides independent advice, based on a truly open-architecture approach which leads to a complete alignment of interests with their clients.”

Industry figures show that Asian-based IAMs now manage roughly 3% to 5% of assets under management, says Khau.

TAILOR-MADE INVESTING

One of the interesting challenges for IAMs, however, is to be able to deliver on the investment strategy that they initially define for their clients. “To find the right solution, structured products are one of the possible answers,” says Khau, “given their rich history of innovation and ability to offer a create-to-fit result, to match the defined investment strategy, and such in a flexible and cost-efficient way”.

This isn’t possible for IAMs to do alone. “To meet clients’ expectations with regards to structured products, IAMs need to work with the right partner in that area of expertise. This requires a firm with long-standing expertise in structured products such as Vontobel which is Swiss and independent, too, plus is committed to Swiss quality and the leitmotiv of ‘performance creates trust’.”

To facilitate those interactions between an IAM and structured products provider, Khau explains that the Vontobel deritrade® platform ensures transparent and instant pricing over a broad universe of underlyings and wide range of payoffs. “The tool can be used to customise any specific product to fit the client’s requirements.”

TYPICALLY SWISS

With theme-based investing typical of the Swiss footprint, the Vontobel platform gives IAMs readily-implementable investment solutions on a particular recognised theme, adds Khau.

Sylvie Khau
Vontobel Financial Products (Asia Pacific) Pte Ltd

Other important features include collateral secured instruments (COSIs) and actively managed certificates (AMCs) that respectively provide an answer to credit risk and to having a cost-efficient solution for a dynamically-managed investment universe. “The key is to bring Asian IAMs the Swiss know-how but with an Asian perspective.” ■

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TTG
Wealth Management

TAPPING NEW APPETITE FOR ALTERNATIVES

AS BONDS CEASE TO PROVIDE THE TYPES OF RETURNS INVESTORS WANT, THERE IS A GRADUAL RETURN TO HEDGE FUNDS AND OTHER ALTERNATIVES. MICHAEL LEVIN, HEAD OF ASSET MANAGEMENT PRODUCT IN NON-JAPAN ASIA AND AUSTRALIA, AND HEAD OF ALTERNATIVE INVESTMENTS IN ASIA PACIFIC, PRIVATE BANKING & WEALTH MANAGEMENT, AT CREDIT SUISSE, EXPLAINS THIS TREND, AS WELL AS ITS POTENTIAL.

After a 30-year bull run in bonds, investors can no longer rely on traditional fixed income as a foundation for their portfolio.

The approach to building portfolios that has been used in the past, therefore, is not suitable any longer.

"The traditional asset allocation model of 60% equities and 40% bonds is unlikely to work going forward," explains Michael Levin, head of asset management product in Non-Japan Asia and Australia, and head of alternative investments in Asia Pacific, for Credit Suisse's private banking & wealth management business.

"We have benefitted from three decades of declining rates, during which time bonds served as a consistent source of income, capital preservation and portfolio diversification. But now interest rates are so low, with the perception that they will rise, so bonds can't provide that stability anymore."

As a result, high net worth (HNW) and ultra high net worth (UHNW) investors are reaching an inflexion point in terms of alternatives. They are looking for new, different and more consistent ways to generate yield. "Hedge fund strategies are therefore becoming more interesting for HNW and UHNW investors, and there is clear demand for these as well as other alternative investments," says Levin.

Michael Levin
Credit Suisse

> "Hedge fund strategies are therefore becoming more interesting for HNW and UHNW investors, and there is clear demand for these as well as other alternative investments."

ALLOCATING TO ALTERNATIVES

Levin says he has been seeing private banking clients who have not previously invested in alternatives now looking to allocate anywhere from 5% to 10% of their portfolios to hedge funds, fixed income-replacement strategies, or other fixed income instruments such as senior loans.

"When you add to this private equity, real estate, commodities and non-investment grade credit, we have seen some investors take that portion of their portfolio up to half," he adds.

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- Logins for your clients and other third parties
- Online corporate actions
- Online investment models
- Active alerts and monitoring
- Smartphone and tablet enabled

In general, for typical portfolios, his recommendation is around 10% allocation to alternative strategies.

This is only viable long term, however, if solutions can be tailored to client needs – and advisers need to know how to do this.

This relies on a lot of education for relationship managers, says Levin, to give them a deep understanding of specific types of products.

"We then match them with an investment specialist to ensure clients understand the investments they are making," he explains. "This approach has led to better understanding and greater client satisfaction."

GIVING CLIENTS REASSURANCE

Yet the pace of this improved awareness, and comfort among clients, needs to happen more quickly and in greater volume.

For instance, despite the opportunities that these investments can provide, there remains a level of hesitancy amongst the investor base, says Levin, simply due to misunderstanding.

Following the Lehman Brothers bankruptcy, for example, a lot of private banking clients either had bad experiences or blamed their portfolio problems upon their hedge fund exposure.

Such assumptions were in most cases unlikely to be true, given that most clients did not objectively evaluate that. And in fact, hedge funds lost less money on average across the market, and they recovered faster.

Further, hedge funds have responded to investors post-2008, plus there were many lessons at the manager level.

"The level of transparency has increased along with liquidity, as managers have focused on their investments being in more liquid strategies," explains Levin. "The terms also better align investors with the liquidity of underlying instruments."

Ultimately, it is a case of a long-term versus short-term outlook.

"Hedge funds have outperformed equities in the long term with less risk. The difference is seen in the short term; in a highly-directional equity market like 2013, hedge funds are likely to – and often do – underperform," he adds.

OTHER ALTERNATIVES

In addition to the hedge fund market, investors would be prudent to assess a variety of other alternative asset.

Distressed debt in Europe, for example, is of growing interest.

Traditionally, investors have looked to buy this at a substantial discount at times of market stress and then revalue and sell it in a recovering economy.

But post-2008, banks in Europe held these less liquid, non-core and non-performing loans and assets to sell in times of healthier balance sheets.

Levin estimates these banks have US$2 trillion worth of such distressed debt.

Europe as a region itself is a further opportunity, he adds.

This is specifically relevant for an Asian investor, to generate alpha from equity-based investment strategies as a result of mis-pricings. "Traditional long/short investments have a lot of opportunity here, particularly in the small- and mid-cap space, in Europe and also in the US."

Due diligence in sharper focus

As part of the heightened due diligence process for alternatives in today's environment, there is now heightened scrutiny in relation to non-investment risks associated with managers.

"What investors are now more focused on," explains Michael Levin, "are aspects such as the risk management infrastructure, the independence of decision-makers within the firm, operational processes and checks-and-balances, and the credibility of service providers."

Such greater sensitivity to where risks lie is beneficial to the overall process in getting a more comprehensive view of the risks of underlying managers. In turn, adds Levin, this gives investors greater comfort in what is recommended by their advisers.

However, while hedge funds can fulfil the desire for more consistent returns, Levin says it is in the banks' interest to ensure clients understand the trade-off – less liquidity and higher levels of volatility. "Basically, there are different risks to consider."

Elsewhere, despite the perception among investors of investment-grade bonds and US Treasuries as safe-haven assets, senior loans have historically outperformed these traditional fixed income investments and offered valuable diversification to protect investors during prior periods of rising rates, explains Levin. ■

SINGLE-MINDED IN SOURCING ALPHA

EFG ASSET MANAGEMENT IS WORKING HARD TO DEVELOP A GLOBALLY-HOMOGENOUS, CONVICTION-LED OFFERING WITH A FOCUS ON GROWING ITS EXTERNAL DISTRIBUTION VIA CAREFULLY-SELECTED STRATEGIES, SAYS CHIEF EXECUTIVE OFFICER JAMES LEE.

James Lee has a clear vision for how he wants to evolve his five-year old, US$10 billion EFG Asset Management (EFGAM) business.

After spearheading the creation of a single, easy-to-use platform of discretionary funds from what was previously a fragmented offering, his next focus is growing the firm's external distribution. That way, it can diversify and build on the sales of EFG's private banking channel.

"We have been focusing on building a platform to support our core private banking business, but as a corollary to that, we also see an opportunity to develop greater external distribution given broader demand in the market," says Lee, EFGAM chief executive.

He is looking to achieve this through consistency in the quality and performance of the high-conviction funds that the firm brings to market.

CREATING A UNIQUE MODEL

Since its creation, EFGAM has been an integral part of EFG International's private banking activities, working closely with the firm's client relationship officers (CROs) and their clients. But the funds specialist is also a distinct, specialist asset manager, providing a range of actively-managed investments to professional advisers and institutional investors worldwide via its bases in Geneva, Hong Kong, London, Miami, New York, Singapore and Zurich.

The first step, in 2009, was to create a homogenous offering from a structure that involved a different discretionary portfolio in each of the four regions in which it operated, all of which were applying different investment practices. "We now have one process, one global team; one unified governance and risk management; and one P&L," explains Lee.

"So if a client wants to use a manager in Hong Kong, for example, but would like to book the assets in Singapore, Miami or Switzerland, this would be part of the same proposition," he adds.

In line with this, the firm's New Capital brand offers funds which span global markets to provide access to a variety of themes, asset classes and regions that reflect EFGAM's macro views.

The firm says it launches new funds when there are compelling investment opportunities in the market. Its UCITS IV registered funds are accessible via over 20 platforms and are registered for sale in eight countries. These funds are not benchmark-driven, adds Lee. "We expect them to beat the benchmark over time, but they are not driven by that benchmark because we are inherently absolute-return oriented."

James Lee
EFG Asset Management

On the equities side, in particular, EFGAM is conviction-led in its investment style. All managers, for example, have concentrated portfolios of anywhere from 30 to 50 stocks on average. The bond funds are similar. "Through this we can show EFG's clients that New Capital offers a different suite of boutique funds," he explains.

To ensure the firm can claim to offer investors best-of-breed, EFGAM spends a lot of money on researching third-party products which compete with his own proprietary products in terms of the New Capital funds. "I am mandated to spend money to research anywhere from 200 to 400 (non-mainstream) mutual funds which we think are up-and-coming and likely to produce alpha – and which fit with our macro outlook," he says.

FACILITATING PRODUCT INNOVATION

In highlighting how and where EFGAM stands out in the marketplace, Lee is clearly proud of how the firm builds its fund range in the first place.

"Our ideas don't start by looking at what other fund managers are doing and then delivering something which is fashionable," he urges.

"Instead, the starting point is looking at what the CROs tell us about what their clients are interested in. We then sit down with our portfolio managers to discuss what, in line with our house view, will create alpha in their discretionary portfolios over the coming few years," says Lee.

"I would prefer to create intellectual property for our brand than go out into the market to source a third-party fund."

The firm then shares this research with the EFG CROs so that they have more guidance on the potential component funds for building a portfolio of which doesn't include any New Capital funds. "This means our own fund managers have to compete for money from our in-house distribution," he adds. "I don't think any other institution takes this approach."

In Asia, meanwhile, Lee says there is increasing traction – albeit from a relatively low base – with funds and discretionary mandates in Singapore, in comparison with the more broker-dealer approach of the Hong Kong market. Yet regulators are forcing investors to get more aligned with a discretionary approach – with advice increasingly having to be research-backed and in the context of a portfolio.

To achieve this, Lee says he prefers, where possible, to hire a fund manager and seed them for three years to get the assets under management to US$100 million-plus. That way he can ensure the fund meets traditional institutional thresholds for due diligence.

"I prefer to create intellectual property (IP) for our brand than go out into the market to source a third-party fund."

This is how the China fund came about in mid-2012. The New Capital China Equity Fund, which is run by Mansfield Mok and invests in up to 50 Chinese and Hong Kong stocks across all market capitalisations, is a reflection of the firm's long-term outlook on Asia.

Yet Lee is pragmatic about creating his own IP, and accepts it isn't always the most viable way to create alpha. In the US, for instance, it appointed an external manager, Mazama Capital Management, for its New Capital US Growth Fund that it set up in mid-2010.

"At the time, we couldn't find our own in-house manager to join us and offer something unique," he explains.

That decision has paid off to date. In 2013, Lee says Mazama was the leading growth fund in the US, generating a 43% return. ■

New products in 2014

An example of EFGAM's build-rather-than-buy mentality is the April 2014 launch of the New Capital Swiss Select Equity Fund – an open-ended equity fund investing in 35 to 45 Swiss stocks across market capitalisations. It is managed by Zurich-based Urs Beck, who recently joined EFGAM from his role as head of Swiss equities at Zuercher Kantonalbank.

A further addition is an M&A tracker certificate, led by global chief investment officer Mozamil Afzal and Robin Milway, head of equity research. This is a structured note with a two-year maturity from its May 2014 launch date, but with daily liquidity and the option to sell it at any time.

The goal is to build wealth by investing in stocks of companies of a certain type to capture the M&A theme – acquirers, (10% to 30%), enablers (10% to 30%) and targets (40% to 80%). The aim is to outperform global equity indices during the two-year period by investing in a diversified basket of 20 to 25 global equities divided into three sub-baskets.

USING DEPOSITS TO REFOCUS ON DEEPENING RELATIONSHIPS

IN A SIGN THAT THE DOMINANCE OF FEE-BASED PRODUCTS IN SINGAPORE'S BANKING MARKET IS WANING, NEW DEPOSIT-FOCUSED OFFERINGS ARE REDEFINING RELATIONSHIPS BETWEEN BANKS AND CUSTOMERS, SAYS DENNIS TAN, HEAD OF CONSUMER FINANCIAL SERVICES AT OCBC BANK IN SINGAPORE.

OCBC Bank's new "360 Account" reflects an emerging trend in terms of the interaction between banks and their customers in relation to investor portfolios and the move away from purely fee-based products.

Introduced in April, this deposit-based offering pays an interest rate of up to 3.05% a year if they centralise all their banking activities through this account.

Most importantly, this redefines the overall relationship based on how customers behave and use their account, says OCBC's Dennis Tan, head of consumer financial services, Singapore.

How the 360 Account works is clear. Customers earn 0.05% interest per year for a balance of up to S$200,000 (US$161,000), but they can earn 1% bonus interest on the first S$50,000 of the account balance for each of the following: if they credit the account with their monthly salary; if they pay any three bills per month through the account; and if they spend at least S$400 on their OCBC credit cards per month.

The bigger picture, explains Tan, is to reward loyal customers who bank with OCBC, plus acquire new ones.

It is clear to see the attraction of such an account, given that local interest rates averaged 1.68% from 1988 until 2014, says tradingeconomics.com.

Tan says more than 18,000 people signed up for the account within the first month of launch.

The flow of new account openings is also much easier because of the ability for Singaporeans and individuals with permanent resident status to make the initial application via a mobile phone. "The whole process only takes a few minutes and saves customers time by not coming to the bank in person," adds Tan.

BEYOND DEPOSITS

The popularity of the 360 Account to date is inspiring OCBC to want to do more for customers in Singapore, especially to tackle concerns relating to inflation and the aging population.

In particular Tan hopes that a deeper engagement with this new account will give customers more knowledge about banking and, ultimately, how to better manage their money. At that point,

Dennis Tan
OCBC Bank

OCBC is geared up to offer easy-to-understand asset management solutions and retirement plans, he says.

"The point is how to make it easier for them – simplify products, simplify conversations and simplify processes," explains Tan. ■

FINDING VALUE IN GLOBAL LOANS

INVESTORS SHOULD PAY ATTENTION TO CURRENT OPPORTUNITIES IN GLOBAL FLOATING-RATE LOANS, AND HOW THEY CAN GENERATE VALUE IN THIS SPACE, SAY BABSON CAPITAL'S MIKE FRENO, HEAD OF US HIGH YIELD INVESTMENTS, AND ZAK SUMMERSCALE, EUROPEAN HIGH YIELD CHIEF INVESTMENT OFFICER.

Floating-rate loans have increased in popularity in recent years as an investment option for both institutional and high net worth investors.

There are good reasons for this. First, says Mike Freno, head of US high yield investments at Babson Capital, the asset class has produced steady, positive returns over the last 15 years, with only a few exceptions. Also, floating-rate loans tend to exhibit lower price volatility than many other asset classes, partly because they pay investors a spread over a floating rate (typically LIBOR) as opposed to a fixed rate.

Widely viewed as an interest rate hedge, it is also an asset class which can be beneficial in a rising rate environment, adds Zak Summerscale, the firm's European high yield chief investment officer. "Senior secured loans effectively have no duration given they reset their coupons according to LIBOR on average every three months," he says. "This means loans are typically not negatively impacted by a rising rate environment, and indeed the coupon returns from loans will rise as LIBOR rises."

Floating-rate loans also tend to have low correlations with other fixed income asset classes, which can help investors manage portfolio volatility.

BENEFITTING FROM GLOBAL ACCESS

Investors in Europe and the US have traditionally stayed "close to home" when making allocations to floating-rate loans, focusing their investments in their domestic regions.

For Asian investors, however, without a developed domestic market in which to invest, accessing the asset class has traditionally been more difficult. "This is now starting to change," says Freno, "with the emergence of global loan funds that offer investors access to loans outside their home geographies."

The addition of international loans into the investable universe significantly increases the opportunity-set of potential investments and also adds another layer of portfolio diversification.

Bolstering the investable universe of loans can also be particularly important when considering how the relative attractiveness of different geographic regions may change over time, explains Summerscale.

Mike Freno
Babson Capital

"The timing of interest rate and economic cycles can vary across countries, leading to opportunities for truly global investors," he says.

For example, there might be a scenario where central bankers in the US begin to tighten monetary policy ahead of their European counterparts, given the


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Zak Summerscale
Babson Capital

different stages of each region's economic recovery. In such a situation, a loan manager with global capabilities would be able to adjust geographic weightings in the portfolio to reflect the changing dynamics in each market, says Summerscale.

LOCAL KNOWLEDGE VITAL

For investors eyeing opportunities in global floating-rate loans, the investment process itself is an important consideration.

Babson Capital, for example, has structured its high-yield investment team in such a way that it physically sits in the market in which it invests. "Having these local teams on the ground provides us with a material advantage as there are many nuances to each individual market," explains Summerscale.

For instance, countries in Europe can vary tremendously in how they treat bankruptcies and other legal and tax-related issues. "In our experience, having first-hand local knowledge is absolutely essential," he says. "Our local investment analysts are tasked with presenting their ideas in our open-forum style meetings, where each potential investment is thoroughly vetted and either accepted or rejected."

There is an additional portfolio oversight component, too, where several senior portfolio managers regularly review the portfolio with a focus on industry and issuer concentration, plus any changes in the near-term outlook.

RELATIVE VALUE

Investors also need to be aware of how market technical factors can result in relative value investment opportunities. "In our view, today's difference in loan spreads across geographies is driven largely by technical factors in each market," says Freno.

For instance, he explains, the US market has a much more developed retail investor base than Europe, and collateralised loan obligations (CLOs) also represent a much larger source of demand. As a result, trends in CLO issuance and retail flows must be monitored closely as they impact supply/demand dynamics.

"These factors can result in differing spread levels across geographies for loans with similar or identical credit risk profiles," says Freno.

A good example would be to look at companies that issue loans in multiple geographies. This is done for a variety of reasons including tax planning, access to cheaper funding and aligning financing with the location of subsidiaries, says Summerscale.

So a company may issue a loan in the US and then issue an identical loan in Europe; and the European loan may pay a spread approximately 50 basis points higher than the US loan.

"If the company had issued the loan in British pounds instead, it may pay an even higher spread," he says.

Is the investor taking additional credit risk? Of course not, says Summerscale. "The loan is backed by the same collateral – the same balance sheet – of the same company. The only difference is the currency the loan is issued in and where the loan actually trades.

These are the types of opportunities he says he looks for, and if he and his colleagues are comfortable with an issuer and have the chance to earn incremental yield without adding credit risk, they see this as a win-win.

POSITIVE OUTLOOK

In short, the global loan market remains attractive.

After all, the asset class has compelling risk-return dynamics with good cash flow and low volatility and should continue to attract both institutional and high net worth investors, says Summerscale.

"Following a period of market volatility in 2008 and 2009, loan returns have normalised as a result of improving fundamentals and credit conditions," adds Freno.

While investors should always consider the potential risks of investing in a below-investment grade asset class, such as exposure to potential credit-downgrades and or defaults, he says that corporate balance sheets are generally in reasonable shape and issuers do not look stretched when it comes to satisfying their obligations.

"We think opportunities exist in this market, both in the US and Europe." ■

MAKING A LEGACY BROKERAGE CHANNEL THRIVE

IN ADDITION TO ITS OWN ADVISORY OFFERING, INCLUDING US PRODUCT ACCESS AND EXECUTION CAPABILITIES, CITI WEALTH ADVISORS PROVIDES TWO-WAY CONNECTIVITY ACROSS ALL OTHER PARTS OF THE ORGANISATION'S WEALTH DIVISIONS, SAYS ANDREW BARRETT, MANAGING DIRECTOR, BRANCH MANAGER AND REGIONAL HEAD.

Despite the move among wealth management organisations of all types to incorporate more of a fee-based approach, Citi Wealth Advisors has been able to thrive in Asia with a transaction-based model.

Key to its success, says Andrew Barrett, managing director, branch manager and regional head, has been a combination of its ability to add value across the whole Citi group, its relatively low cost base, and its success in generating high returns for clients.

"The channel is a US-introduction platform," he says. "It allows investors to access the US for listed options, futures and many other US-focused instruments and products not available in the Asian time zone."

Mainly targeting individual clients with between US$1 million and US$10 million, as well as those institutional clients with anywhere from US$50 million to US$100 million in assets, the business is expanding.

Barrett claims this growth due to those clients being under-served. His traditional competitors are moving out of this space, he explains, highlighted by Julius Baer's acquisition of Merrill Lynch's wealth management offering.

COMPLETING THE OVERALL OFFERING

Besides its own retail and institutional clients, Citi Wealth Advisors also partners with Citi's consumer, private and institutional banks to provide services which fall outside of the core competencies of these units. For example, says Barrett, it is working with colleagues in the consumer bank to offer product advisory and guidance on how clients need to adapt their portfolios when necessary.

> "There is some overlap within the group because what I provide is specialised. By offering this competency, it enables them to maintain a relationship with clients while focusing on their specific goals."

Andrew Barrett
Citi Wealth Advisors

With Citi Private Bank, Barrett's team provides what he calls "add-on services" to existing clients. These include access to futures and listed options, which don't tend to fall within the pri-

Broad access

- **Managed accounts**
  An extensive array of managed accounts powered by Citi's Global Managed Investments group
- **Syndicate transactions**
  Citi can leverage its leading role in new debt and equity origination in the US and globally by providing clients with access to new-issue investments that may not otherwise be available
- **Alternative investments**
  Qualified clients can choose from more than 100 alternative investment products, including hedge funds, private equity and real estate
- **Capital markets**
  Clients can work towards more complex financial objectives through the use of structured products, securities trading, foreign exchange and fixed income
- **Research**
  Citi's global research organisation encompasses 314 analysts across 66 countries
- **Third-party offerings**
  Via partnerships with more than 200 mutual fund companies and 18 leading insurance carriers, Citi offers a wide range of mutual funds, insurance products and annuities

vate banking segment. And Citi Wealth Advisors provide services for some of the smaller relationships that the institutional banking unit has in place.

"There is some overlap within the group because what I provide is specialised," he says.

"By offering this competency, it also enables them to maintain a relationship with clients while still focusing on their specific goals."

For clients of Citi Wealth Advisory specifically, clients have the option of either entrusting the management of their investments to professionals, or using the advice available to then make their own investment decisions. For clients opting for a more active role, Barrett says they can place trades, review their account and access various tools and resources online.

KEEPING THE COST-BASE LOW

One of the ways that Barrett's business is able to remain competitive is a result of his relatively low cost base.

Citi Wealth Advisors currently has offices in Hong Kong and Singapore with 60 independent financial advisors (IFAs), split roughly evenly across each.

And as the business keeps growing, Barrett says he is aiming to grow this number to 100 by the end of 2015.

But despite this goal, he can keep fixed costs and overheads down through the compensation structure – he pays his sales team on a commission grid. "I leverage the platform and license we have, but the costs are low," he adds. "I pay most of that to my sales team."

HIGH EXPERIENCE LEVELS, HIGH RETURNS

Notable among the firm's advisers is the fact they have, on average, 15 years' experience. This makes them more capable than the average IFA in Asia of giving high-quality advice and delivering returns.

In line with this, Barrett says the firm's clients are looking for transaction fee-based types of products such as ETFs, stocks and individual bonds. "They want to grow their asset base."

"While the average hedge fund delivered 7.5% in returns over the last five years, trading equities resulted in 13% growth," he adds.

However, to ensure both clients and IFAs interests are aligned, Citi Wealth Advisors has introduced separately managed accounts to clients. These provide diversified portfolios that are personalised to a client's preferences and objectives, and managed by leading unaffiliated money managers which Citi's investment manager research arm screens carefully.

"We don't have a culture of product pushing," says Barrett. "We give freedom and flexibility to our IFAs to know their clients and serve them the best way they can."

> "I leverage the platform and license we have, but the costs are low."

A NEW LOOK FOR ADVISORY MODELS AND PRODUCT PLATFORMS

THE EXTENT TO WHICH ADVISORY MODELS NEED TO EVOLVE, FOR EXAMPLE TO ADAPT TO THE BANNING OF INDUCEMENTS AND SUITABILITY ISSUES, IS PART OF AN ONGOING ASSESSMENT WITHIN THE INDUSTRY.

Creating a successful advisory process in today's environment is a priority, but also one of the biggest challenges for most banks and wealth managers.

Whatever the solution to be implemented by individual organisations, the requirements are equally tough: stay relevant, remain up-to-date with the fast-paced advances in technology and associated client expectations, tackle the continued margin pressures, and be in line with requirements and standards around regulation, suitability, fees and the overall push towards greater transparency.

Olivier Pacton

HSBC Private Bank

"Retail clients are looking for private banking products and private banking clients are looking for investment banking-type services"

ADAPTING TO SHIFTING CLIENT APPETITE

Private banks in Asia need to adapt the types of products they make available to their clients – and how they deliver these – to continue to be relevant as the needs and expectations of different types of investors get more sophisticated and demanding.

The goal is to be more in line with behavioural and psychological changes in terms of the ways wealthy investors in Asia now want to construct and manage their portfolios, says Olivier Pacton, co-head of the private bank investment group at HSBC Private Bank.

Clients today are much more educated about the products they are buying and their providers. "This has made them keener to work with providers which can add value by meeting specific objectives they have – for example, helping them structure their assets," says Rahul Malhotra, managing director, head of South Asia at J.P. Morgan Private Bank.

As a result, adds Pacton, retail clients are looking for private banking products and private clients are looking for investment banking-type services.

As a result, the distinction between retail, private banking and institutional banking is getting more blurred.

Such trends require private banks to re-think and re-position, starting with their product offerings, says Pacton. "On the client side, we need to be able to explain to our clients about how they can achieve their investment goals more clearly," he adds. "On the regulatory side, we need to make our service more user-friendly to clients."

Alex Buerge

BNY Mellon Managed Investments

"Discretionary solutions in Asia don't tend to fit the needs of most private banking clients"

A NEW APPROACH TO MANAGING PORTFOLIOS

One of the changes in investor attitude relates to their willingness to outsource some of their portfolio management.

While the traditional approach of many first-generation Asian HNW clients in particular, has been to make all investment decisions themselves, the aftermath of the financial devastation caused by the crisis in 2008 has led more and more of them to re-consider.

"They realise that if they give their money to a portfolio manager, the overall portfolio returns will actually improve," explains Pacton. "We see an increase in discretionary services, ranging from real estate to private equity to hedge funds."

"There are different fee models in Asia based on the nature of the end-client advice or product provided and I don't foresee much convergence."

Along these lines, Alex Buerge, managing director and head of investments, managed investments at BNY Mellon Managed Investments in Asia Pacific, says there is significant potential for discretionary portfolio management in Asia, highlighting the need to develop more relevant solutions for private clients in this region.

Before the financial crisis in 2008, a lot of Asian private banks, and banks from Europe and the US, did a good job in increasing penetration into discretionary portfolios, he explains. However, even though discretionary portfolios performed relatively well during the financial crisis, a lot of investors took money out to pay down their debts.

Those clients who stood by their discretionary portfolios throughout the crisis, meanwhile, were generally back at zero after 12 or 14 months, explains Buerge. There is again a strong focus at the moment within private banking to be able to boost the discretionary side of the business.

This is not only to increase revenue, but also to implement a house view across those clients which are properly invested and diversified.

However, discretionary solutions in Asia don't tend to fit the needs of most private banking clients, says Buerge. For example, they are much more hands on, and seek more control, transparency and tailored offerings.

The challenge, says Buerge, is that there is only a very small number of Asian clients willing to delegate full responsibility in this way.

The interaction between HNW investors and the bank's investment teams – rather than just an RM – is also significantly higher and more appealing than ever before.

This is driven by the interest among clients to better understand how their portfolios are managed, says Pacton.

Another challenge for the industry relates to the potential for advice-based fees.

"There are different fee models in Asia based on the nature of the end-client advice or product provided and I don't foresee much convergence," says Andrea Muller, chief executive for Principal Global Investors in Asia.

More Western firms have come to Asia, bringing their own models, and are looking to service the needs of ultra-wealthy offshore clients with more complex needs, she explains. "These of types of clients are more likely to be

Andrea Muller
Principal Global Investors

"There are different fee models in Asia based on the nature of the end-client advice or product provided and I don't foresee much convergence"

willing to pay for those advice-based services," she adds.

Some local players are seeking to grasp the opportunity as well, she adds. However, they are focusing more on the onshore business, and will continue to compete on price.

"Investors in Asia require more financial education and time to develop a buy-and-hold mentality," says Muller.

GREATER LEVELS OF ACCESS

Another change under way being driven by new client expectations is towards the larger private banks offering a broader advisory approach as a gateway to the other elements of their service offering.

Clients also want access to corporate finance and investment banking expertise, adds Malhotra at J.P. Morgan Private Bank.

For many clients, there is not always a clear difference between their personal and business needs. "In many markets, clients also like to work with private banks to access industry-leading investment banking capabilities," he says.

"This is because of the trust factor and the comfort they feel in their existing relationship. I see this happening in places like Indonesia and India, for example," he explains.

Bernard Wai, managing director and head of private client solutions, Asia Pacific, Citi Markets, agrees that the ways in which private banks in Asia are able to offer use of their balance sheet to their clients is becoming increasingly important.

"Private banks are now a lot more focused on their lending, as well as investments, businesses," he explains.

For example, current investor appetite spans a combination of Asian bonds, global property, equity holdings and OTC swaps on accumulators, and more, says Wai.

And he adds that the financing business is important to investors seeking diversified and efficient exposure.

"Opportunities for private banks to capitalise on this need will likely continue until the US Federal Reserve raises interest rates," says Wai.

"Even though equity markets are challenged at the moment, investors can maintain their staying power if private banks' lending appetite stays strong," he explains.

But Pacton acknowledges that private banks cannot be good at everything, making the advisory business a great bridge for clients to reach out to necessary experts. ■

Bernard Wai
Citi Markets

"The ways that private banks in Asia are able to offer use of their balance sheet to their clients is becoming increasingly important"

THE DNA OF A STRONG ASIAN VALUE PROPOSITION

VINCENT MAGNENAT, ASIA HEAD OF PRIVATE BANKING AND SINGAPORE CHIEF EXECUTIVE OFFICER OF LOMBARD ODIER, HIGHLIGHTS THE THREE COMPONENTS OF THE FIRM'S VALUE PROPOSITION IN ASIA WHICH CONTRIBUTE TO A SCALABLE, SUSTAINABLE BUSINESS WITHIN A COMPETITIVE ENVIRONMENT.

The DNA of Lombard Odier has never been to try to be all things to everyone. It has built its value proposition around a specific focus on asset management with a discretionary approach, and remains committed to this in Asia as a way to differentiate the bank amidst intense competition in today's private banking industry.

By focusing on what it has a strong heritage for, Lombard Odier can ensure the interests of all stakeholders are aligned, says Vincent Magnenat, the firm's Asia head of private banking and Singapore chief executive officer.

It also enables the bank to recruit and retain relationship managers (RMs) that share the same values, he adds, serving to enhance the levels of trust between the client, RM and institution.

ALIGNED INTEREST

According to Magnenat, a discretionary approach can help alleviate some of the concern that individuals and families feel about how to protect and grow their assets.

With funds covering traditional asset classes to more specialised products including sector funds, emerging markets, small caps and funds of hedge funds, the aim is to ensure interests are aligned via the investment strategy and style chosen.

RELATIONSHIP MANAGERS

Having a clear value proposition also aligns Lombard Odier with those RMs who share the long-term approach to servicing clients and staying loyal to the bank.

This is exactly the type of personality Magnenat says the firm is looking to bring on board. And he appreciates the need to be patient to grow the team. "It would be difficult to add new RMs every month," he explains, "but by hiring those individuals that really understand our value proposition, we see less movement."

LONG-TERM TRUST

Ultimately, building a sustainable and scalable business depends on deep levels of trust with clients.

This is where the value of managing clients' portfolios in a discretionary way – and delivering on investment expectations – comes in, says Magnenat.

Once clients start to trust the bank, they will stay with the bank, he adds, and ask for other services.

Further, they are more likely to pass the relationship to the next generation. ■

Vincent Magnenat
Lombard Odier

SELECTIVE, LOCAL GROWTH DEFINES VP BANK'S ASIA VISION

RAJAGOPAL GOVINDARAJOO, MANAGING DIRECTOR OF VP BANK IN SINGAPORE, EXPLAINS TO HUBBIS HOW HE TAKES A MORE LOCALISED APPROACH TO GROWING ITS ASIAN BUSINESS, ALBEIT IN A MEASURED WAY THAT WILL RETAIN A BOUTIQUE LOOK AND FEEL.

VP Bank's Singapore business is dedicated to the protection and growth of clients' wealth, says managing director Rajagopal Govindarajoo. Established in 2008 as a subsidiary of the Liechtenstein-based VP Bank Group, he highlights how the bank provides individualised and personalised private banking services for high net worth individuals and intermediaries. "The close proximity and the availability to meet up with clients to analyse their needs is of utmost importance to VP Bank," he explains.

A LOCAL APPROACH

The vision of VP Bank in Asia is now more focused on developing the Asian side of the private banking and intermediary business.

The "boutique style" approach will cater to clients who seek distinctive personalised services that are based on trust and discretion, says Govindarajoo. That includes also putting more resources into its local offering with local flavours. "For example, our head of private banking for the region is an Indonesian national, and we have made a local hire to run our Singapore and Malaysian businesses," says Govindarajoo. "The idea is to use their personal relationships on the ground to drive growth in the markets they know well." At the same time, they can rely on the analytical expertise of the head office in Liechtenstein.

STAYING SELECTIVE

To Govindarajoo, size certainly doesn't matter. It is his strategy that will never mean marketing the bank's services to a wider segment among the mass affluent, nor creating a commoditised offering. "VP Bank is small enough to ensure personalised, direct interaction between the client and the adviser."

At the same time, the bank is large enough to provide a broad range of products and services which can be customised to meet the individual needs of clients. "We continue to position ourselves as a boutique private bank with a customised offering to a select group of clients," he says. "The idea of market share is not a concept we believe in."

In its position, he sees VP Bank as an independent adviser and partner to the client, rather than a pure-play bank. In line with this, he is focused on adding a few experienced relationship managers who are capable of talking to old-money clients and to the newly-wealthy who might need guidance and wisdom.

Raja Govindarajoo
VP Bank

Those clients are seeking personalised service and are used to asking for the extraordinary. "At the end of the day, customers want a positive experience and a reliable partner who is there to help them with their challenges and meet their requirements." ■

SINGAPORE BANK LICENCE REINFORCES EFG'S ASIA FOCUS

IN AN EXCLUSIVE INTERVIEW WITH HUBBIS, JOHN WILLIAMSON, CHIEF EXECUTIVE OFFICER OF EFG INTERNATIONAL, AND ALBERT CHIU, CHIEF EXECUTIVE FOR EFG BANK IN ASIA, EXPLAIN THE SIGNIFICANCE FOR THE FIRM'S REGIONAL COMMITMENT AND FUTURE GROWTH AMBITIONS OF BEING ABLE TO NOW ADD SINGAPORE DOLLAR DEPOSITS TO ITS PRODUCT OFFERING.

Being given approval by the Monetary Authority of Singapore for a wholesale banking licence is a milestone for EFG International's global business.

According to chief executive officer John Williamson, the new licence clearly demonstrates the bank's commitment to Singapore – and Asia generally – especially the desire to broaden and deepen its offering to clients.

More specifically, the regulator's announcement in February enables the bank to add Singapore dollar deposits to its range of products and services. "We can take Singapore dollar deposits and pay interest, as well as offer local currency equity-linked notes and dual-currency instruments," says Albert Chiu, chief executive for EFG Bank in Asia.

The firm can now operate on a more level playing field with the big local players, such as DBS, OCBC and UOB, and with the key international institutions, he explains.

Yet this development has an even wider geographic appeal.

"Both global and Asian investors are more and more interested in accessing Asian currencies. Singapore dollars have attracted a lot of attention in the past 10 years," says Chiu.

MAINTAINING MOMENTUM

In an industry very focused on finding ways to differentiate the business, Williamson says that by obtaining this licence, the bank is reinforcing the message publicly that it is still investing in Asia at a time when a number of private banks are re-evaluating their presence in the region due to the lack of profitability.

Indeed, building up Asia as one of the main growth engines for the bank has been part of its post-restructuring agenda under Williamson's leadership since mid-2011.

And after re-setting the business, it continued to increase in profitability within Asia in 2013. "Some of that came from cost-cutting, the rest from improving the productivity of existing bankers and offices," explains Chiu.

One of the positive outcomes of this achievement has been what he describes as an "exciting pipeline for hiring senior bankers" – based on a

John Williamson
EFG International

combination of the broader market's confidence in the potential for the new-look EFG to expand in this core location, and of the trend towards industry consolidation.

"We have ambitious plans to grow in this region," says Williamson. "We have been active in Asia since 2000

Business highlights

- EFG International made an IFRS net profit attributable to ordinary shareholders of CHF 110.9 million in 2013, compared with CHF 103.1 million a year earlier
- Revenue-generating assets under management were CHF 75.9 billion, compared with CHF 78.7 billion at end-2012, but up 5% after adjusting for exited businesses and reclassifications
- Net new assets from continuing businesses were CHF 3.2 billion (annual growth of 4.3%)
- Excluding Switzerland, all other private banking businesses were positive in net new assets
- The total number of CROs stood at 435 at end-2013, up from 414 a year earlier
- The Basel III BIS Capital Ratio stood at 18.0% at end-2013, up from 15.9% at end-2012

and were profitable within a year; and we have never lost sight of the need to marry growth with profitability. Asia never stands still, and it is important that we think the same way and continue to look for ways to improve."

NO ROOM FOR COMPLACENCY

Not standing still is just what EFG is currently doing.

In January 2014, for example, it agreed with Falcon Private Bank on a referral of the latter's clients in Hong Kong. The two organisations are now working closely together to ensure a smooth introduction of client relationships during the first half of 2014 and a number of client relationship officers (CROs) will move across. The deal involves assets under management of around CHF 800 million (US$905 million) and it is expected that the lion's share will ultimately transfer to EFG.

Then in February, in addition to obtaining the wholesale banking licence in Singapore, EFG hired Alvin Ma as head of emerging wealth, based in Hong Kong. His mandate includes building out a China team after joining from China CITIC Bank International, where he was responsible for international private banking.

Further, to capitalise on the global Indian opportunity, a new role of head of global Indians has been created, and EFG International is in the process of hiring, to be based in Singapore but with an international remit.

"We see no shortage of opportunities to grow in various markets across the region," says Williamson, "and will continue to look to enhance our offering to clients and to add additional high-quality CROs."

Albert Chiu
EFG Bank

Given his expectation that Asia will continue to prosper over the medium and long term, Williamson says he is looking for the bank's regional business to be an important contributor to its overall global growth.

"With our track record, experienced leadership team and the various growth initiatives underway, I am confident it will deliver." ■

A FRAMEWORK TO SERVICE WEALTHY ASIAN FAMILIES

CHRISTOPHER MARQUIS, MANAGING DIRECTOR AND HEAD OF PRIVATE WEALTH SOLUTIONS FOR HSBC PRIVATE BANK IN ASIA, EXPLAINS THE APPROACH AND EXPERTISE REQUIRED IF WEALTH MANAGEMENT FIRMS WANT TO BE ABLE TO MEET THE COMPLEX, MULTI-JURISDICTIONAL BUSINESS AND FAMILY NEEDS OF ASIA'S ULTRA WEALTHY.

It seems inevitable that ultra high net worth (UHNW) individuals seek the services of wealth management firms who have the ability to develop a strong understanding of the needs and dynamics of wealthy families, and have the perspective to consider their long-term needs across generations.

That means the organisation needs to understand and translate the collective family values into an effective wealth succession plan, says Christopher Marquis, managing director and head of private wealth solutions for HSBC Private Bank in Asia. "In the context of Asian families, this can be a difficult process," he adds, "given sensitivities around succession, diversity and complex family dynamics."

THE RIGHT UNDERSTANDING

Not only should the wealth management firm have experience in dealing with UHNW families across generations. But it must also take a holistic view of the family's wealth, including the non-financial assets as well as financial assets.

Only with practical experience can these firms have a good chance to engineer the right framework to cater to the varying demands of wealthy families, says Marquis.

For example, UHNW individuals often need access to a platform which can provide technical and strategic planning for their families' multi-jurisdictional residency and asset profile. As a result, he says wealth management firms need to have the ability to create wealth planning structures with the flexibility to accommodate evolving personal needs and the fast-changing regulatory environment.

Beyond creating the right framework, more fundamentally, it is about trust between the wealth planner, relationship manager and the key decision-makers of the family. "This is particularly important for wealth structuring solutions that might require the patriarch of the family to relinquish control, for the greater good of the family, in favour of a collective decision-making framework," explains Marquis.

Further, having the capability to offer family governance and philanthropic advisory expertise as part of the overall family plan is an important part of ensuring participation across multiple branches of the family, he adds.

Christopher Marquis
HSBC Private Bank

A MIX OF BUSINESS AND FAMILY WEALTH

Consideration must also be given to the very strong connection between business and family wealth management needs in Asia. "Family businesses form the backbone of Asian econo-

mies, driving growth," says Marquis, "and self-made first-generation entrepreneurs have created the bulk of the private wealth in the region."

Various research reports and anecdotal evidence suggested that more than two-thirds of Asian firms are family owned. As a consequence, the owners usually have a significant part of their wealth closely associated with their family business.

To help manage the different risk profiles between the business and the family, Marquis says that a family succession plan can be effectively tailored to provide the flexibility to cater for different risk profiles.

As an example, he explains, the family business can be held in a master trust with any liquidity from the business distributed to different trusts for each branch of the family.

"Each family trust would define its own risk appetite to ensure the assets within each trust structure are invested appropriately," he says.

Further, recent high-profile cases of family feuds in relation to the spilt of family business and family wealth have led many wealthy families to think about family wealth and business succession planning, adds Marquis, to avoid landing up in similar situations.

And there is increasing urgency to get it right. According to the December 2013 Forbes list of global billionaires, the vast majority of the world's wealthiest individuals are at the succession planning age, with 68% of the world's billionaires aged over 55.

"We are entering a period of unprecedented wealth transition with the generation which created the wealth now transitioning the management and control of the family business to the next generation," says Marquis.

CAPITAL MARKETS CONNECTIVITY

There is also a desire by Asian entrepreneurs and business owners to also be understood by their bank from the corporate side.

This plays into the hands of universal banks like HSBC, which can connect clients directly with its capital markets business when the need arises.

"As an example," says Marquis, "where the family business is held in trust, the family may be looking to dispose some or all of the family business or raise capital for an acquisition."

And where a liquidity event occurs for a family business, banks will play an important role in ensuring the proceeds are invested appropriately, considering the needs of the trust beneficiaries.

THE VALUE OF GOVERNANCE

For families where the primary asset is the family business, and when families become more diverse, the role of governance is extremely important in ensuring the ongoing transparency, communication and participation of different family members in decisions around the family wealth.

"Families should think of family governance as a common set of values around which the family businesses are run and important decisions in respect of the family's wealth and well-being are made," explains Marquis.

The focus should be on the processes, policies and practices rather than subjective opinions of specific individuals, he adds. "An effective succession plan will integrate governance and structure, for example, a trust to hold the family assets with governance processes embedded into the trust structure."

Assessing citizenship

Citizenship is emerging as an important consideration for wealthy Asian families to the extent that families are becoming more international with subsequent generations choosing to study, work and live in higher tax jurisdictions.

According to Christopher Marquis, an effective succession plan will consider the multi-jurisdictional profile of the family and ensure that all family members are well provided for, despite potentially being exposed to higher tax jurisdictions without impacting negatively on other generations.

In some Asian countries, geo-political stability is a concern, he explains, therefore the ability to have options to relocate in the event of instability in their home country is important to some clients.

LOOKING LONG TERM

Ultimately, long-term succession planning solutions that ensure the effective transfer of wealth between generations are critical in preventing families falling into the so-called "three generation gap" –where the wealth is created and then dissipated within three generations. "Integrating governance with an appropriate structure is important to achieving the long-term goal of ensuring the family wealth is preserved, sustained and enhanced for the benefit of future generations," says Marquis.

Harmony and unity in the family are both central to the continuity of the family business and the family's legacy, he adds. ■

BANK OF MONTREAL PLAYS PATIENT PRIVATE BANKING GAME IN ASIA

AROUND 18 MONTHS INTO HIS LATEST ROLE, SPEARHEADING BANK OF MONTREAL'S (BMO) PRIVATE BANKING BUSINESS IN ASIA PACIFIC, ROBERT CORMIE IS ADAMANT THAT LONG-TERM SUCCESS IN THE REGION WILL DEPEND ON A BANK'S ABILITY TO OFFER REAL ADVICE AND PROPER WEALTH PLANNING - CONCEPTS AT THE HEART OF THE PHILOSOPHY OF HIS CANADIAN EMPLOYER.

What many industry experts see as an inevitable shift in the not-too-distant future in Asian private banking – from a transactional model to advice-led offerings – plays into the hands of some institutions much more than others.

The approach increasingly required in Hong Kong and Singapore involves proper asset allocation and a move towards fee-based service, explains Robert Cormie, managing director and head of private banking, Asia, for Bank of Montreal (BMO).

As a 17-year veteran of the region, Cormie is convinced that he's on the right side of this trend – working for a Canadian player with a strong discretionary heritage. "In Canada, for example, private banking is almost 100% discretionary portfolio management," he says.

BUYING IN TO THE GROWTH STORY

As the only Canadian bank with a locally-incorporated subsidiary in China, BMO has had a solid footprint in Asia for many years, including strategic equity stakes in local fund management and trust businesses.

Yet it was the more established private banking hubs of Hong Kong and Singapore where it lacked pulling power.

So after identifying the importance of building out its regional presence, it purchased another Canadian bank's private wealth management operations in Asia.

The all-encompassing nature of the deal showed the extent of BMO's intention; it bought the entire front, middle and back offices of what the bank had developed in private wealth management. BMO even purchased the technology – the Temenos Triple-A Plus platform – further helping with a smooth integration. "It was a seamless and efficient process," says Cormie. "Clients and relationship managers moved over also."

For example, they still had the stability of a Canadian institution, which brings with it the regulatory soundness that resonates with Asian clients.

BUILDING OUT FOR THE FUTURE

The firm's discretionary offering is where Cormie says BMO wants to focus as it grows its Asian franchise. "There is a lot of depth in asset management and existing private banking capabilities within BMO, especially in North America," he says.

That counts, given that there continues to be a need within private banking in Asia to leverage the general expertise

Robert Cormie
Bank of Montreal

that exists in North America in terms of how to approach wealth management, adds Cormie.

More specifically, that means giving clients access to best-in-class, third-party fund managers which are typically only available to institutional investors.

"We offer asset allocation among various strategies, where the client also owns the individual equities, rather than it being a pooled fund," explains Cormie. "The client sees the underlying equities and the trading happening within their account, and the performance against the benchmarks they have for each strategy."

The firm then rebalances each strategy on an annual basis to make sure it is consistent with the client's risk profile.

They need to see the more holistic way of approaching advice as the opportunity to grow their book of business, explains Cormie.

TAPPING THE CHINA TREND

While there is a keen focus on growing the brand in Hong Kong and Singapore, leveraging the existing business in China is where the real opportunities lay.

It is important to build on the track record. For example, at an institutional level, BMO has been involved in some of the largest transactions involving China outbound initiatives.

From a private banking perspective, Cormie says the firm is able to add value with those mainland Chinese individuals who have assets outside China and are looking for global asset management across many countries and multiple products.

> "Anyone who joins BMO must embrace the concept of talking to clients about their asset allocation and long-term planning – and move away from looking at the hottest stock of the day. They need to see the more holistic way of approaching advice as the opportunity to grow their book of business"

This strategic focus also influences the types of private bankers Cormie is looking for to spur growth.

"The bankers we hire need to buy into the fact that the business model in Asia is changing," he explains.

"Individuals who want a broker-dealer environment are not for us."

Instead, anyone who joins BMO must embrace the concept of talking to clients about their asset allocation and long-term planning – and move away from simply looking at the hottest stock of the day.

ENVISIONING SUCCESS OVER TIME

With Cormie expecting sweeping changes in the structure of private banking in Asia, he says the product offering will be at the forefront of success going forward.

"The fact there is a shift by the regulators towards making it more complicated for banks to pursue transaction-oriented models works to our advantage.

"And it is possibly to the disadvantage of some of the bigger players which have transaction-focused models that are more entrenched, he adds. ■

BMO's footprint in Asia Pacific

- Bank of Montreal (BMO) established in 1817 as Canada's first chartered bank, and did its first trade with China in 1818
- BMO China has branches in Beijing, Shanghai and Guangzhou
- BMO Nesbitt Burns has a representative office in Beijing
- There is a Taiwan representative office in Taipei, and an Indian representative office in New Delhi
- BMO has a 28% equity stake in Fullgoal Fund Management in Shanghai, and a 19.99% equity stake in COFCO Trust in Beijing
- BMO Private Bank operates in Hong Kong and Singapore, and offers products and services such as: brokerage and funds advisory; discretionary investment management; banking; and global custody and reporting
- BMO Private Bank was named "Best New Private Banking Brand 2013" and "Best New Private Bank 2014" in Hong Kong and Singapore by Global Brands Magazine and Global Banking and Finance Review

WHY EUROPEAN INVESTORS SHOULD GET MORE ASIAN EXPOSURE

STEVE KNABL, MANAGING PARTNER OF SWISS ASIA, OUTLINES SOME OF THE MAIN REASONS WHY EUROPEAN INVESTORS NEED TO INCREASE THEIR ALLOCATIONS TO ASIA.

More European investors are under-invested in Asia, typically a result of a lack of knowledge about the region and a more conservative mind-set post-financial crisis.

"Our European clients used to invest in Asia heavily and did not hesitate to allocate to Asian-focused hedge funds, but this has changed since the financial crisis," says Steve Knabl, managing partner of Swiss Asia, an independent asset management company (IAM).

"Many of them lost a lot of money so they now only tend to want products they can liquidate at any time."

But Knabl says these European investors should re-think their strategies.

THREE DRIVERS TO INVEST

First, Asian clients, especially young Chinese consumers, are buying more and more consumer goods – a key factor in driving the global economy. Funds which have strategies that are consumer-focused, therefore, provide a good avenue. "European investors can get access through passive products as a relatively safe way of getting exposure," explains Knabl.

Direct investment is another good option, he adds. "If they have the means to invest in good ideas, they should come to Asia, source the rare pearls, and invest directly themselves."

Another benefit for European investors of looking to invest in Asia relates to the increased compliance burden in the region. Many external asset management companies today are pre-occupied by trying to fulfill growing and complex compliance mandates. "Unfortunately they simply don't have enough time to take the same amount of care of their clients' investment needs as they used to," says Knabl. "They are predominantly pre-occupied with compliance matters instead of promoting the Asian market opportunities."

This increasing compliance burden provides an opportunity set for IAMs like Swiss Asia which are hiring seasoned bankers who no longer wish to spend most of their time dealing with compliance issues. As a direct result, they can spend more time managing clients' needs and expectations relating to their investments and portfolios.

Further, the development of the independent model in Asia in the last few years means that European investors can get access via robust platforms offering more flexibility and more sophisticated investment strategies.

Steve Knabl
Swiss Asia

Knabl says this is highlighted by the growing interest from European asset managers in talking to his firm about helping them move to Asia to manage their clients from Asia. ■

TAKING MALAYSIAN WEALTH MANAGEMENT TO THE NEXT LEVEL

MALAYSIA HAS BIG AMBITIONS IN CREATING A LARGER WEALTH MANAGEMENT INDUSTRY THAT IS RECOGNISED INTERNATIONALLY FOR THE QUALITY OF ITS PEOPLE, PRODUCTS, PLATFORMS AND CLIENT SERVICE. POSITIVE STEPS ARE BEING TAKEN, BUT IT IS A LONG JOURNEY AND IT WILL TAKE TIME FOR THE VARIOUS COMPONENTS TO FALL INTO PLACE.

Shi Jie Ong
OCBC Bank

"We need to have clear principles about how to take the industry forward"

There are many reasons to be optimistic about the future of wealth management in Malaysia.

Growing numbers of wealthy individuals at the mass affluent, HNW and UHNW levels are luring a larger number of banks, independent firms and other advisers to launch or enhance their range of products and services specifically targeting one or more of these client segments.

Further, a big commitment that local banks are showing, is the willingness to invest in their platforms.

That is in terms of the product offering, online portal, and client communications, to enhance the overall customer proposition and experience, and ensure they can meet rising expectations.

The regulators are also eager to lay foundations that they think are conducive to supporting the evolution of the market, for example by facilitating an increase in inflows and outflows of capital and expertise.

Yet patience is needed. Market participants from across the spectrum need to first put in place the components of long-term success and sustainability.

For many industry players, that means moving beyond the product-driven approach that shapes how many firms and advisers operate.

It also requires a more determined, coordinated and consistent effort to raise competency standards, broaden discussions with clients from wealth creation strategies to cover preservation, succession planning and, ultimately, retain more relationships onshore.

Being positioned to capitalise on such a large opportunity also takes commitment to developing a sustainable and profitable business that can differentiate by products and services.

As a result, the industry is at the stage where regulators and practitioners must now make important decisions about its future.

Either they must facilitate a true regional centre of excellence by driving a more solution-based, service-oriented culture with clients' interests at the forefront – or continue seeking the short-term economic benefits of selling products.

CARVING OUT OPPORTUNITIES AND SEGMENTATION

Each wealth management provider has its own customer segmentation, typically by AUM, for which they provide a diversified range of products to suit that category.

Mass market, or core banking, tends to mean customers with AUM of less than RM100,000. For most banks, to be able to offer structured investments, the customer needs to be a HNW individual with more than RM3 million in AUM, excluding their primary residence.

The segment which caters for AUM of more than RM500,000 will offer DCIs, equity-linked investments and other short-term structured investments.

One of the attractions for banks to create more bespoke offerings to HNW individuals has been that they can also target clients with whom they have business banking accounts but where they might not do any personal banking for them.

The numbers are meaningful, too. Estimates are that the population of HNW individuals in Malaysia will double from its current 32,000 to 68,000 in 2015; with their net worth increasing from US$140 billion to US$330 billion.

At the highest end of the spectrum, the number of UHNW individuals in Malaysia is expected to increase by 33% over the next 10 years to 739 by 2023 from 557 in 2013, according to Knight Frank's The Wealth Report 2014. Further, it said the number of UHNW individuals in Malaysia increased by 2% between 2012 and 2013 with nine new individuals joining the ranks of those with US$30 million (RM100 million) or more in net assets.

It is clear that the various wealth segments have attracted a growing number of banks eager to win a share of this market.

Paul Lewis

AmBank Group

"We see a big future in priority banking from our mass market base because of the growth in emerging affluent customers and small business owners"

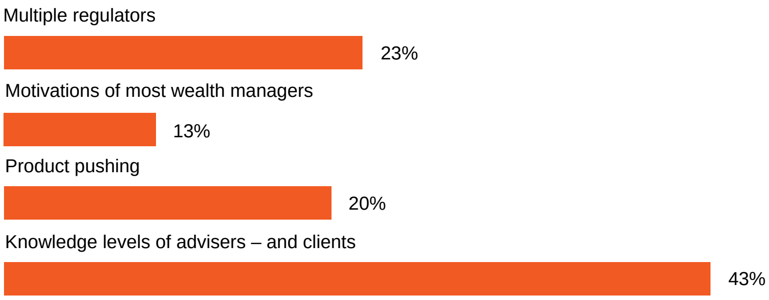
But being successful is all about prioritising what's on offer, rather than trying to be all things to all customers.

The increasing importance of wealth management to Ambank Group, for example, is spurring the organisation to develop its name in this segment. Initially, it is looking to do this by delivering a cost-efficient service via a commoditised product offering, explains Paul Lewis, its managing director of retail banking.

The rationale, he explains, is building an offering that specifically caters to the bank's customer base of mass affluent individuals. "We see a big future in priority banking from our mass market base because of the growth in emerging affluent customers and small business owners," says Lewis.

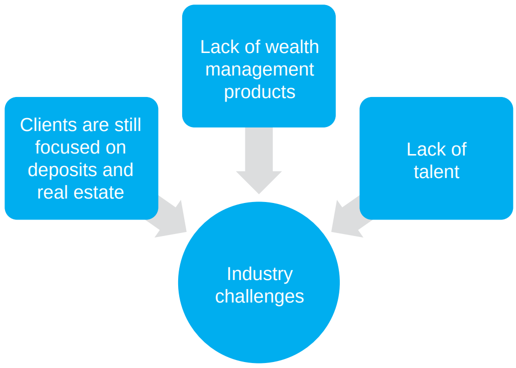
Around 70% of the bank's deposits come from affluent individuals, and it is looking to offer additional services and products such as funds and dual currency investments to retain customers and deepen its share of wallet. "It is very important for us to focus on

WHAT'S THE BIGGEST HURDLE TO FURTHER ENHANCING INDUSTRY CREDIBILITY IN MALAYSIA?



Source: Hubbis Malaysian Wealth Management Forum 2014

MALAYSIA'S WEALTH MANAGEMENT CHALLENGES



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getting right a cost-efficient service through commoditised products as a starting point," he explains.

Shan Saeed, chief economist of IQI Group, agrees that to be successful in Malaysia depends on positioning in the minds of consumers. "It's not about strategy, product or how smart you are. It is about gathering intelligence on your customers, competitors and the regulatory framework, to then be able to find the right target group and compete," he says.

EXPANDING THE FOOTPRINT

A notable recent trend in Malaysian wealth management has emerged via the international expansion plans of some of the leading local banks – as they drive the development and growth of the sector beyond the country's borders and create better connectivity to the rest of Asia.

Their goal, they say, is to play an increasingly important role within the wealth management space across ASEAN and internationally.

One of the ways to achieve this is by trying to differentiate their product and service offerings to make the most of opportunities emerging from a combination of regulatory liberalisation and the evolving needs of existing clients and prospects region-wide.

Having a presence in both the domestic and regional markets will also enable these banks to be able to compete more effectively for onshore and offshore HNW assets.

Inside Malaysia, for example, they can target onshore wealth via financing and lending.

In markets like Singapore and Indonesia, for instance, they will focus on those wealthy Malaysians – plus clients of other nationalities – who typically prefer to hold a certain portion of their wealth offshore.

These clients typically opt for Singapore, Hong Kong or somewhere where they can hold it in US dollars, because they perceive the assets to be safer this way.

The strategy is also well-timed in relation to the UHNW segment. As this grows, so does the potential for offshore expansion as these individuals are looking to increase their allocations to developed markets.

Figures from Knight Frank's The Wealth Report 2014, for example, show that 35% of Malaysian UHNW individuals are planning to send their children to school overseas, with 60% of them planning to send their children to universities overseas.

The report also showed that 38% of these Malaysians are planning to increase their property investments in 2014 and 25% are considering purchasing another home during the next 12 months.

Anthony Siau

RHB OSK Asset Management

"We want to be known as an ASEAN specialist and be very good at investing in the ASEAN and Asia space"

Carolyn Leng

CIMB Private Banking

"CIMB Private Banking has, through increasing recognition of the Group's capabilities in the regional and global space, started to attract interest from offshore clients"

LEADING THE INTERNATIONAL CHARGE

RHB Group, for example, has a very clear, and bold, objective: to increase its RM48 billion (US$15.48 billion) in AUM today to RM100 billion by the end of 2018.

"This will come through a combination of strategic partnerships, acquisitions and organic growth," says Anthony Siau, director, regional head, and group strategy & institutional business at RHB OSK Asset Management.

With the purchase of OSK, and in conjunction with RHB's acquisition plan, an effective way to raise the group's profile is to expand the business across South-east Asia.

Outside of Malaysia, in Singapore and Hong Kong, this involves setting up a new private client group, explains Siau. This creates a private banking-style offering to HNW individuals and family offices. "We want to be known as an ASEAN specialist and be very good at investing in the ASEAN and Asia space, which is in line with our vision to be 'an outstanding ASEAN fund house with Asian capabilities'." he says.

For anything outside the region, he says the firm will look for strategic partners. For the US markets, for example, RHB partners with Goldman Sachs and Schroders.

Maybank is another key local player which has also been focusing on building a private wealth franchise in Singapore. The bank's senior executives see this as a logical next step to its existing presence in the 10 ASEAN countries.

This enables it to service a combination of local clients as well as use its offshore desk to cater to clients based offshore but who want to bank in Singapore or Malaysia.

"We already have the capability and infrastructure to serve our HNW clients. Our focus now is to strengthen it through a more dedicated offering," explains Alvin Lee, group head of private wealth.

To do this, Maybank has positioned the private wealth arm within the consumer bank, but also ensured it is closely linked to the corporate and investment banking divisions – in turn enabling it to tap into an estimated 10,000 to 20,000 potential clients from corporate banking relationships.

More credit, discretionary portfolio management and margin financing on share trading are some of the specific product enhancements which are on the cards, says Lee.

At CIMB, meanwhile, which already operates in 17 markets worldwide, international expansion is part of its DNA.

For CIMB Private Banking more specifically, next on the growth agenda for Carolyn Leng, head of the Malaysian business, is tapping into the growing ASEAN wealth through regionalisation. "Despite being a focused onshore private banking player, CIMB Private Banking has, through increasing recognition of the Group's capabilities in the regional and global space, started to attract interest from offshore clients."

Further, integrating the Malaysia arm into a regional private banking franchise within the CIMB Group will, says Leng, give the bank a competitive edge through integrated resources and capabilities in providing investment and commercial banking solutions for its clients.

GREATER COORDINATION

Perhaps one of the most encouraging developments for Malaysia's wealth sector has been the government's recent economic transformation initiative. It stated it wants to ensure that, by 2020, wealth management is one of the key industries in the country.

However, there are various challenges in getting there. For instance, Malaysia is one of several jurisdictions in Asia blighted by the lack of cohesion among various players and types of organisations operating across the wealth management industry.

To date, firms representing different customer segments and business models haven't come together formerly to talk to each other.

An obvious side-effect has been a lack of a united or consistent voice to make regulators aware of industry needs. These include understanding the difficulty of carrying multiple products, plus dealing with various regulations and multiple authorities across different lines of business.

The existence of multi-level agencies also leads to confusion for clients. Gathering input from different industries and viewpoints, say market practitioners, is vital to fill a gap in understanding about each other's issues. For example, the regulators tend to have a reasonable dialogue with the product side of the organisation, but more is needed with the distributors to canvass views on what would work and how best to implement it.

This highlights the extent to which wealth management still being organised along product lines – which, says Shi Jie Ong, head of wealth management for OCBC Bank in Malaysia, is the fundamental issue.

"We need to have clear principles about how to take the industry forward," she explains.

There is also a need for more competition, she adds. "Competition drives innovation. If you have more competition, it encourages the creation of relevant products to address the needs of different segments. It will be a better way to grow the talent pool as well."

In Ong's view, the industry has been suffering a loss of talent because it is not as developed as in some of the hubs around Asia, such as Singapore and Hong Kong.

Advisers need a broader range of products and services if they are to be encouraged to stay onshore, she says. However, she adds that there is some maturing taking place to cover different asset classes and more geographies. This is important to build credibility, both for themselves and the industry as a whole.

A more open market might also help slow the exodus of funds offshore.

Since mass affluent, HNW and UHNW clients are all exposed to global opportunities and solutions available in places like Singapore, Hong Kong and beyond, if the local industry cannot provide clients with similar options, it won't be able to manage an important – and growing – part of their wealth.

And once a relationship goes offshore, it is difficult to bring clients back to Malaysia, say practitioners.

Although the regulators are aware of this issue, it is a challenge to create an equal system to allow Malaysian professionals to manage clients' wealth and improve standards on par with some of the international centres.

Salman Haider, managing director and head of South-east Asia at JPMorgan Private Bank, views the market opportunity from three perspectives.

First, he says Malaysia is a hub for Islamic finance in the region, so it needs to focus on how it can extend its reach in this area across region.

"Malaysian banks need to think about how they can serve the 250 million Indonesians, for example," he says.

Secondly, given Malaysia's ageing population, Haider says there is a need for retirement solutions. Developing these onshore is therefore the way forward.

Yet he says compared with Singapore, for instance, Malaysia is at least 10 years behind where it should be in terms of product innovation.

Thirdly, he adds, while investors in North Asia tend to have a strong home bias, there is more willingness in South-east Asia to look globally. "Regulators should work with banks to play a bigger role in this way," he says.

A NEED TO ENHANCE CREDIBILITY

An example of the extent of the challenge confronting wealth management in Malaysia can be heard via the opinion of various industry practitioners – that there is a credibility shortfall.

And in a sentiment poll taken in June 2014 at Hubbis' annual industry conference for the domestic market, 86% of the 100 senior practitioners from private banks, consumer banks, IFAs and insurance companies cited either regulatory overlap, a product-pushing culture, or adviser and client knowledge levels as the biggest hurdle to enhancing credibility.

Being able to overcome these to move the industry forward ultimately depends on how organised the various participants are as an industry.

For example, says Ong at OCBC, today there are a lot of product channels and many of them serve a single product.

"The perception of customers is that we are 'product pushers', but it is just because of how the industry is set up," she explains.

Yet it is up to individual firms to make sure their compensation models are client-centric, which would enable to move away from product pushing, explains Haider.

More specifically, in private, there is broad agreement that the sales and advisory process which many banks and other players follow needs to incorporate a greater focus on the role, application and importance of ethics as the starting point.

HOW CIMB IS PURSUING A REGIONAL WEALTH AMBITION

ALREADY AN ASIAN BANK WITH A LARGER NETWORK THAN MOST, CIMB BANK IS DETERMINED TO LEVERAGE OFF THE PROSPECT OF A MORE INTEGRATED ASEAN COMMUNITY TO CREATE AN EVEN STRONGER REGIONAL FORCE, REVEALS RENZO VIEGAS, CHIEF EXECUTIVE OFFICER, CONSUMER BANKING.

CIMB is one of the few Asian consumer banks to have established a name for itself as a serious regional wealth management player.

Operating in 17 markets worldwide is impressive for a Malaysian bank, but it is part of the culture of CIMB.

As a result, its regional aspirations are driving it to look further at new opportunities, spurred by the growing levels of connectivity within ASEAN, as well as Asia.

According to Renzo Viegas, chief executive officer, consumer banking, the bank's geographic footprint puts it in a good position to expand where openings emerge. "CIMB has been focusing on strengthening inter-ASEAN relationships since its infancy," he says.

And as the movement towards more ASEAN integration gains further momentum, there is a real belief within senior management at CIMB that the potential is huge.

"We are in a prime position to take advantage of this development," explains Viegas, "as the flows of money and people become far more liberated."

MAKING THE MOST OF A REGIONAL PRESENCE

A driving force behind the bank's regional strategy to date has been to ensure it has an offering for each market that is relevant and appropriate, based on the size of the CIMB on-the-ground presence in that location.

For example, CIMB's mass affluent customer base in its home market of Malaysia is only 1% of the total number of customers the bank has, but they contribute 50% of its deposits.

In Indonesia, CIMB has the fifth largest bank in the country, so is more naturally suited to targeting a much larger customer group.

By contrast, CIMB's Singapore business comprises only two branches; consequently the firm has a higher success rate via CIMB Preferred, for the local mass affluent market.

INVESTING FOR THE FUTURE

With both clients and its own staff in mind, CIMB has been investing in order to position the bank to take advantage of these opportunities.

For Viegas, building a strong team of relationship managers (RMs) is a priority. "We induct our people from graduates and train them so that they can then grow and move up the ladder," he ex-

Renzo Viegas
CIMB Bank

Regional banking

CIMB Preferred membership lets customers enjoy the same banking convenience and privileges wherever they travel across ASEAN, including at over 100 CIMB Preferred centres and more than 1,000 CIMB Bank, CIMB Niaga and CIMB Thai branches.

The bank's ability to support customers regionally is further strengthened by its RMs, who work with their counterparts abroad to bring customers tailored solutions in Malaysia, Indonesia, Singapore, Thailand and Cambodia.

The bank's aim is not to confine needs by geographical borders.

plains. "They therefore have an affinity to us and won't look to leave as soon as they can."

To supplement this, the focus on training also now includes the bank's own internal certification.

And its standards reflect its growth ambition. Those individuals wanting to work as an RM require 17 qualifications – seven from external and the remaining 10 internally.

In terms of laying the foundations to nurture new clients, meanwhile, there is a continuous effort to funnel customers from its broad retail banking platform through to priority banking.

"We don't define our ideal customer. We holistically grow them," says Viegas.

DIGITAL

Viegas is also very realistic about the need to evolve the offering in line with the preferences of the bank's younger, up-and-coming customers.

Its 40-year heritage in the wealth management space means that many customers in the priority banking segment are part of an aging group. So as the newer generation start to emerge, CIMB needs to be able to adapt.

A big part of this involves prioritising digital strategies, says Viegas, to ensure a better level of engagement with generation Y.

So far, CIMB has two digital solutions to cater to two styles of interaction.

The first provides customers with the digital tools they require to manage and organise their own portfolio, if they choose to.

The second solution is a portal that uses video and other online technologies, through which customers can easily contact the bank for advice.

The digital platform is also critical in terms of business development going forward, adds Viegas.

For example, he explains, it revolutionises the levels of knowledge that CIMB can now gather from and re-package back to customers. "As a result of getting deeper into the analytics and using Big Data, we can get a far clearer understanding of our clients and our client base."

USING CONNECTIVITY TO ONBOARD NEW CUSTOMERS

Moreover, as Generation Y grows in numbers and importance, and in turn fosters the next generation of entrepreneurs, synergies between the commercial and consumer divisions of the bank will become more pivotal as a customer onboarding tool.

Another source of new customers will be from the globalisation of family members, with the younger generation being educated overseas, often in the UK and North America.

That makes CIMB's connectivity between geographies a key part of the growth strategy, says Viegas.

As a simple example, as clients invest into property abroad, especially in the UK, CIMB offers them oversees mortgages, either in their home currency or in the local currency where the property is located.

> "We are in a prime position to take advantage of the movement towards more ASEAN integration, as the flows of money and people become far more liberated."

CIMB has also created a digital platform to facilitate this connectivity, adds Viegas.

"Customers can log on and look at their account with us in Malaysia and their account elsewhere in the world and transfer between these accounts easily," he says. ■

HELPING THAILAND EVOLVE ITS WEALTH OFFERING

THERE IS OPTIMISM AROUND THE POTENTIAL FOR THAILAND TO SLOWLY DEVELOP ITS WEALTH MANAGEMENT INDUSTRY. THIS CAN ONLY HAPPEN, HOWEVER, IF IT FOLLOWS A ROAD MAP THAT INCLUDES A FOCUS ON LONG-TERM INVESTMENT STRATEGIES TO EDUCATE CLIENTS AND ADVISERS ALIKE, AND THUS HELP FURTHER THE COUNTRY'S APPEAL TO LOCAL AND OFFSHORE INVESTORS.

The last 10 to 15 years have seen a marked increase in the level of sophistication among individual investors in Thailand. In response, banks, brokers and other institutions intent on grabbing their share of this opportunity to deliver product to this audience have been slowly developing their wealth management offerings, too.

However, while there has been a notable evolution, big challenges remain. These exist mainly in terms of education, training and product diversity, say practitioners in the local market.

These are among the key changes which need to take place before the local market can hope to move to the next stage of its development – and before it can even contemplate playing a greater role regionally.

Cholathee Pornrojnangkool

Siam Commercial Bank

"We should have more access to foreign product onshore"

BALANCING OFFSHORE-ONSHORE PRODUCT DEMAND

Appetite among wealthy Thais for offshore investments and financial products as part of their portfolios has continued to increase.

In 2013, for example, demand for offshore products was very high, say practitioners, as investors looked to get more diversified. Moreover, current factors such as the position of the US stock market has led Thai investors focused their interest overseas.

"Last year there was lots of demand for product diversification into offshore investments," explains Rinjai Chakornpipat, senior executive vice president, private wealth management at Maybank Kim Eng Securities.

"The volatility in the stock market caught the attention of the investor. They realised that if they were more diversified and didn't solely invest in the stock market, this would help to reduce their risk."

Yet this applies to a relatively small number of local investors.

And there is still a majority who are uncomfortable moving away from the relative safety of the local fixed income markets they are more familiar with.

At the same time, there are a relatively limited number of offshore stocks

Rinjai Chakornpipat
Maybank Kim Eng Securities

"Last year there was lots of demand for product diversification into offshore investments"

available to them. Phillip Piaz, partner at Finaport, says that while the Thais are rightly fond of their country, such patriotism shouldn't mean their investment scope is as limited as it is now.

Cholathee Pornrojnangkool, first senior vice president, wealth division, at Siam Commercial Bank, agrees with this notion. "We should have more access to foreign product onshore," he says, explaining that the lack of availability often means that clients are forced to look offshore, as the products available domestically are simply not suitable nor extensive enough.

IMPROVING THE QUALITY OF ADVICE

Another development which would benefit the Thai wealth management sector is more educated advisers.

"This is the weakest link," says Piaz. "Clients put their trust in [their advisers] and they are supposed to monetise their opportunities. Client are not expected to have the knowledge; that is why they employ us."

Practitioners agree that adviser education is vital, but are quick to point out that certification, on its own, isn't sufficient in generating the right skill-set. Many of the soft skills, for example, cannot be taught. It is here where senior colleagues and other advisers should play an active educational role, for example in terms of mentoring.

Fundamentally, local banks must focus on ensuring their training and educational programmes encourage advisers away from product pushing and instead highlight the importance of client care. This is key for Thailand's wealth management market, says Pornrojnangkool.

"Ten years ago, people started to do only product pushing, probably because the sales people had only been trained to push a specific product. A few years later this had come to a plateau and we saw lots of mis-selling to customers, so suddenly we decided we must implement controls."

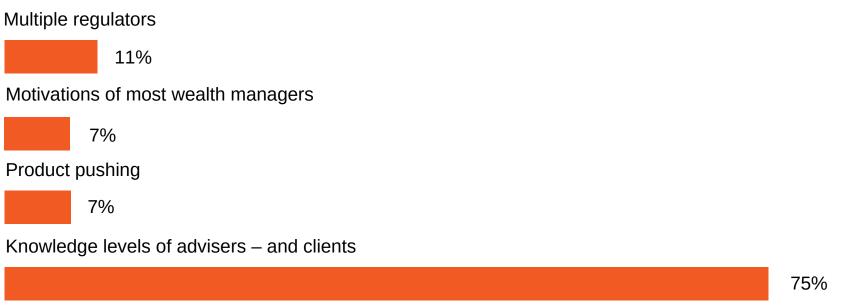
Inevitably, this is a slow process. And for many participants in the Thai wealth management industry, especially local players, there is still a long way to go.

For example, says Paul Gambles, managing partner of MBMG Group, Thai banks can't offer a sophisticated global banking service without the talent to assist them.

Although local advisers have a good understanding of the Thai capital markets, this knowledge base is relatively narrow, he adds.

While his firm, MBMG, employs a number of sophisticated local advisers, they have been subject to rigorous training and re-training. This is needed simply because the Thai financial sector hasn't so far been exposed to global knowledge and best practices, he explains.

WHAT IS THE BIGGEST HURDLE TO ENHANCING INDUSTRY CREDIBILITY IN THAILAND



Source: Hubbis Thailand Wealth Management Forum 2014

How to build trust with Thai clients

Doing the right thing for clients is a proven technique for advisers to gain trust and serving their clients more effectively. This can be achieved in various ways, for example:

- Instead of offering a product that is available on the platform, advisers should research the client and their needs and identify products that would be suitable, maybe even preferable, that might not necessarily be part of the bank's own suite of solutions
- Advisers should feel comfortable referring their client to another institution that can offer a relevant product or service
- Once an adviser has outsourced and referred a client to another institution, there is more likely to be a reciprocation and better relationships can be developed

Philipp Piaz

Finaport

"Clients put their trust in [their advisers] and they are supposed to monetise their opportunities. Client are not expected to have the knowledge"

Vorayut Vorasubin, assistant managing director and head of private wealth management at Phatra Securities, states that investment is key.

"We try to control and institutionalise the advisory process, which is particularly difficult in Thailand, as it involves a long-term approach to business, and you have to start by investing in the procedure," he explains.

In general, however, local banks especially tend to have weaker footprints and less training and education as an established part of the process, says Pornrojnangkool.

The challenge is compounded by the fact that good relationship managers are difficult to find in the local market. "This is why I think the industry here is growing slowly."

According to Vira-anong C. Phutrakul, managing director and retail banking head for Citibank in Thailand, the bank has implemented a new system which focuses on client gratification, compensating RMs for their customer satisfaction component, based on goals such as level of service, quality of advice and also on understanding the customer's objectives.

Part of this stems advocating the notion of portfolio allocation, says Phutrakul. For example, the bank holds a portfolio review with clients every quarter, recommending a move away from buying and selling.

While this is a pioneering step in the Thai market, Phutrakul hopes this will begin to drive the movement towards a long-term vision, incentivising RMs to create a more bespoke service for their customers and forge a longer commercial relationship.

EDUCATING CLIENTS

The level of adviser education and experience is not the only stumbling block to the further development of the Thai market, however.

Practitioners explain that there is a need for clients to change their mindset and ensure a more open dialogue to create a more useful interaction with an adviser.

There is also a difference between how clients perceive and use local versus foreign banks, adds Pornrojnangkool, who moved to his current employer from Standard Chartered Bank in early May 2014.

According to Phutrakul, the limitation on advisers being able to offer the "full advisory package" is driven by the scarcity of visionary market investors in Thailand.

For example, there is a dearth of clients who have more than just an ultra-short outlook in terms of profit-and-loss and portfolio management.

And even when investors buy products focused on supposedly longer term,

Vira-anong C. Phutrakul
Citibank

"There is a dearth of clients who have more than just an ultra-short outlook"

such as mutual funds, she says they tend to still insist on trading them.

Unfortunately, the trend of frenzied trading and lack of proper asset allocation only further fuels the constant struggle in Thailand to try and re-route the behaviour of advisers away from transactions and towards advisory, says Phutrakul.

This is not a simple task, especially with RMs being compensated by the volume they create from their clients.

Ultimately, clients tend to trust local banks to service their onshore needs and then employ a private bank for their offshore requirements, but they never share their full portfolio details between the two.

This makes the banker's job of trying to create a properly diversified, risk-protected portfolio very difficult.

Such hesitancy on the part of investors is symptomatic of previous negative experiences they have had.

They are often reluctant to reveal their wealth because of the product-pushing culture they have seen to date, say practitioners.

It is essential, therefore, for banks in Thailand to commit more time, resources and energy to doing effective and comprehensive client education.

This can include, for example, reassuring clients that by revealing their total net worth and portfolio to their banker, this won't then leave them prey to commission-hungry, product-pushing advisers – but instead, that more transparent approach will enable the banker to give them better advice about protecting their wealth and reducing their risk.

For these and other reasons, panellists were in agreement that any efforts to position Thailand as a wealth management hub were premature.

But despite the challenges they highlighted, the large scope for development within the Thai wealth management space is very encouraging.

Some of the positives include the fact that many investors have profited from Thailand's maturing industry, seen for instance in terms of the breadth of products now available.

That has encouraged global players like Citibank, Standard Chartered Bank and HSBC to base experts in the local market in order to ensure they deliver the right services.

The focus, however, must be on the long term.

For the time being, the onshore industry remains under considerable pressure to formulate relevant and enticing offerings for clients, otherwise the migration offshore will continue to gather momentum. ■

Paul Gambles
MBMG Group

"Thai banks can't offer a sophisticated global banking service without the talent to assist them"

HOW TO MEET THE NEEDS OF PRIVATE CLIENTS IN ASIA

DAVID KOAY, HEAD OF RELATIONSHIP MANAGEMENT FOR STANDARD CHARTERED PRIVATE BANK IN SOUTH-EAST ASIA, EXPLAINS HOW TO MANAGE AND MEET THE EXPECTATIONS OF PRIVATE CLIENTS IN ASIA TODAY, AND DISCUSSES THEIR INCREASING SOPHISTICATION.

Compliance continues to be one of the key areas of focus within private banking today, says David Koay.

Being compliant in offshore private banking, for example, also gives confidence to ultra high net worth clients in terms of where they want to park their business, he explains.

Another challenge relates to ensuring private banking relationship managers (RMs) have the right skill-sets and are able to provide advice, particularly for those from a broker-style, product-pushing background.

Koay says that the standards of RMs have to be of the utmost importance for banks wanting to ensure growth and sustainability.

CHANGING CLIENT EXPECTATIONS

While clients in Western markets are more familiar with fiduciary services, including setting up trusts and planning for wealth succession, the mentality of the typical wealthy Asian families, as owners of family businesses, is more entrepreneurial. As a result, their needs are slightly different, says Koay.

And as first- or second-generation wealth creators, Asian clients are interested to see what they can do in terms of enhancing the business, he adds, rather than just looking for individual investment products such as bonds.

They are, however, also now starting to think about portfolio diversification, says Koay, rather than just relying on the growth of their existing business.

DIFFERENTIATING THE OFFERING

According to Koay, Standard Chartered recognises that it can't be a banker to everyone across the world.

In line with this, it wants to continue its strategy of focusing on Asia, the Middle East and Africa, he explains, where there is the fastest growth of high net worth individuals.

The other goal is to be more client led than product led.

To drive this, there is constant training for RMs on how to be an adviser to their clients, he says, not just receiving and getting client-directed trades. Clients need to take more of a portfolio management approach, adds Koay.The aim, he explains, is to be able to capture both a client's individual and family wealth needs, as well as their business banking needs – whether these are related to cash management, trade financing or investment banking and more of the specific strategic needs of the client's company. ■

David Koay
Standard Chartered Private Bank