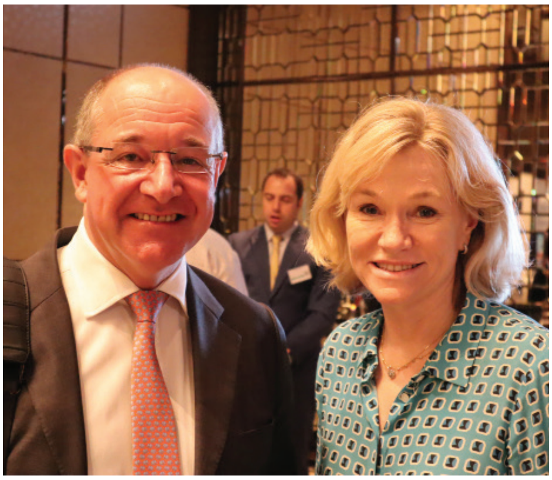
Link to Article on website
Link to Event Homepage
Link to Content Summary page
Link to Photos
Link to Video Highlights

Asia's wealth management industry: re-invent to remain competitive

The Hubbis Investment Solutions Forum was packed with information and opinion provided by the expert speakers and panellists for the many wealth management delegates that attended. If there was one over-arching theme throughout the day, it was that Asia's wealth management industry must continue to re-invent itself in order to remain competitive in the future and to match the diverse expectations of the evolving and fast-growing ranks of Asia's wealthy and uber-rich.

THE FIRST PANEL OF THE DAY set the scene as the experts quickly reached the conclusion that investment in platforms and digitisation are both essential to the growth of the wealth management sector in Asia. However, there was also broad agreement that machines and algorithms will not replace the human adviser and relationship manager in the foreseeable future.



Instead, digital should be seen as an enabler, incorporated into the banking systems and the corporate cultures as a tool to empower the people that connect to Asia's fast-expanding ranks of high-net-worth individuals (HNWIs) and the growing number of ultra-HNWIs.

Experts joining the second panel of the day conceded that a decade after the global financial crisis, the private banks and other wealth management firms have not yet significantly evolved their businesses beyond the dominance of product-led revenue streams.

But everyone agreed that they want and need to do so. However, how will they differentiate their discretionary portfolio management (DPM) offerings? Can they convert Asia's HNWI clients to advice-led fees, and can Asia's HNWIs gradually relinquish more control over their portfolios and also pay more readily for professional advice? Can these HNWIs moderate their expectation of returns as the markets turn more volatile after many years of bullish sentiment? Is the active

approach in fact actually better than passive strategies anyway, even in testing times?

In the third panel the guest speakers deliberated how Asia's private banks and wealth managers can encourage their client base towards the advisory model, while also ensuring that the best products and ideas are delivered via communication methodologies that are state-of-the-art.

The discussion ranged over a host of topics, from the efficacy of boutique wealth managers compared with the global private banks, the migration towards discretionary advice mandates, to the value of active or passive investment strategies, and the growing prevalence of robo-advisory, especially for the mass affluent market and the regulatory hurdles that must be overcome to function efficiently and compliantly. There was no widespread consensus on any of these issues other than on the key point that the industry must invest in both technology and people in order to survive and prosper.

The mainstream financial markets are nowhere near as robust as they were in recent years and particularly in 2017, even though the headline index numbers for the US and many European markets remain close to their all-time highs. China and other emerging markets are sharply down this year, but not disastrously

so. In short, the world is watching and waiting. How then should Asia's HNWIs and their wealth management advisers approach these markets? A group of experts provided their ideas on the best way to advise Asia's HNWIs to approach their wealth management portfolios.

And in the final panel of the day several experts proposed individual solutions. One guest recommended private equity, especially deals that combine sustainability and socially responsible investment (SRI) principles with the generation of alpha, particularly for the younger generations of inherited or self-made wealth in the region. Another guest said to avoid fixed income and focus instead on other non-marketable credit products. One expert turned the focus on Vietnam as an appealing frontier market soon to evolve into emerging market status.

Ten top-class presentations and workshops focused on some fascinating topics for wealth managers to consider. The first highlighted opportunities for HNWI investment in China and discussed the optimal strategies to play what has been a difficult market. In the second presentation MSCI focused on the firm's significant resources dedicated to portfolio advisory for investors taking exposure to the global financial markets.

The global ETF [exchange traded fund] market has enjoyed a remarkable explosion in volumes to surpass USD5 trillion of market value today. But, what are ETFs and why do they suit the portfolio construction for Asia's HNWIs? An expert delved into the details for the benefit of delegates. And another speaker highlighted the attractions of Vietnam's equity market as the country's economy continues its dynamic expansion.

By 2020, Asia's rapidly growing ranks of mass affluent will have amassed wealth of $43 trillion and the average age of the holders of this massive wealth is becoming younger, year by year. A speaker highlighted the digital wealth management systems his firm delivers that can empower financial institutions across Asia to evolve their offerings to a broad 'wealth care' concept.

Managed accounts are growing in stature in Asia's wealth management industry. Owned by individuals, managed by a professional entity, they are now worth USD 5 trillion in the US alone. An expert looked under the hood of the managed account structure and told delegates why he believes it is an ideal product for Asia's wealth management advisers and their clients.

In another complex but absorbing workshop, an expert who is passionate about the need for investment theories to reflect the real world 'realities' told the audience why HNWI portfolios must be assembled and overseen with dynamic risk management to optimise portfolio performance, both on the upside and the downside.

In another fascinating workshop, delegates heard exactly how structured products can help HNW investors protect capital and participate in the upside potential of assets or markets. The speaker explained how they are often ideal for any investment conditions, as they can be tailored to the expression of investors' views.

Emerging market (EM) debt was one of the best performing asset classes in 2017. An expert presenting the last workshop of the day told the audience how, by extrapolating from vast swathes of data and projections, it would appear that those halcyon days for EM debt are heading to an end, yet the fundamentals remain generally strong and new frontier markets offer a key source of diversification.

The Forum closed with Malik Sarwar, CEO of K2 Leaders, making a call to arms for the wealth management advisory community. He highlighted the immense opportunities arising from intergenerational wealth succession in Asia, but he also warned of the dangers of complacency and advised ever-greater client-centricity.

"The single biggest criticism we [in the wealth management] industry heard from investors around the world after the 2008-09 crisis was that we never advised the investors to take some risk off the table, that we were too greedy," he reported.

"But I personally think it was not greed, I think it was incompetence and the typical compensation structure, which encouraged those in the industry to sell more and more, rather than encouraging investors to take risk off the table. That has hurt the industry. And ten years later, in all honesty, this has not really improved because it is largely the markets that are achieving the returns, not our alpha value-added. This mindset must change and it is you in the wealth management industry who must change it."

Sarwar also highlighted the importance of succession planning and wealth transfer from the older, founder generations to younger generations who are generally more in tune with concepts such as ESG [Environmental, Social and Governance] investment principles and impact investing opportunities.

"Immense opportunities await our industry as estates pass to the younger generations and as women also control more of the wealth," he observed. "In the US I see these millennials and others having less faith in the global brand banks and this therefore represents a vast opportunity to be sensitive and responsive to their evolving client base. Supported by the right approach from their firms, armed with digital technologies, you, the wealth managers of Asia, will win over that future business as this veritable tsunami of wealth transitions from generation to generation."

Sarwar closed the event with a few words of advice to the assembled delegates. "Do your own research," he urged, "for yourself, for your clients, and for your teams. Listen, keep an open mind, question. So many of the experts who correctly called some of the major past crises, such as the 2000 or 2008-9 debacles, have got many or most calls wrong since. So, my advice is to not become over-enamoured by these people, we are as smart individually and collectively as any of them. And remember, call your clients regularly and consistently, in times of calm market circumstances or do not shy away from conversations in more difficult conditions or about more sensitive topics." ■