WESTOUN ADVISORS

HOW TO REMOVE THE FUNDS BLOCKAGE IN ASIAN PRIVATE BANKING

2016

FOREWORD & OBJECTIVES

When I first started covering private banks in Asia for an investment manager in the early 2000s, one of the key challenges for the industry was how to increase funds penetration to ensure a greater proportion of recurring fee income.

Nearly 15 years on, and the conversation is still the same. In the vast majority of cases, these institutions have been struggling to move the needle in selling funds, managed solutions and discretionary mandates as part of longer-term portfolio construction.

This was the backdrop for proprietary research which Hubbis and Westoun Advisors did in July and August 2016. The objective was to discover successes and problems in the increasingly-urgent goal of reducing the dominance of transactional revenue.

It ultimately resulted in interviews with 38 individuals representing 23 private banks in Hong Kong and Singapore – with a total Asia-based AUM of USD1.5 trillion.

The survey was designed to create a strategy to address three critical questions:

- What are the challenges to greater funds penetration in Asia?
- What are the best practices among fund gatekeepers?
- Is there something more that private banks and asset managers can do?

I hope you find these initial insights interesting and valuable.

The intention is to build on this research via regular but informal get-togethers and off-the-record roundtable discussions among the leading product gatekeepers and fund selectors across the region. We want to drive debate and share insights, issues and best practices that reflect your changing needs as you look to develop your businesses. For example:

- Which investment products and ideas are selling
- New ways to grow AUM based on what the sell-side is doing to develop their product offering
- How to manage clients more proactively and efficiently

Most importantly, I greatly appreciate the time and contribution of the participants – especially their frankness – in contributing to this research.

ANDREW HENDRY
MANAGING DIRECTOR, ASIA
WESTOUN ADVISORS

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EXECUTIVE SUMMARY

"Among the 23 banks we interviewed – with a total Asia-based AUM of USD1.5 trillion – average penetration was 9%."

The portion of income at private banks in Asia which comes from recurring revenue, more specifically from funds and discretionary portfolio management (DPM), has been in the single-digit percentage, on average, since the early 2000s.

This is despite initiatives at most firms post-2008 to increase penetration, with a view to reducing the volatility of revenues from Asia.

Among the 23 banks we interviewed – with a total Asia-based AUM of USD1.5 trillion – average penetration was 9%.

The output from these interviews and further validation research identified six steps for success (in terms of fund AUM, given inconsistencies in DPM offerings) and four obstacles.

Steps for recurring revenue success

1. **Firm-wide tactical asset allocation (TAA)** - respected and reiterated across all product silos as well as functional layers down from the chief investment officer (CIO) through product gatekeepers, advisory teams, investment counsellors (ICs) and to relationship managers (RMs) / client advisers (CAs).

2. **Ease of access to funds** - to implement the TAA, access to funds on three levels is needed in a total of six weeks:

    - Fund information – in particular the qualitative inputs of requests for proposals (RFPs), manager interviews, operational due diligence
    - Operational connection
    - Commercial agreement

3. **Recommended lists** – a focused Asian recommendation list created with 25 to 40 funds, including alternatives. These are the best-in-class in terms of investment and sale support.

4. **Fund-only event** - a half-day offsite with three to five fund managers with excellent presenters who are in line with the TAA view. Mandatory RM / CA attendance, held (at a minimum) semi-annually in line with the selling seasons. For optimum fund penetration, repeat the same format with clients.

5. **RM / CA coverage** - to maintain momentum after the events, promote funds in person at various internal meetings. For this to be possible, an appropriate ratio of fund specialists to ICs and RMs / CAs is necessary.

6. **After-sales support** - to retain assets in funds, as being distinct from new sales, after-sales support is needed from fund managers in addition to the effort internally.

Across all banks interviewed, few were consistently able to undertake these steps. The steps that were most challenging – even absent in some cases – were 'Ease of access to funds' and 'After-sales support'.

Obstacles

1. **Product economics and RM / CA key performance indicators (KPIs)** - to achieve revenue targets most effectively, RMs / CAs focus on the highest revenue-generating products – which are insurance and structured products. Funds, relative to these, are complicated to sell and generate much lower immediate revenues. For the work of retaining existing funds, the economics are even poorer; as there is no longer the sweetener of the front-end load.

2. **Budget constraints and outsourcing aversion** - to effectively execute on the six steps to success as above, what's needed is either investment internally or outsourcing all but the valuable tasks. Budgets at all banks (bar two of the largest), did not allow for appropriate internal resources. Interestingly, resource-constrained banks were unable to outsource functions. In a few cases, this was because the bank was not aware of outsourcing solutions, but for the majority there was a corporate aversion. The outcome was that little resources are spent on tasks which do not contribute to fund sales or retention. Compliance and regulatory issues (in steps 2 and 3) take up increasing bandwidth.

"The steps that were most challenging – even absent in some cases – were 'Ease of access to funds' and 'After-sales support'."

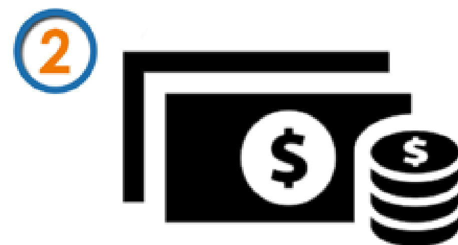
“As a consequence of budget constraints, fund specialists have to wear several hats.”

3. **Triple-hatting** - as a consequence of budget constraints, fund specialists have to wear several hats. From the perspective of ICs and RMs / CAs, the consequence is that they are either perceived as, or in reality are, a ‘jack of all trades’ and ‘expert of none’. This undermines their credibility and thereby their ability to increase funds as a share of RM / CA sales versus competing products.

4. **Changing staff and organisational structure** - the average time that fund selectors or regional gatekeepers are in their respective role was found to be less than two-and-a-half years. Internal structures for reporting and responsibilities were changed approximately every three years – seemingly in-line with senior management changes. Add to this M&A and HQ shifts of Asia private banking strategy (enter, expand, shrink, exit, etc) and it is no surprise to see that all firms have endured unending substantial modifications to their Asian businesses. In this context, executing on the six simple steps becomes understandably difficult.

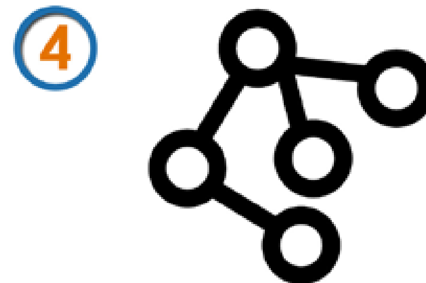
As a result of current models, incentive structures, processes and policies, therefore, a combined with the underlying issues of stretched resources and consistency of people, the best efforts by firms to maintain and grow penetration of funds is undermined.

Product economics and RM / CA KPIs



Budget constraints and outsourcing aversion

Triple-hatting



Changing staff and organisational structure

RESEARCH SCOPE & CONTEXT

With the strong equity markets leading up to 2008, private banking revenue in Asia from transactions was strong and decent funds sales added to the fortunes of firms.

At that time, DPM with single stocks and bonds wasn't a great focus. But fund-of-funds and managed fund portfolios were promoted; they provided an additional opportunity for revenue generation in return for fund diversification.

Fund sales were driven by thematic funds, such as HSBC India and the Pictet Water fund. Appetite for hedge funds was also strong, with the promise of double-digit returns and downside protection.

The sales strategy within private banks and asset managers corresponded to this themed approach, with many firms adopting fund pushes for new themes every one to two months.

Seeking further gains from world equity markets, these themes became more niche, with frontier emerging markets marking the last of them before the 2008 crisis.

The response post-2008 from HNW investors is predictable in hindsight – a dramatic reduction in transactions and selling out of the thematic funds, fund-of-funds and hedge funds that failed to deliver downside protection.

The impact on private banking revenues was dramatic.

At this time, these institutions became more vocal about the need to increase the proportion of revenues from managed solutions. DPM teams were created or reinforced. In turn, more discretion was given to regional product gatekeepers to arrange a product line-up that would be more successful with regional HNW clients.

"The principle impediments to the goal of increasing recurring revenue were, and still are, ascribed to the end-clients in the region."

"There is enough demand for managed assets from Asian clients to allow any single bank to achieve high recurring revenue."

Who to convince to move the needle

Despite these changes, the principle impediments to the goal of increasing recurring revenue were, and still are, ascribed to the end-clients in the region.

Their investment behaviour, characterised by short-termism, propensity for speculation and reluctance to delegate decisions are oft-cited.

Yet this seems a convenient excuse, reinforced by regional stereotypes and media, and it has served many banks well in being able to focus on end-clients – not the industry itself – as the root cause of low recurring revenues.

As a simple way to test the validity of the above – to determine whether it is a mere excuse or explanation – one may ask whether, from a high-level, what AUM would a private bank have in the extreme if it captured all and only the assets currently invested in funds through private banks.

To arrive at this, we apply a 9% penetration rate on a conservative value of USD2 trillion AUM of Asian private banking assets – giving us USD180 billion. This would be the third-largest Private Bank by AUM in the region.

In extremis, this demonstrates that there is enough demand for managed assets from Asian clients to allow any single bank to achieve high recurring revenue. Indeed, this number shows that the industry is somewhat successful at placing assets in funds.

As another sense-check, one may look at the pure-play asset managers in the region. The assets from individual investors in Asia support a large and growing cohort of firms whose revenues are entirely recurring. If there were a true cultural aversion to managed assets by individual investors, these firms would only have pension and sovereigns as clients.

This brings us full-circle to the purpose of this research paper: what are steps to success, and what are the obstacles, to fund penetration, other than HNW individuals themselves?

The importance of this cannot be over-stated. As the industry takes gradual but inevitable steps towards the provision of advice rather than just product, many leading product gatekeepers expect far fewer long-only funds to exist, making way for more ETFs as well as those active funds that provide real alpha. And in meeting the need to provide advice – translating to not charging for transactions – the focus needs to shift towards educating bankers to sell funds as a part of a long-term portfolio construction solution.

Inputs and recurring revenue penetration

"There was no strong correlation between bank size and penetration rate."

For us to move from perception to reality in this research paper, the representativeness of the private Bank participants is key. 23 private banks who operate out of Hong Kong and Singapore kindly gave their time in meeting with us to address 59 questions and share their insights. The meetings were conducted in person, and anonymously.

Some banks are more complex than others, and to this end we met in certain cases with more than one person from the same firm – leading to a total of 38 interviews.

The total Asian AUM of the participants is USD1.5trillion, which represents approximately 77% of the private banking market that we targeted.

Through the course of the interviews, several industry participants or issues were mentioned in areas including hiring, training, outsourcing, operations, manager research, events and fund managers. To follow up on these comments, 29 further meetings were conducted.

The average penetration rate of managed assets for this sample set was 9% of bank AUM. The range of penetration went from 2% to 30%.

Interestingly, there was no strong correlation between bank size and penetration rate.

The total managed assets AUM as a proportion of the participant banks' total size is greater than 9%, as some large firms have high absolute AUM in managed assets and thus skew the average if calculated in this way.

There were not enough responses to reliably determine the percentage of gross revenue attributable to managed assets.

The range of penetration rates amongst participants, and indeed the oscillations of these rates over the time for individual banks, indicated that endogenous factors – those specific to those institutions themselves – had a significant impact on the success of increasing revenues from managed assets.

Note: we did not seek to cover onshore businesses, for example India and China. Taiwan is the only onshore jurisdiction that came up in this research as some participants have onshore activities whose products are managed through Hong Kong or Singapore.

SIX STEPS TO INCREASING MANAGED ASSETS

We have extracted the best practices that were shared with us in the research, and have synthesised them with our own recommendations, based on observations taken from the research.

This created six steps to increasing penetration of funds.

Step 1: Firm-wide TAA

It was noted that having the CIO or chief strategist's view reflected across the product silos (cash equities, fixed income, FX, funds, DPM and structured products) resulted in a much stronger ability to drive flows into managed assets.

Each product silo offers ideas to the front line on how to implement the TAA. In addition to this, the CIO's TAA view must be reinforced through the different layers of functions leading to the end-client – advisory, marketing, product specialists, ICs and, finally, RMs / CAs.

At first inspection, this step seems a hygiene factor as opposed to directly benefiting the managed assets versus other products. However, the firms without this approach noted that products that were inconsistent with the TAA and therefore potentially contradicting each other forced the RMs to propose their own view of TAA to the client in order to offer some concrete view.

Furthermore, confusion at the client level could lead to indecision and no investment action at all.

"Firms who had implemented and enforced a firm-wide TAA noted significant improvements to product penetration, including funds."

Firms who had implemented and enforced a firm-wide TAA noted significant improvements to product penetration, including funds.

When the DPM units followed the TAA and also used funds from the recommended list, a compounding effect took place, boosting the confidence at the RM / CA and client level in managed assets, and in particular the funds chosen by the manager selection team.

Step 2: Ease and speed of access to managed asset products

Once the TAA is established, the manager selection unit needs to access funds to implement this view.

For firms with many preferred providers or existing distribution agreements and large fund platforms, it took on average seven weeks to select, approve and put a new fund on the shelf for RMs / CAs. The quickest was three weeks.

If there was no agreement in place, onboarding took from five months to one year.

There are three areas of access which are needed to onboard a fund:

- Informational - returns, people, process, philosophy, portfolio
- Operational - ability to subscribe and redeem
- Commercial - trailer fee negotiation and payment

Informational

Almost all firms used Morningstar for quantitative screening of funds. Some used proprietary quant models to filter funds; a minority used Morningstar's star rating.

For qualitative research, only three firms rely on external providers. Despite budget constraints and in some cases insufficient budget to conduct on-site due diligence, the idea of external help for qualitative screening was absent.

"Despite budget constraints and in some cases insufficient budget to conduct on-site due diligence, the idea of external help for qualitative screening was absent."

For certain firms who wanted to outsource, internal legacy structures meant they were unable to do this. For one firm, their group manager selection resource was much more expensive than outsourcing options.

Other internal factors delayed the search and approval of the product. The time-consuming process of RFPs and multiple layers of global approval were also obstacles.

Interestingly, with the increased compliance burden on banks to prove due care in product selection and do the required ongoing monitoring, the budget constraints on headcount and travel at the firms meant this issue had become more challenging to address – and therefore is a more significant risk.

For alternatives – namely, private equity and hedge funds – there was a greater propensity to outsource the manager research and due diligence. However even

here, the outsourcing provider took the guise of another group entity as opposed to a totally different company.

Operational

There was a significant split between the participants who had a legacy large fund platform – in particular the Swiss firms and those with large global consumer banks – and those that did not.

For the latter, operational connectivity was a further delay in on-boarding funds.

Commercial

Seemingly, the most straightforward of the three points of access was actually the most time-consuming.

The investment work took one to two months and commercial negotiations would add another three to 10 months.

Step 3: Focused Asian recommendation list - investment and sales support best-of-breed

The average number of funds recommended in Asia is 36. Compared with 15 years ago, it seems that a short and focused list that had been tailored for Asian investors has been adopted as a best practice in the industry.

The funds chosen are best-of-breed – of either the bank's preferred providers or the general fund universe. The typical criteria for funds are a three-year track record and USD100 million to USD150 million AUM.

"Compared with 15 years ago, it seems that a short and focused list that had been tailored for Asian investors has been adopted as a best practice in the industry."

However, for larger global banks, AUM would need to be above USD1 billion to accommodate flows and avoid concentration limits.

In a separate question, the firms were asked their opinion on the top three features of funds that were successful at generating flows, excluding performance:

1. **A simple compelling story**
2. **Sales support by internal specialists and fund managers**
3. **Brand**

Interestingly, sales support was not mentioned as a criterion when selecting funds. For those with preferred providers, this is of course already addressed. However, the investment integrity of a best-of-breed approach can be undermined by a restricted list of providers.

The issue of brand was a grey area, insofar as while it is important in helping generate sales, very large brands did not offer the exclusivity of access that could differentiate a bank's product line-up from its peers.

Step 4: Fund-only event

Once the fund line-up for Asia has been established, the challenge is to transmit the stories of the funds through the ranks so that it can finally reach the client as intact and powerful as when articulated and approved at the investment committee.

There were many approaches to this. The most powerful in terms of generating fund sales are dedicated fund events.

The following are the best-practice features:

- Funds only – no other products
- Location out of the office for half a day
- Mandatory attendance of RMs / CAs
- Three to five managers with funds in line with TAA – and who have compelling presenters with interesting stories
- Minimum semi-annual, preferably quarterly
- The same event for end-clients

In reality, recent fiscal constraints have curtailed the ability to do such an event. Either the direct cost is too much or there is no-one in the bank with time to organise this. Most banks did not even offer their fund advisory teams support from the marketing department.

The most common communication format was morning meetings and teach-ins. The challenges of these, however, are poor attendance, a lack of focus (where other products were also presented), and insufficient depth to engage RMs / CAs, who are traditionally weak in fund sales.

Repetition is key to ensuring the content sinks in over time. In some cases, product heads might even set quizzes to try to get greater engagement and measure effectiveness.

"The most common communication format was morning meetings and teach-ins. The challenge of these, however, are poor attendance, a lack of focus and insufficient depth to engage RMs / CAs."

"The challenge for ICs, is that they, like RMs / CAs, have their own product biases and comfort zones. So their effectiveness in the area of fund sales is inconsistent."

Step 5: RM / CA coverage

Internal sales support was noted as one of the key elements in successfully increasing fund sales. In-between fund events, the fund specialists, fund advisory and ICs need to engage with RMs / CAs and end-clients on the funds.

Qualitative feedback from participants of this research noted that if a person promoting funds is experienced and credible, then one-to-one meetings with RMs and end-clients would result in greater fund sales. The rationale being that the ability to effectively convey conviction in a fund changes the opinion of RMs / CAs who hitherto would not sell funds. For the end-clients, it would give them the confidence to allocate a larger amount into the fund as opposed to the minimum.

The constraint in achieving this is headcount and experience. One head of investments noted he aims for two client meetings per week. These will be with UHNW clients. Others noted that time constraints meant being able to meet with RMs / CAs and clients in person was a rarity and this was seen as the function and purpose of ICs.

The challenge for ICs, is that they, like RMs / CAs, have their own product biases and comfort zones. So their effectiveness in the area of fund sales is inconsistent. A key way to overcome this comes back to product heads sitting down one-on-one with (at least) the most influential bankers.

Over the last five years, there has been an increase in product generalists versus specialists at private banks. Therefore, the ability to effectively cover RMs / CAs has reduced.

Step 6: After-sales support

As noted above, one of the critical criteria in fund penetration is sales support internally and externally.

In the research, we asked participants which three fund management firms were best at providing such support. We specifically asked them to set aside the investment performance of the fund and only assess the sales and servicing functions.

Interestingly, only one bank listed out three providers together with the names of the sales people without hesitation. For the remainder, this question posed a challenge. Two fund management firms had multiple mentions in Singapore. Respondents on the whole were diplomatic in not naming firms with poor service.

Interpreting the lack of responses from the 23 banks on this question, one can conservatively surmise that sales support and servicing from fund managers is below the expectations of their distributor clients.

"One can conservatively surmise that sales support and servicing from fund managers is below the expectations of their distributor clients."

One of the more vocal participants noted that fund salespeople seemed more focused on presenting their suite of products than listening to what the private bank needs and is looking for. Other feedback included the repeated inability of firms to present their funds in a way that reflected the level of investment knowledge and concerns of the RM / CA or end-client audience.

Despite the lack of strong positive feedback on sales support, there was a more significant gap in after sales support – the absence of retention of assets already invested in funds.

Fascinatingly, the previous five steps to success taken from the banks are for the search and promotion of new funds. The cycle is repeated and new funds introduced on a periodic basis. There is a continual process of selling but there is no distinct and deliberate activity focused on the retention of assets already invested.

The consequence is clients redeem from existing holdings to invest in new funds. As a result, instead of building up the proportion of AUMs from recurring revenue year over year, the same stock of assets is recycled into different products.

Unfortunately, this churn can be compounded by the TAA view, which may bring more focus on tactical moves and therefore on satellite or short-term strategies rather than the bringing the core portfolio to match the long-term strategic asset allocation (SAA).

This approach is further reinforced by commission from front-end loads – which is typically 0.7% to 1%. In an environment of low trail fees due to a predominantly fixed income books of funds, the front-end load can be equal to two years' worth of trail revenue.

We believe the inability for the industry to successfully address this critical sixth and final step is one of the reasons why penetration rates have remained low over the last 15 years.

OBSTACLES

We can draw from the research four specific obstacles facing firms who may wish to follow the six steps to success.

Obstacle 1: Product economics and RM / CA KPIs

To achieve revenue targets most effectively, RMs / CAs focus on the highest revenue-generating products, which are insurance and structured products. Funds relative to these are complicated to sell and generate much lower immediate revenues.

For the work of retaining existing funds, the economics are even poorer as there is no longer the sweetener of a front-end load.

Several of the larger firms had implemented KPIs to balance out the net new money (NNM) and return on assets (ROA) targets in favour of recurring revenue.

This was either done through a balanced scorecard or by giving more weight to the quality of revenues. Some firms made quantitative adjustments to commission, giving increased US dollar credit for managed product revenue versus others.

A relatively recent approach is that of all-in advisory fees, whereby commissions are not charged on individual transactions but rather as an annual fee on client assets. This successfully addressed the problem of recurring revenue for banks, but may be seen as just pushing back the problem of poor long-term asset allocation for the end-client's portfolio.

"Several of the larger firms had implemented KPIs to balance out NNM and ROA targets in favour of recurring revenue."

Obstacle 2: Budget constraints and outsourcing aversion

To effectively execute on the six steps to success as above, what's needed is either investment internally or outsourcing all but the valuable tasks.

Budgets at all banks (bar two of the largest) did not allow for appropriate internal resources.

Interestingly, resource-constrained banks were unable to outsource functions. In a few cases, this was because the bank was not aware of the outsourcing solutions available. But for the majority, there was a corporate aversion to outsourcing.

The outcome was that little resources were spent on tasks which did not contribute to fund sales or retention. Compliance and regulatory issues (in steps 2 and 3) take up increasing bandwidth.

Indeed, if for the six steps we assume all functions need to be done internally, the resources are significant and could outweigh the benefits. However, in asking the participants what they felt their true value was for the firm, the most common answer was 'selecting the right funds and promoting them at the right time'. So this ought to be the function that is most important to be done in-house.

If we review the six steps in this light, what is remarkable is the consistent lack of either outsourcing or leveraging external support.

There was a mix of opinions for outsourcing qualitative due diligence. Some saw this as a critical value-add whilst others believed that time spent on due diligence of hygiene factors would be better spent on fund manager interviews. One respondent noted fund selection will be a commodity; the value will be the advice that couples the right client with the right product.

With the increased regulatory scrutiny on product selection and related documentation, many product heads seem to be spending more time on compliance requirements rather than tasks that they felt provided value.

These comments should encourage outsourcing of basic and operational tasks, but at this time only a handful of banks have done so.

Moving to the fund events, fiscal constraints limit many firms from being able to organise such events. In a separate question, we asked what events the participants attend. The majority noted some form of fund manager-sponsored, third-party event. However, few had thought to leverage fund manager resources to support a private bank event for their own RMs / CAs.

"To effectively execute on the six steps to success as above, what's needed is either investment internally or outsourcing all but the valuable tasks."

"The contradiction between banks' lack of engaging external help and their cost-cutting initiatives is a serious obstacle to fund penetration."

The final two steps require further support from fund managers, but experience of support was limited and inconsistent in quality. Several banks noted that the turnover of sales staff at fund managers was a key reason in the variable nature of support.

Amongst the participants, it was primarily the regional banks who were able to increase resources. Yet some of these firms are in the process of building up the function almost from scratch.

The contradiction between banks' lack of engaging external help and their cost-cutting initiatives is a serious obstacle to fund penetration.

Further, a related challenge when it comes to the ability of RMs / CAs to engage clients with needs-based conversations about investing via managed solutions, is the lack of sales training. This, too, partly stems from the shortfall in time and resources dedicated to such education or to continuing professional education in this area.

It seems a surprise that few, if any, institutions ensure their front-line staff have formal sales and presentation skills, to ensure they fully understand and can implement required sales processes.

This also applies to the after-sales care and service these bankers should be providing.

Obstacle 3: Triple-hatting

As a consequence of budget constraints, fund specialists wear several hats.

From the perspective of ICs and RMs / CAs, the consequence is that they are either perceived as, or in reality are, a 'jack of all trades' and 'expert of none'.

This undermines their credibility and thereby their ability to increase funds as a share of RM / CA sales versus competing products.

A by-product of the cost constraints is the common feature amongst the participants of triple-hatting – or, doing more with less.

It is an unrealistic scenario to expect an individual hired to be a manager research analyst to then also fulfill the role of advisory sales for the same product and product management. But this is a common situation.

The consequence, in addition to the lack of manpower, is the potential perception of reduced credibility in the eyes of RMs / CAs.

We noted in step five that having experienced specialists in front of RMs / CAs directly increases flows.

The development of teams in Asia is towards those who can cover several functions – a ‘jack of all trades’ and, potentially, ‘master of none’.

“We believe the greatest obstacle to fund penetration is the high turnover of staff.”

Obstacle 4: Changing staff and organisational structure

We believe the greatest obstacle to fund penetration is the high turnover of staff.

The average time in the position for fund selectors or regional gatekeepers was less than two-and-a-half years. The average years with the private bank was just under five.
Internal structures for reporting and responsibilities were changed approximately every three years. This seems to be in line with senior management changes.

Add to this M&A and HQ shifts of Asia private banking strategy (enter, expand, shrink, exit, etc) and all firms have endured unending substantial modifications to their Asian businesses.

In this context, executing the six simple steps becomes understandably difficult.

The high turnover of RMs / CAs in the industry is well known and an acknowledged impediment to profitability and general business success. This issue is similarly prevalent amongst the product gatekeepers and their reports.

But the impact of high turnover is much greater for already lean teams, where there is no overlap in coverage should personnel leave or be promoted away from the role.

Further, if a senior or leadership role is changed then new hires invariably will bring in their own people and change the approach. Thus, the uncertainty experienced by internal clients – RMs / CAs, ICs, etc – is compounded.

With such a short tenure of staff and the substantial structural obstacles already present, the ability to simply put in place the six steps is very difficult – let alone executing them consistently over several years.

It is not surprising that three-year plans have a low probability of success when in most cases the people who start them are no longer at the firm at the end of the period.

“It is not surprising that three-year plans have a low probability of success when in most cases the people who start them are no longer at the firm at the end of the period.”

Objectively, we can see this historical pattern in the responses from participants. Those who have dramatically increased fund sales during their tenure in the role entered at the trough of the cycle for the bank and then successfully improved recurring revenue.

They left firms for whom they also achieved this and since their departure, fund penetration dropped off from the peak.

CONCLUSION

This research has hopefully brought us some ways towards recognising that generating flows into managed assets for HNW individuals in Asia is possible.

Indeed, over the last 15 years, product professionals have managed to refine and repeat some of the elements of this success.

However, as it has been in the power of the firms to increase recurring revenue, so too we cannot place the blame of persistently-low penetration rates on the end-client's investment biases.

Structural and human capital issues are at the root of this feature of the Asian private banking industry.

"We cannot place the blame of persistently-low penetration rates on the end-client's investment biases."

PARTICIPATING ORGANISATIONS

We greatly appreciate the time and insights provided by the following institutions (in alphabetical order) – all of which was on a strictly anonymous basis:

- ABN AMRO Private Banking
- Bank Julius Baer
- Bank of Singapore
- BMO Private Bank
- BNP Paribas Wealth Management
- BOC International
- Bordier & Cie
- CA Indosuez Wealth Management
- CIMB Private Banking
- Citi Private Bank
- Credit Suisse Private Banking
- CTBC Bank
- DBS Bank
- Deutsche Bank Wealth Management
- Goldman Sachs Wealth Management
- Maybank
- Morgan Stanley Private Wealth Management
- OCBC Bank
- Pictet
- Standard Chartered Bank
- UBS Wealth Management
- Union Bancaire Privée
- VP Bank