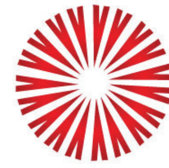

ASIA AT THE TIPPING POINT? CREATING A SUSTAINABLE WEALTH MANAGEMENT INDUSTRY

October 2013

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EXECUTIVE SUMMARY

“Anything up to 50% of advisers across the industry – whether they work for private banks, IFAs, insurance companies or other providers – might not have a job in two to three years’ time.”

The inflection point at which Asian wealth management now finds itself is a direct symptom of the business models, incentive structures and mind-sets which have developed within the industry, region-wide, over the past 15 to 20 years.

More broadly, the widely fragmented nature of wealth management has hampered efforts to date to collectively tackle some of the fundamental issues, such as compliance, costs, clients and sustainability.

But now there is increasing urgency within individual firms – as well as the industry as a whole – to take action quickly.

This reflects the views of more than 100 senior practitioners - with whom Hubbis interacted, in conjunction with the Asian Wealth Management Association, at a series of committee meetings in Singapore, Hong Kong, India and Malaysia in August and September – as well as at Hubbis’ Asian Wealth Management Forum 2013 in Singapore in late September

More rational and professional

In short, a more “professional” approach is essential to servicing clients, by providing advice and solutions which are genuinely in their best interests.

For example, while bankers and financial advisers are aware of exactly how much compensation (commission, fees, etc) they get paid, how many of them in Asia know whether their clients get any value for money?

So transparency, investment performance and trust continue to be in the spotlight.

The value that some firms and individuals bring to clients is undisputable. But those organisations and individuals who cannot make the paradigm shift from success being based on relationships to it being based instead on advice won’t last for much longer.

Some senior management already have an expectation that anything up to 50% of advisers across the industry – whether they work for private banks, IFAs, insurance companies or other providers – might not have a job in two to three years' time.

Indeed, some organisations are starting to look more rationally at the performance and contribution of their front-line staff – and are adjusting their headcount accordingly. Now is the time for this type of action.

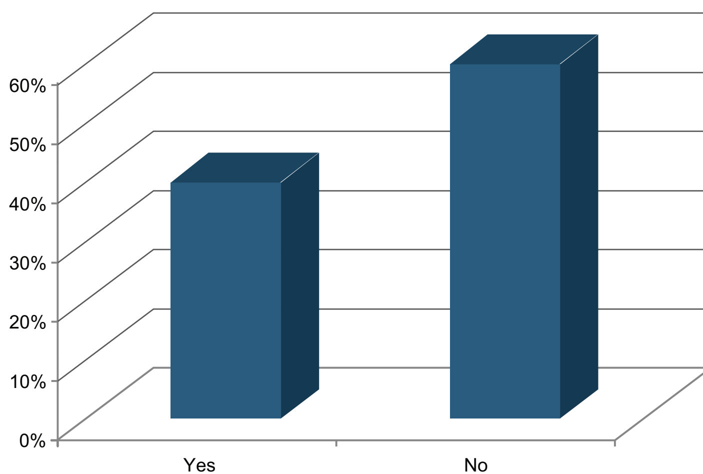
The commitment required by all market players, therefore, is substantial. Long-term investment in infrastructure, resources, leadership and culture is necessary to position offerings with the right people, products, technology and systems, and both front- and back-office processes, to be able to deliver on promises of performance and service in managing and meeting client expectations.

Getting back on track

Ironically, the wealth management models that first emerged in Hong Kong and Singapore, around 25 to 30 years ago, were more aligned with clients' interests.

There are many reasons for the reversal, explained by the commonly-cited challenges for the industry that are frequently discussed in private and public forums alike.

Does the Asian wealth management industry have enough credibility?



Source: Hubbis: audience sentiment poll - Asian Wealth Management Forum 2013, Singapore

"How these fundamental issues get addressed and resolved will shape the public perception – and, ultimately, the sustainability – of the industry."

These include: the multiple, and at times conflicting, regulatory requirements in every jurisdiction; rising costs relating to compliance, people and infrastructure; thin margins on many products; volatile investment markets; excessive cash holdings in many client portfolios; unrealistic expectations of firms, putting pressure on RMs to sell; and shallow talent pools, from front-line advisers to back-office staff.

These are clearly practical issues that either impact the bottom-line, or impair the ability of the organisation to service clients in the way it ideally wants to.

Yet there are several other real concerns being voiced by the senior management of many firms. And how these fundamental issues get addressed and resolved will shape the public perception – and, ultimately, the sustainability – of the industry:

- The limited focus on, and importance placed in, ethics and ethical behaviour
- Minimal attention paid to installing the right culture and mind-set throughout an organisation, for example in ensuring there is a clear understanding – especially for newcomers to the industry and younger bankers – of what being a wealth manager means in practice
- The lack of credibility that many practitioners feel exists within wealth management today
- How to attract more capable, competent and enthusiastic young people to join the industry – including by learning from organisations outside the financial services industry, such as Google
- Whether advisory models can evolve to provide a variety of fee options, and at the same time ensure clients recognise the value they are getting
- How market players can communicate more clearly and collaboratively with the regulator – including a better delineation of different types of providers
- The implications for the industry of the increasing blurring of lines between different wealth management organisations and propositions

Against this backdrop, this White Paper is broken up into the following sections:

1. Creating a compelling value proposition
2. Ensuring credibility: ethics as the (new) starting point
3. How to make fee-based advice a reality
4. A question-mark over sustainability

SECTION 1

Creating a compelling value proposition

The starting point for taking a fresh look at the industry means going back to basics and understanding what wealth management means in practice – or, at least, what it should mean. Only with a clear understanding of the end-goal is it realistic to expect to achieve it.

Inevitably, there are different interpretations, but fundamentally it is about helping customers meet their needs and goals, both financial and non-financial, through a variety of products, solutions and services (again, financial and non-financial).

This might be achieved in different ways and through different approaches – depending on the type of organisation as well as on the customer's risk profile, net worth and other individual factors.

But in all cases it requires regular reviews of their portfolios, personal and business circumstances, risk appetite, and investment and other objectives. Further, it entails a combination of wealth accumulation and wealth preservation, to ensure a smooth transfer to the next generation.

Conceptually, practitioners across industry segments and geographies are united in these views of what wealth management should be.

Where the industry has struggled, however, is in how it has tried to execute it in reality, especially against the various competitive and other market-related pressures. This has made it difficult for many organisations to be able to effectively demonstrate – and differentiate – their value proposition to clients.

In more developed wealth centres, clients can more actively choose whether to use a broker and pay a commission, or opt for an independent adviser and pay a fee of some sort to reflect the value of the advice and service. By contrast, in Asia, most firms combine all of this into one offer of "wealth management" where the differentiation is based on the axis of AUM with the firm.

It is incumbent on participants to drive clarity knowing that this expectation gap exists – and therefore to avoid getting treated as one broad group from a regulatory perspective.

"The wide variety of firms and advisers makes it difficult to create a single description of wealth management and what services clients should expect."

Addressing the fundamentals

Some of the main hurdles that the industry faces in terms of being able to offer a clear value proposition can be compartmentalised into the following:

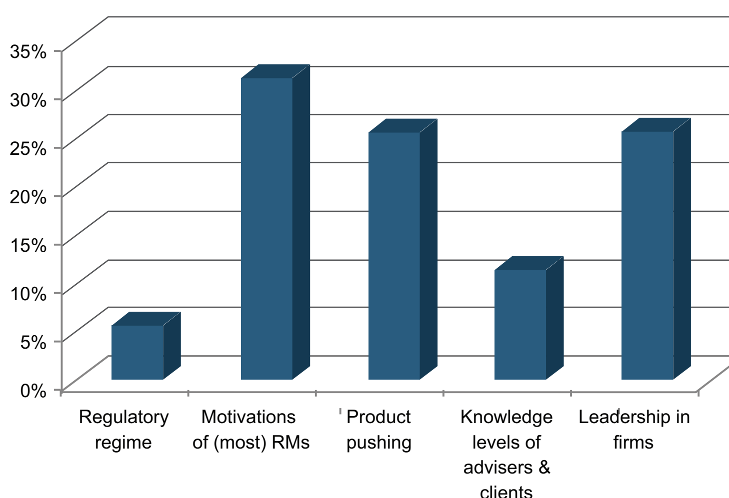
1. The "Hollywood" problem – while wealth management is a lucrative and relatively glamorous industry for the actors, or RMs, the owners struggle to be profitable as a result of high costs and limited share of wallet.

2. The "US congress" problem – in a similar way to how most people might dislike Congress but like their own Congressman, clients of wealth management firms tend to like their RM but view the rest of the industry as lacking in credibility. Service ratings for financial services in general – and wealth management in particular, are low, especially when compared with other industries.

3. The "promise of beauty" problem – akin to how beauty products position themselves for their users, the wealth management industry has followed the path of promising returns. Yet it hasn't yet been able to deliver this in a sustainable way.

Some of these issues stem from a certain level of confusion within the industry. For example, the wide variety of firms and advisers makes it difficult to create a single description of wealth management and what services clients should expect.

What is the biggest hurdle to enhancing credibility?



Source: Hubbis: audience sentiment poll - Asian Wealth Management Forum 2013, Singapore

Setting the wrong expectations

Much of the blame on the product-pushing culture that continues to define most segments of wealth management in Asia gets levied at the overwhelming success that the industry broadly experienced in the mid-2000s from a very narrow product range – particularly accumulators and auto-callables. That meant a lot of RMs only developed a narrow capability. It also resulted in a limited education for clients on the scope of wealth management, and set returns expectations way too high.

The real issue, though, wasn't accumulators (and similar products); these were the tip of the iceberg. The root of the problem was greed along with promises based on unrealistic business plans.

The effect of this continues today. Many clients find it difficult to think beyond products with which they have experience. Even when the starting point of a conversation with a client is about how to take a portfolio-planning approach, it quickly comes back to which product they should buy from a yield perspective.

Limited lessons learned?

The focus on short-term revenue has led to a lot of private banks and other wealth management firms finding it challenging to remain consistently profitable.

On the one hand, some practitioners believe the financial crisis in 2008 has helped the industry to learn from its mistakes. Among the evidence for this is: a greater emphasis and spending on education for RMs as well as clients; efforts to work more closely with the next generation; the implementation of more rigorous checks and balances in line with compliance obligations; and more diversity in the product offering, for example, banks setting up own discretionary portfolio management (DPM) capabilities.

However, one the other hand, there appears to be resistance to change.

For instance, working with clients to take a genuinely holistic portfolio view and add real value requires a multi-year effort. Plus, when trying to balance client interest with the need to create shareholder value, short-term behaviour quickly emerges. In addition, there are frequent displays of self-interest.

The industry has to acknowledge, therefore, that it must change the perceptions of it from being good at selling products to being genuine wealth managers capable of offering relevant advice that counts. And then it must put this into practice.

"The real issue, though, wasn't accumulators (and similar products); these were the tip of the iceberg. The root of the problem was greed along with promises based on unrealistic business plans."

SECTION 2

Ensuring credibility: ethics as the only starting point

"RMs have grown used to being driven by the compensation structures which are common across many firms, so the industry's 'ecosystem' has to bear a lot of the responsibility."

If you take a broad perspective of Asian wealth management, there is widespread concern among practitioners that the industry is lacking in credibility (see chart on page 4).

In addition to views among committee members in the Association meetings, recent Hubbis wealth management forums in Malaysia (in June) and Singapore (in September) highlight the credibility shortfall. At both of these gatherings of senior practitioners from a mix of private banks, consumer banks, IFAs, insurance companies, independent asset managers and family offices, sentiment polls of the audience showed that 63% and 60%, respectively, share this view.

Many of these individuals regard the industry as being its "own worst enemy".

During audience polling in Singapore, in particular, the motivations of (most) wealth managers was cited as the main reason for the lack of credibility, followed equally by product pushing and leadership in organisations. The regulatory regime, along knowledge levels of advisers and clients, were seen as less significant obstacles to creating a more credible industry (see chart on page 9).

Yet these hurdles all tend to exist because of a lack of focus on ethics, and doing the right thing for clients. This needs to be clearly separated from what is required by regulation, given that being ethical doesn't mean the same thing as being compliant or ensuring investment suitability according to the letter of the law.

A key component of acting ethically, for example, is being fully transparent in relation to all aspects of the process – advisory, product, fees, etc – and also disclosing anything which aligns the interests of all parties and removes conflicts of interest.

Ultimately, gaining credibility in today's environment is a tough task. RMs have grown used to being driven by the compensation structures common across many firms, so the industry's "ecosystem" has to bear a lot of the responsibility.

A new mind-set

> "The starting point for developing the right mind-set needs to be a clear focus and understanding about ethics in wealth management."

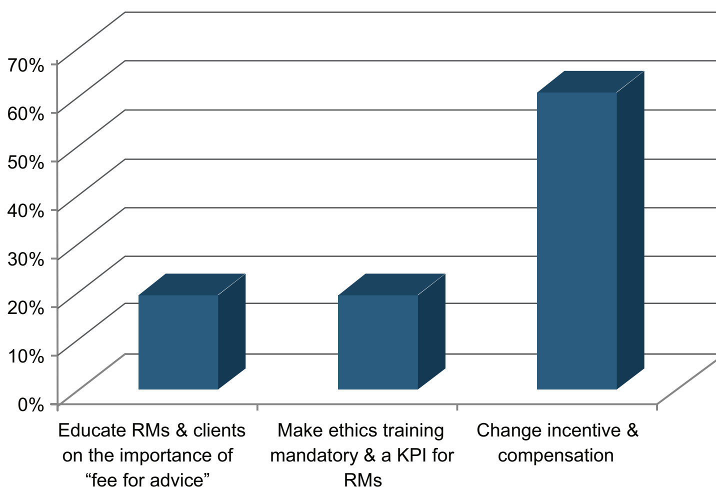
The starting point for developing the right mind-set needs to be a clear focus and understanding about ethics in wealth management. In particular, sales and advisory processes in many organisations should incorporate this.

While some individual firms have their own ethics training or provide different types of internal communications about ethics, there is in general a lack of consistency or standard to serve as a minimum which is expected – by the organisation, clients, the regulator, and the industry as a whole.

This is only achievable by dealing with compensation structures and adapting key performance indicators (KPIs) so that RMs are not purely sales or revenue focused. This requires a wider adoption of the balanced scorecard approach – and includes a punitive component, for example if there are compliance issues, client complaints, or other failings by advisers.

Yet it isn't possible without the commitment and leadership of senior management – in terms of building the infrastructure and culture to ensure individuals approach sales in the right way. In line with this, there needs to be better understanding of what constitutes fair and appropriate advice.

How can sales be made in an "ethical" way?



Source: Hubbis: audience sentiment poll - Asian Wealth Management Forum 2013, Singapore

There are numerous ways in which leaders and core representatives of a firm can illustrate the value placed on ethics.

For instance, this might be done during the screening process when taking on new talent. While it may be tempting to woo impressionable fresh graduates with tales of the high-flying lifestyle that is supposedly associated with wealth management in Asia, an organisation should see the recruitment process as a way to weed-out potentially less ethical employees that do not have clients' well-beings at heart.

In addition, training plays a big role in upping ethical standards in the industry. First, educating RMs will give them the skill-set to provide high-quality advice that in turn enables them to be less reliant on pushing products. And secondly, introducing content specifically on ethics to any learning programmes will show advisers why such behaviour is important for all stakeholders – clients, the individual's and the organisation's reputations, and the industry's integrity.

"It is up to senior management to ensure that profitability objectives are set, and incentive structures aligned, so that the potential for compromise of ethical standards is not hard-coded into the organisation."

Most significantly, when annual budgets or multi-year plans are set, if realistic revenue-mix targets are not established up front this often leads to pressure in the sales channel – as revenues actually achieved are off-budget. This leads to pressure to sell high upfront fee-based products, which then leads to a potential compromise of what is right for the customer.

So it is up to senior management to ensure that profitability objectives are set, and incentive structures aligned, so that the potential for compromise of ethical standards is not hard-coded into the organisation.

The weight of the compliance burden

An example of the difficult regulatory balancing act that many wealth managers face can be seen in terms of them trying to service their clients as efficiently and effectively as possible while still meeting increasingly-stringent compliance obligations.

In Malaysia, for example, when buying an equity-linked instrument, around 60 signatures are required from a client in every column of the declaration form.

Not only is this burdensome for all parties, said practitioners, but they also question whether this is even in a client's best interests given that most of the probably don't really know what they are signing, or why.

Ethical attributes

There are certain attributes which are crucial for RMs and advisers to have in order to demonstrate ethical behaviour.

One of them is a solid values and morals system; an adviser should naturally have the clients' best interests at heart and not be swayed by "quick wins". Another is objectivity; when an RM presents a product, especially if it is manufactured by their own organisation, they must showcase it and other solutions in an objective way so that the client doesn't feel like products are being pushed, or that they have little choice.

Further, when it comes to product knowledge, it's the duty and expectation that each RM can answer complex questions on proposed products – or at least source relevant expertise. Otherwise the advice will lack credibility.

In addition, communication skills are vital; a good adviser can clearly articulate their value proposition and can also decipher what's important to the client to ensure that objectives are aligned.

Fostering proactive and positive relationships with regulators

Probably the biggest issue for many types of wealth management players is the fact that the regulatory playing field is not a level one.

This is perhaps to be expected, with some practitioners shouldering their share of the blame. For example, the fragmentation by geography, clients and fees has prevented many organisations from narrowly defining their propositions.

That also forces regulators into creating one set of regulations as a minimum benchmark, especially given that they can't micro-manage every type of firm.

Yet for some of the boutique private banks and other organisations, such an approach makes it more difficult to meet some of the requirements.

To avoid any surprises from regulation similar to the UK's Retail Distribution Review (RDR) or Australia's Future of Financial Advice (FOFA), one of the ways to proceed includes a more collaborative approach with the relevant authorities. And one which can be facilitated by an independent representative body.

"Probably the biggest issue for many types of wealth management players is the fact that the regulatory playing field is not a level one."

"Some of the complaints levied by industry players include the fact that certain reforms and approaches are preventing commerciality from taking root."

However, just as the solution to the remuneration conundrum shouldn't be a one-size-fits-all approach – neither should the optimum regulatory model.

Different clients require different approaches, for example. Plus, since there is still a lot of value to be found in the wealth management industry, care must be taken not to blow the need for reforms out of proportion.

Some of the complaints levied by industry players include the fact that certain reforms and approaches are preventing commerciality from taking root.

For example, perspectives of practitioners are that there is a need for the regulators to have a more practical understanding of the industry and how different organisations operate within the broader wealth management landscape.

There are various blockages to this, however, in the opinion of some practitioners. Too many firms avoid direct consultation because a lot of them are wary of approaching their regulators – yet those watchdogs often simply want to learn, so welcome interaction.

Regulators also have specific priorities which influence what they are focused on in their conversations with industry players. In Hong Kong, for example, it has been more about risk ratings and product suitability. Meanwhile, tax evasion and related issues have been a significant influence in Singapore.

The challenge for organisations which operate cross-border businesses, is that since so many of their clients are international in terms of their outlook, assets, businesses and personal interests, they are looking to arbitrage one jurisdiction versus another.

The industry must be more proactive, too. Potential solutions to these issues can come from organisations coming together to forge closer ties with the regulators to foster an improved understanding of some of the practicalities of operating within today's environment of heavier compliance burdens.

In addition, discussing strategic visions and business objectives will create a better awareness of issues, opportunities and challenges.

SECTION 3

How to make fee-based advice a reality

According to some experienced practitioners, the only way for RMs to be paid, in order to keep them honest, is based on their advice.

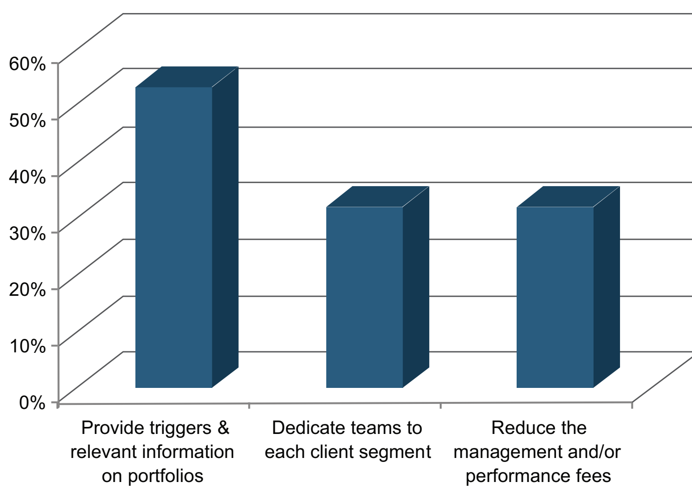
While this is some way off from the largely transaction-led model that has characterised Asian wealth management to date, the key for different firms to be perceived as being more professional is related to there being greater transparency – and variety – in relation to the fees that clients pay.

That there has been some uptake of discretionary-managed products indicates that bankers are delivering a certain amount of value in specific segments and capabilities, that clients trust the advice of their advisers, and that they are willing to pay for this advice through an annual management fee.

The reluctance of most Asian HNW clients to be convinced of the need to pay for advice, however – combined with the fact that they believe they can achieve better performance by themselves, and their desire to retain control of the process – can

"Many bankers and advisers see themselves just as order-takers, providing access to markets. But that is not sustainable in the long run and places them at a position which is not competitive."

What is the best way to encourage clients to embrace new advisory models?



Source: Hubbis: audience sentiment poll - Asian Wealth Management Forum 2013, Singapore

be seen from the low penetration of DPM overall. The excuse frequently given is that Asian clients don't want to pay fees. While in some cases that might be true, in others they will if asked – and assuming that they see value in the offering.

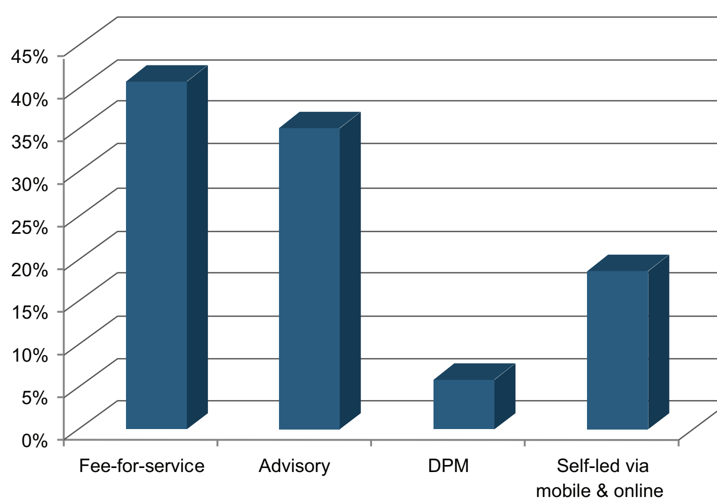
The main reason for this is the focus by private banks in this time zone on net new money generation. This limits the amount of time advisers have to educate their clients on the value that advisory services can add.

Despite the key differentiator for wealth managers being their ability to articulate value – this is something that many individuals find challenging. Many bankers and advisers see themselves just as order-takers, providing access to markets. But that is not sustainable in the long run and places them at a position which is not competitive. Instead, these individuals must be able to determine the client's objectives. This is usually accomplished through investment policy statements, the process of which involves sitting down with the client to work through what the money is for and the client's objectives.

The key, therefore, is offering a variety of options for different types of clients, and depending on their objectives. This is expected to become increasingly important as the regulatory shift, globally, towards fee-based models permeates Asia.

There are other specific advantages of making the move as early as possible to incorporate fee-based models. For private banks which are part of universal banks, for example, if they can make more of a success of fee-based models, then ultimately the higher and potentially "stickier" revenue they will generate will help them become more significant contributors to the bottom line of the overall group.

What model will be most popular in Asia in 3 years' time?



Source: Hubbis: audience sentiment poll - Asian Wealth Management Forum 2013, Singapore

Reshaping the advisory model

Expectations within the industry are that fee-based regulatory reforms similar to the UK's RDR or Australia's FOFA will be imposed on the industry in Asia in another three to five years. As a result, firms need to prepare now, or any implementation of similar rules will affect the industry badly.

For example, the ban on inducements in some jurisdictions in the wake of 2008 is already having a significant impact on financial advice in those markets.

New challenges for advisers as a result of these developments include the need to take more examinations and to work harder to prove their value-add to each client.

In the UK, for example, the most immediate and apparent reaction to RDR has been the exodus of financial advisers from the market, either as a result of poor books of business, a poorly managed business, or an inability to sustain funding due to the initial dip in revenue through the lack of commission.

"The ban on inducements in some jurisdictions in the wake of 2008 is already having a significant impact on financial advice in those markets."

Making fees FAIR in Singapore

Although a long time in coming to fruition, the Monetary Authority of Singapore (MAS) recently gave greater clarity in response to the Financial Advisory Industry Review (FAIR) consultation.

The objective has been to raise the standards and professionalism of the financial advisory industry, as well as ensure consumers benefit from insurance products being made more widely – and cheaply – available in Singapore. This is being done, for example, through a direct channel where basic insurance products can be sold with a nominal administration fee, along with a website for consumers to compare various insurance products before making their purchases.

The MAS' response to the FAIR consultation showed collaboration between the regulator and industry. And also a pragmatic solution to achieve the key objectives.

Ultimately, the outcome is beneficial for advisers looking to build longer term businesses and relationships with clients.

In India, meanwhile, the abolition of upfront loads in mutual funds in 2009 had a similar dampening effect on the number of advisers in the market and their incomes. While India's asset management companies stepped in, continuing to pay upfront commissions out of their ongoing fees to alleviate the income loss, the industry has had to then deal with the introduction of direct plans in which all mutual funds have to offer a lower cost option with no commission to advisers.

The country's new Investment Adviser Regulations, set to become effective in October 2013, will force anyone holding themselves out to be an "adviser" or "financial planner" to adopt a fee-for-service model. While wealth managers in India can opt to continue to be "distributors", the new regulations raise the bar.

India: creating fee-only investment advisers

While more developed markets have been debating the fee-versus-commission issue for years, and have tackled it restricting use of the word "independent" and stringent disclosure requirements, the Indian regulator decided to separate the acts of "distribution" and "advice". In turn, it subjected them to different regulations.

Investment advice has been defined as advice relating to investments, whether written or oral, and will include financial planning. The regulations specify that anyone holding out to be an investment adviser needs to be registered, except when advice is "incidental" to their main job. Investment advisers must have professional qualifications or a post-graduate degree/diploma in relevant subjects from a recognised institution, or be graduate a in any discipline with five years' experience in financial activities. In addition, they have to get certification by the regulator-owned National Institute of Securities Markets. There are also capital adequacy requirements of net worth of INR 25 lakhs (around US$50,000) for body corporates, or INR 1 lakh for individuals and partnerships.

The general obligations and responsibilities are also amongst the highest standards internationally. They include acting in a "fiduciary" capacity and not receiving any remuneration in any form from anyone other than the client. The investment adviser cannot provide execution services although they can refer clients to a related party, such as a different division of the same organisation, for execution services on an arm's length and non-obligatory basis.

Investment advisers must disclose all actual and potential conflicts of interests, not enter into transactions on own account that are contrary to the advice given to clients. They must also follow a code of conduct included in the regulations. Not only must advisers follow the "know your client" procedures, the regulation specify the tools and processes must be "fit for purpose" and any limitations recognised and mitigated.

More broadly, in addition to having to deal with the challenges that come from clients' increased suspicion at having to pay for advice, firms following fee-based models are also hit with a sudden depression in KPIs in the short to medium term. That is due to the reduction in efficiency of operations while financial advisers are reacting to regulatory changes.

However, after only nine months or so, some organisations in the UK, for example, are starting to see that volumes are returning and there is more optimism. So improving the standards in any industry must be seen as a desirable initiative.

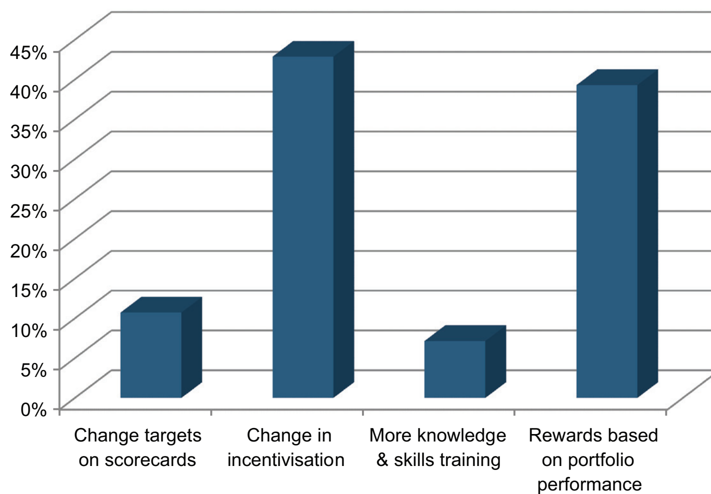
In Hong Kong, Singapore and their Asian neighbours, while such changes have not yet been implemented by local regulators, many firms in this region will have to face the implications. In the meantime, banks in the region with headquarters in Europe, or which are part of a European conglomerate, for instance, will be directly affected. The same is true for banks and other firms whose objectives are increasing mutual fund and DPM penetration.

Banks whose clients have accounts with any organisaion which is affected by these changes either directly or indirectly will also undoubtedly be faced with similar challenges.

However, while the goal is to address the longer term ethical behaviour, this cannot be imposed purely through regulation over fee disclosure.

> "While the goal is to address the longer term ethical behaviour, this cannot be imposed purely through regulation over fee disclosure."

What is the best way to encourage a long-term approach by advisers?



Source: Hubbis: audience sentiment poll - Asian Wealth Management Forum 2013, Singapore

Malaysia: at a fees cross-road

The Malaysian wealth management industry is currently grappling with the concept of fees within the advisory model.

Practitioners acknowledge there is a need to charge clients fees where this is appropriate given the situation and advice being given. There is increasing urgency in this area, since if the status quo doesn't change, the reliance on commissions will become so entrenched that no organisation will want to sacrifice them in favour of a fee-based approach.

At the same time, if the regulators are serious about turning Malaysia into a wealth management hub, and want to demonstrate their commitment to protecting customers by ensuring industry does the right thing, then this will require reforms similar to those in the UK and Australia.

Despite recognition among the country's regulatory authorities that market players needs to create more compelling value propositions and move away from product pushing, there have been little evidence of tangible steps to achieve that.

However, it is perhaps only realistic for fee models to be effective if the regulators further open the market at the same time. There is a need for a greater variety of products and solutions to be made available to give clients a selection.

Further, the skill-set of advisers in Malaysia must be enhanced, to justify clients paying fees due to the quality of their advice.

Scepticism

There is some resistance within the industry to implementing full fee transparency.

Some practitioners believe the advisory model in Asia is fundamentally flawed – and that wealth management will remain a transactional business based on the limited incentive for clients to adopt more of a portfolio planning approach – due to the relatively limited impact of estate duties and taxation in Asia. That, however, is a weak and easy argument for not pushing through change.

Asia's multi-banking model might be an additional hurdle for RMs and advisers in having a more rounded view to be able to offer holistic advice. They simply cannot have a view of the client's overall portfolio so will revert to old habits of more tactical product suggestions.

Another common concern raised relates to what is fair and appropriate. Some practitioners highlight the fact that there is no expectation when buying a car, for example, that the customer asks the salesperson how much commission they will earn from the transaction.

Further, the role of insurance within wealth management is a concept yet to be widely embraced by clients or advisers.

Articulating value

In short, the key themes that will influence the development and adoption of new advisory models, and justify a greater role for fee-related offerings, include the changing nature of the client experience, the role of the RM, and the further digitisation of wealth management.

So the value proposition of the future is all about advice. But if clients are paying for advice they are going to expect a top-notch client experience, which most industry professionals agree has been lacking in Asia to date.

"The value proposition of the future is all about advice. But if clients are paying for advice they are going to expect a top-notch client experience."

Querying fee structures for fiduciary services

Rebates / commissions in the form of once-off introduction fees and life-time recurring fees demanded by private banks in relation to wealth planning structures and fiduciary services must be curtailed.

Anecdotal evidence has highlighted a possible trend of private banks increasingly referring their clients to unregulated corporate providers who offer the private banks the highest commission / rebate. Yet these are often passed down to clients and hidden within the services that are billed.

Some unregulated service providers have taken advantage of the lack of guidelines and regulation in this space.

It would appear to make sense, therefore, that regulation should be formulated to address these issues, as these unregulated corporate providers serve as a weak-link within the financial system.

One of the biggest game-changers in delivering a more effective client experience in wealth management will be the use of technology.

It can be used, for example, to improve all aspects of the advisory and engagement process from segmenting client bases, to collating and presenting relevant information, to executing transactions.

"One of the biggest game-changers in delivering a more effective client experience in wealth management will be the use of technology."

As both the personal and business aspects of clients' lives increasingly rely on and are interwoven with digital channels, they are likely to expect the same from their banking relationships.

New ways of delivering advice are particularly important if firms want to take advantage of the most significant flow of inter-generational wealth ever seen in history. This is a critical time to review the way business is being done and question whether firms understand the next generation's mind-set.

SECTION 4

A question-mark over sustainability

Fundamental to many of the questions being asked of the Asian wealth management industry today is whether it is really able to adapt and evolve with the market. That it isn't common to find organisations with genuinely profitable Asian businesses is a telling sign.

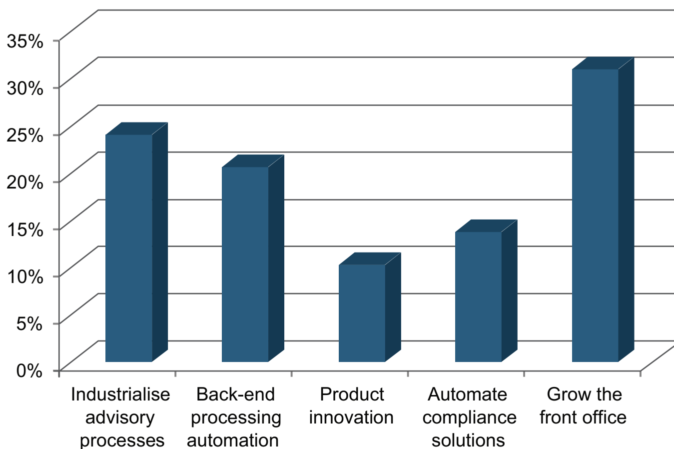
The need to show growth and performance forces many firms into thinking they need to buy AUM. But this is a self-defeating strategy. Some remuneration packages being offered cannot be sustained. Neither can they continue to incur the types of costs they face today.

Firms of all types therefore face significant demands on all aspects of their business – ranging from the way they now need to interact with clients, structure their product offering and charge for their services, to how they report to the regulator, conduct internal checks and balances, and operate across borders.

Those organisations which are unable to be nimble, innovative or committed for the long term are likely to find that they are on borrowed time.

"Those organisations which are unable to be nimble, innovative or committed for the long term are likely to find that they are on borrowed time."

What should be the priority for wealth management platforms?



Source: Hubbis: audience sentiment poll - Asian Wealth Management Forum 2013, Singapore

"Chief executives of private banks now count themselves lucky if 20% of any client's AUM comes with a new RM hire."

Competitive pressures

While competition continues to be rife, various trends highlight some changes already underway.

It is notable, for example, that the pace of new entrants from outside Asia has slowed down from recent years.

Plus, the movement of bankers between firms is less fluid than it has been. This is partly because they have realised it is not so easy to move their client accounts with them.

Chief executives of private banks now count themselves lucky if 20% of any client's AUM comes with a new RM hire.

This is due to a combination of account-switching fatigue, the fact that clients know it won't be as easy again for them to set up similar credit lines, and the success in some firms of a team approach to institutionalising the client relationship – all of which mean that the money is less attached to the banker.

In addition, the compliance requirements and other administrative-related tasks that RMs are confronted with don't change from one organisation to the next.

Further, the expected industry consolidation which is now starting to take place – the most obvious example being Julius Baer and Merrill Lynch's international wealth management business – should serve as a lesson that Asia's wealth pipeline doesn't make success a foregone conclusion.

Attracting new people to the industry

One of the biggest concerns for senior management – and the industry in general – is the lack of young, smart and enthusiastic graduates and other individuals to become the professionals of the future.

The focus for many wealth management firms is the next generation of their clients – but many are overlooking the next generation of their own staff.

Instead, organisations need to put in place a more dedicated and consistent effort around promoting themselves at career forums and Universities. It is also at these types of forums where the discussion about what it is like to work in this industry needs to include expectations about ethics and general behaviour as a banker.

Those people who enter the industry must view it as a profession – which has often not been the case. So rather than assuming a career in wealth management leads to a glamorous, high profile and well-paying job, the industry has a responsibility to make sure newcomers have the right expectations.

This can only start, however, if there is an accurate understanding by young people of what wealth management is, and why they want to work within the industry in the first place.

Governments must play their part, too. For example, attracting younger people into the industry will be helped by offering specific wealth management courses at universities, or even tuition in secondary schools on financial concepts as part of the education curriculum. In Hong Kong and Malaysia, for example, these are all notable by their absence.

The upshot is many younger bankers who don't know what to ask and how to start.

The shortfall of the right talent is made more acute as a result of the much greater interest among young people today in socially-responsible careers.

The public perception of financial services generally is potentially turning away some of the more competent individuals in the younger generation.

This highlights for organisations the importance of them making much more of an effort to understand how to engage with Generation Y – in terms of how they think, what they want from their careers, and how to motivate them.

"Rather than assuming a career in wealth management leads to a glamorous, high profile and well-paying job, the industry has a responsibility to make sure newcomers have the right expectations."

CIMB pioneers human capital development programme

CIMB group – along with PwC, Accenture, DraftFCB, Teach for Malaysia, HP and ZICOlaw – has launched a new programme that helps local graduates broaden their knowledge and cultivate varied skill-sets.

Under the CIMB Fusion, graduates will have the opportunity to gain invaluable working experience in one of six disciplines, in addition to banking and finance with CIMB Group.

CIMB Fusion is a two-to-four year programme, through which selected candidates acquire a technical foundation with one of the six partners, and then complete by a series of placements within CIMB group. Upon completion, candidates may either continue with CIMB or join the partner.

More than 20 graduates have been accepted into the programme and CIMB Group has said it is expecting to recruit a further 30 by year-end.

Providing a more compelling career path

For those individuals who do want to join the wealth management industry, organisations must pay much more attention to how they onboard and train them.

“The more the industry collectively conveys its focus on acting in a client’s best interests, aligned with the focus on fee-paying cultures, the more success it is likely to have in attracting the right talent.”

On-the-job coaching and mentoring must play a much more important role, and will make it much more likely that they last. The feeling of a long-term career is also vital to keeping younger staff happy in today’s environment.

The more the industry collectively conveys its focus on acting in a client’s best interests, aligned with the focus on fee-paying cultures, the more success it is likely to have in attracting the right talent. For instance, if individuals believe in the concept of a financial doctor, they can then incorporate into their outlook the fact that they can help clients add to their financial health and wealth, in conjunction with a client’s family aspirations.

More fundamentally, it is important that wealth management is perceived by the professionals of tomorrow as being a “fun” industry to be a part of.

Since attracting young people relies on keeping them engaged, this involves giving them opportunities to grow and be entrepreneurial. Achieving that depend on the ability of senior management and individual team leaders to foster that type of culture and capability. If they can, the smarter and more capable staff will stay loyal to the organisation.

Ultimately, the aim must be to avoid losing out on attracting capable people to help make the most of the opportunity which exists in the industry.

“It is important that wealth management is perceived by the professionals of tomorrow as being a “fun” industry to be a part of.”

A multi-year view

Against the backdrop of those changes required to develop models that will stand the test of time, in terms of regulatory reforms and evolving client appetite, industry practitioners suggested that wealth management firms of the future might incorporate some of the following:

- The advisory offering will give firms a choice – especially in terms of pricing and ways to interact with the organisation
- Firms will offer clearer client segmentation based on where they can provide an explicit value proposition for different types of clients
- The impact of technology on the business will be a significant driver of how organisations – and their bankers – interact with clients, and of the overall client experience
- Technology will also create increasing opportunities for niche and nimble players, for example enabling boutiques to build the right businesses
- Organisations will offer their staff opportunities to be entrepreneurial as a result of creating a flexible working culture
- More firms will exist to act as “go-betweens” in terms of how they connect different types of organisations and third parties to bring opportunities to end-clients

SECTION 5

Methodology and participating organisations

This White Paper, produced by Hubbis on behalf of the Asian Wealth Management Association, reflects the honest thoughts, insights and recommendations of many of the industry's leaders from a wide variety of firms, representing all client segments and business models.

These individuals came together at a series of Association committee meetings in Singapore, Hong Kong, India and Malaysia in August and September – as well as on panel discussions at Hubbis' Asian Wealth Management Forum 2013 in Singapore in late September – http://www.hubbis.com/forum/wmf2013_sg/

The commentary is also based on the sentiment of 100 of that Forum's delegates, via audience polling. These individuals comprised senior management, product gatekeepers, heads of investment advisory, relationship managers (RMs), senior operations and compliance practitioners, and other key personnel within the leading private banks, consumer banks, IFAs, independent asset managers, insurance companies and other industry players.

The overall aim of these gatherings, as a result of identifying the issues outlined in the executive summary, was to discuss the topics below, and try to provide some practical next steps for the industry to take:

Credibility and ethics

- To what extent are the various compliance and regulatory obligations posing a threat to the credibility of the industry going forward?
- What must the industry do to ensure it fosters and maintains credibility?
- To what extent must ethics be the new starting point for Asian wealth management?
- How can this happen in reality?

Attracting new people to the industry

- How can we get more capable, competent and enthusiastic young people to join this industry?
- What initiatives have worked to date? What's been lacking?
- How to engage the younger (next) generation?

Fees and incentive structures

- What's the right balance?
- How can we make more money while considering the client?
- What can be done to ensure clients recognise value they are getting?
- Can advisory models evolve to respond to a more challenging environment, regulations that ban inducements, and more discerning clients?

Regulatory and compliance issues

- How can the industry communicate more clearly with the regulator?
- How much cross-border engagement is appropriate?
- What are the implications for the industry of the increasing blurring of lines between different wealth management organisations and propositions?

Participating organisations

Firms who participated in discussions relating to the content in this White Paper cover a wide variety of types of organisations relevant to Asian wealth management, including:

- Private banks
- Consumer banks
- IFAs
- Insurance companies
- Independent asset managers
- Fund managers
- Securities firms
- Independent trust companies
- Technology providers
- Consultants

Specific firms involved (in alphabetical order):

1. ABN AMRO Private Banking
2. AG Delta
3. AL Wealth Partners
4. Amicorp Group
5. ANZ Private Bank
6. Axis Bank
7. Bain
8. Bajaj Capital
9. Barclays
10. BHI Investment Advisors (Asia)
11. BNP Paribas Wealth Management
12. BOC International
13. CAIA Association
14. CIMB Private Banking
15. Citi
16. Citibank
17. Credit Agricole Private Banking
18. Credit Suisse Private Banking
19. CTBC Private Bank
20. DST Global Solutions
21. FinIQ
22. Foundation of Independent Financial Advisors (FIFA) India
23. Freedom Financial Planners
24. Heong Leong Bank
25. Heritage Trust Group
26. HSBC
27. HP Wealth Management
28. IFA Galaxy
29. J.P. Morgan Private Wealth Management
30. Karvy
31. Kenanga Investment Bank
32. Kotak Mahindra Bank
33. M&G Investments
34. Maybank
35. MyFP Services
36. Professional Investment Advisory Services
37. Religare Macquarie Private Wealth
38. RHB Bank
39. Standard Chartered Bank
40. Standard Chartered Private Bank
41. Union Bancaire Privee
42. Wealth-X
43. WongPartnership LLP

The Association's objectives

Comprising a mix of senior management, business unit heads, team leaders, product gatekeepers, and smart, up-and-coming professionals at a variety of wealth management firms across Asia – a key aim of the Association is to promote genuine thought-leadership, professionalism and industry collaboration.

This covers issues, opportunities and challenges relating to: business strategy, regulation & compliance, processes & operations, HR, training, products, and platforms – for the interest of the wider community.

In general – and in line with the multiple regulatory, strategic, operational and other challenges confronting wealth management organisations of various types and sizes across Asia – committee members have previously agreed that the role of the Asian Wealth Management Association should include:

- Communicating clearly to individuals working within the industry, the wider community and other stakeholders – including customers and regulators – the various viewpoints of different types of organisations and players
- Representing the views of all players across industry segments and types of organisations – to encourage more collaboration and fewer silos
- Maintaining professional standards and improving knowledge of practitioners to uphold the integrity of the industry and enhance the credibility in terms of the perception of all stakeholders
- Providing a code of ethics for newcomers and existing practitioners – and incorporating ethics into the advisory process across all organisations
- Working with the industry to provide relevant client education
- Helping organisations understand and deal with the differences in regulation, for example between operating in Hong Kong and Singapore
- Evolving in line with industry and client needs – including more granularity around sub-groups and content

Feedback

We want to hear from anyone who is interested in finding out more information about the Association, or in participating in various initiatives.

We also welcome your views and comments on this White Paper.

In both cases, please contact editor@hubbis.com

Dates for forthcoming Association committee meetings:

- **Singapore** - Wednesday 11th December
- **Hong Kong** - Tuesday 17th December
- **India (Mumbai)** - Wednesday 18th December
- **Malaysia (KL)** - Wednesday 22nd January