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Asian Wealth Management Forum 2018 video highlights

At the Hubbis Asian Wealth Management Forum 2018 in Hong Kong on February 27th, we interviewed leading industry experts. Want to know what you missed - click here to view the highlights.

You can also read the transcripts in this document - and click on the name of the person to view their individual comments.

Kees Stoute
EFG Bank

All the panel members agree that there have been a lot of changes in the industry. Of course, we're talking about the regulatory avalanche, we're talking about the digitisation of the industry. There has been many changes affecting the industry and we are all finding ways to deal with that. What we're doing is still more or less the same but how we're doing it, that has changed significantly.

I'm quite certain that the industry will become increasingly client-centric because the regulator won't stop before it becomes more client-centric. Also, if you hear the managers from the various private banks talk, we do see that there is an increased focus on culture and an increased focus on client centricity. One day, it has to come. On top of that, not being client-centric is not an option. All the lower value-adding staff will be replaced by other cheap service providers or by robo-advisors. You have to focus on the higher value-adding staff.

Stewart Aldcroft
Citi Trust

China is non-stop, it changes all the time, it opens up more and more. We are going to see more expansion of the access points to China. It wants to develop more access points because it recognises that there is a massive amount of wealth within the markets that needs to be managed properly. The current estimate being about USD17 trillion which is, by anybody's stretch of the imagination, a lot of money. The question is, "How do you get into China?" That needs a lot of professional help and attention, and being patient too because nothing happens overnight.

Michael Benz
Synpulse

What we have seen over the past 12 to 18 months is that most of the banks have really sorted out their core banking issues by now and are, as a result of that, in a position to address the real front to back client processes. What do I mean by that? We see essentially three areas where banks and wealth financiers particularly spend resources when it comes to technology.

First of all, it's the whole client lifecycle management. That basically means digital client onboarding. It means technology-supported, KYC activities. Secondly, it's automation of 'things'. It's about robotic process automations. It's about essentially eliminating human activity and interference and making things super scalable and super efficient.

Thirdly, and this is particularly true for the more advanced banks, they start to think about, and deal with, their gigantic pools of unstructured data and unused data. They try to make use of those by delivering more relevant, more timely product solutions and advice to clients.

Peter Stein
Private Wealth Management Association

The biggest developments are probably the change in the competitive landscape. The rise of external asset managers in the last few

years and the impact it has on the business model. The rise of the family office, that's definitely a growing phenomenon. As well as the impact of the regulatory environment which has clearly become a lot more challenging for many traditional players to cope with.

One of the things that the PWMA will focus on is overseeing the certified wealth professional framework. We are working on the enhanced competency framework together with the HKMA.

We're in the process of reviewing the framework right now to make sure that it's up to date and reflecting the changes in the market, and providing the right benchmark for professionals in the industry to cope with the changes that are happening.

Jennifer Lai
Henley & Partners

There are a lot of people living in Asia who are thinking about relocation for many reasons. Of course, if you look at the whole market, specifically in the North Asian market and China, people are looking for residence and citizenship options because of lifestyle, because of retirement planning, education, security, and for future planning.

If you look at North Asian families specifically, and the Chinese families in particular, they're looking for relocations in terms of residence and citizenship plannings. The reason is because of the quality of life, their future planning, education, security, and even future family planning.

Those are the reasons that trigger a lot of people to think about obtaining second alternative options of residence and citizenship planning.

Nicolas Mathier
Global Precious Metals

We specialise in the trading and the storage of precious metals. We offer these services to high net worth individuals, mainly in Asia. We see a big growth in Asian countries, like Hong Kong.

We see an increase because people don't trust most of the counterparts they work with, or if they do, only to a certain extent. They see a level of security provided for by storing physical gold outside the banking system.

Why is that? Because 2008, 2007 is not so far away; they still remember the crisis. It makes sense for them to have a bit of physical gold on the side. Last year, gold didn't do badly. Everyone's talking about equity, it was great. I do agree with that - but gold did a good 13%, so it's also interesting to have gold.

Clients mainly store gold with us in Singapore and Hong Kong. These are the two bases. Some prefer Hong Kong because it's closest to China. Some prefer Singapore because it's actually not close to China, but more close to US.

Jonathan Larsen
Ping An Group

The first thing to say is that China is rapidly becoming the largest wealth management market in the world. As we discussed on the panel, you have to think of China as an onshore market and an offshore market. The onshore market is really very distinctive and is very different from any other wealth management market in the world. Foreign competitors have had a pretty limited track record of success, and the market is entirely




dominated by Chinese players.Some of that is just a function of the unique nature of products and the evolution of the Chinese capital markets. Some of it is a function of the regulatory structure.

In our own company, at Ping An, we have a wealth management business spread across our trust business, our bank, parts of our insurance business, but also this extremely interesting company that Ping An has created over the last five or six years called Lufax which is now the largest digital provider of wealth management services in the world.

China has many unique characteristics. You have to be very agile and very entrepreneurial to be able to take advantage of these opportunities. For now, at least, the domestic market very much belongs to leading Chinese players.

Technology really is fundamentally transforming our industry overall, but also wealth management specifically. There's a very interesting distinction between long-term commitment by traditional, global, and dare I say, western financial institutions versus institutions in this part of the world, and in particular in China where companies are willing to invest heavily in R&D and technology.

At Ping An, for example, we have 430 million digital users across our ecosystem at the moment. That number is growing extremely rapidly. We'll soon run out of headway at some point because we'll be very close the entire Chinese population very shortly, but China of course for us remains a huge opportunity. We don't have mainframe computers. We don't have legacy platforms. We're investing in blockchain on a very significant scale. We're investing in facial recognition and voice recognition, a whole range of other AI applications. We just don't see that from the big global institutions.

I've heard many times, very credible CEOs from international institutions talk about the virtue of being a fast follower in technology, meaning they don't want to invest ahead of the curve. They want to wait for somebody else to figure out what will work and then implement it once the template is already established. What they really mean when they say that is that they don't want to innovate at all, and they want to sit back and wait.

What experience tells us is that being a fast follower actually means being a slow follower. My view is that the pace of change in our industry is changing so rapidly, is stepping up so rapidly, that I think being a slow follower has a very significant risk of being a dead follower.

Jennifer Zeng
Bain & Company

We have seen massive changes happening in China's wealth management space. First of all, it's still a really rapid growth opportunity. Secondly, Chinese wealth management clients have diversified into many different segments, so you need to have different value propositions for these segments. Thirdly, the competitive landscape has also intensified dramatically. We have seen different business models emerging in China. Some still use the product-push approach, some have already moved towards an allocation and financial advisor approach to enhance the client relationship.

Monica Lee
Triumph Capital International

Everybody knows that new wealth is actually created by the old Chinese family businesses, and these people really had tremendous entrepreneurship. Now, consequently because of the One Child Policy, their children are not interested in their parents' business. They're much more interested in using the family wealth to make investments.

I would say gradually, this is making the family office in China a reality. They are really very hungry, going through a learning curve to understand the mindset, the culture, the value and the knowledge. People like us, have been in wealth management for many years and should take this opportunity to reinvent ourselves to help them to go overseas.

Michael Olesnicky
KPMG

Without a doubt there have been so many changes going on in the world in terms of increasing transparency and diminishing privacy. People have to start thinking about the structures in which they hold their wealth and ask themselves, "Do I really need this going forward? Is there scope to simplify?" Because at the end of the day, a lot of these structures don't really serve a lot of the purposes for which they were established.

If you wanted privacy, forget it. With CRS and with registers that alter the beneficial ownership, your interest in these trusts and companies that have been established offshore will become known. Do you need to have those offshore structures? Can you simplify things by bringing wealth back onshore, for example? Tax havens and other jurisdictions that have a bit of an odour about them - one thinks of the Panama Leaks - maybe this is the time to start thinking about bringing assets to a jurisdiction that perhaps has less of an odour attached to it, and Hong Kong and Singapore are obviously benefiting from that. The real issue, I think, is look at your structures, ask how they fit for purpose, "Do I need the complexity that I have to achieve whatever it is that I want?" and take steps to regularise and bring everything back into order.

Howard Bilton
Sovereign Group

The trend we're seeing is that compliance is becoming the major issue. I would guess that every week at the moment there is a new piece of legislation, which is designed to stop tax planning, tax evasion and money laundering. They all have an impact on legitimate businesses, as well as catching those who are up to no good. We are spending an awful lot of time onboarding clients and then having to review every single transaction, every single investment, which is annoying to clients and it costs. So they're paying to be annoyed.

We're also seeing client's playing catch up because they have non-

compliant structures, which I don't think were any good to begin with, but certainly are no good now. Which is going to have to be reviewed for CRS, FATCA, or any other supernational initiatives, which are catching people who have not done their planning properly and relied on not being found out. The net is closing on those very rapidly, or probably has closed.

It's difficult to know what to do for those people because we cannot assist in helping them avoid their tax obligations. That brings about money laundering issues.

New plans, of course, should start with a fresh sheet in order to make proper tax arrangements and proper dynastic arrangements. They are your new target audience, rather than trying to take over structures from clients of others.

Rachel Troublaiewitch
Paning Centennial Foundation

I was very pleasantly surprised by the breath and depth of the speakers, as well as the events discussed. Personally, for myself, I manage investments for our family as well as for a charitable foundation. I was quite keen to hear from the different professionals and senior executives across the finance industry to hear what they thought in terms of the changing landscape of the finance industry.

Gez Owen
Hubbis

At the moment we have some new challenges brought in by the Unexplained Wealth Orders introduced pursuant to the Criminal Finances Act 2017, which came into effect through UK Legislation. People seem to think it doesn't impact Asia, but unfortunately for those who practice in the wealth management industry, it certainly does.

One of the things that obviously is the biggest burden of the Unexplained Wealth Orders is that individuals served with Unexplained Wealth Orders will need to prove where the money to buy assets came from. So for the prosecutors, there's very little in terms of input, whereas, actually the defendant of those orders has a lot of work to do, and also will have to pay for the privilege of proving where the assets came from.

The other challenge, of course, are the two corporate offenses introduced by the same Legislation. The Criminal Finances Act 2017, which introduces two corporate tax evasion offenses. One, the UK tax evasion offense and secondly, the non-UK tax offense. In the context of whether or not it applies to businesses here in Asia, yes it does, and it is not just something that UK businesses should worry about.

All in all, I think the Criminal Finances Act 2017, has significant impact on those businesses involved in the wealth management industry, particularly those involved with secrecy and tax havens, the offshore havens. I hope that businesses in the industry will look carefully at their own risks associated with this, and put reasonable procedures in place The UK Criminal Finances Act is not going away soon.

Tony Wong
CSOP Asset Management

I believe China to be one of the most interesting places because of the growing middle class as well as the high level of individual growing demand into consumer discretionary healthcare and technology stocks

and consumer upgrades. These are the sectors that we're looking into. At CSOP, we're experts in this area. We have ETF products that we manufacturer, we have active funds for private banks, wealth managers, DPMs, family offices, who want to get access to China, with their expertise in the new China economy.

Nick Pollard

CFA Institute

It's changing more slowly than some of us would like. I think it takes itself more seriously now if you look at regulation, if you look at education. Certainly, I think people are spending more time now making sure that bankers and advisers know what they're doing. They have more rules to follow so there is now a greater need for people to be more competent.

If you look at my particular organisation, CFA Institute, today 55% of all candidates in the world are in Asia. That's moved significantly in the last five years. I think that's a testament to this region certainly taking itself as an industry more seriously.

CFA Institute has traditionally focused on the investment management world. Stemming from our efforts in the US, more and more of our efforts now include wealth management as well.

Wealthy clients are almost like institutions in their own right. They have the same requirements. They certainly expect the same levels of competence, whether they're being dealt with as institutions or individuals. I think it's up to the industry to wake up to that. I think the industry has to be more aligned with the interest of their client.

What we've seen in the past is that people think of themselves first, as advisers and bankers. Maybe they then think of their organisations and lastly, they think of their customers. We need to change that completely the other way around, and customers need to make some noise about what they expect from their organisations, and if they're not getting it, don't hang on there for the sake of loyalty. Go and find someone who will deal with you as a client.

Hanna Raftell

Altitude22

It's clear that there's a disconnect with what women currently want and what private banks have on offer. Trying to bridge that gap through greater focus on the growing female wealth, which is actually outpacing men's by a factor of 1.6 in the next five years - provides huge opportunities for private banks with an estimated revenue price of USD200 billion for best in class. We think it's increasingly important that the private banks pay attention to soft skills and soft values. Women actually do have a different investment decision making process and also different investment preferences.

Aman Dhingra

UBP

We're coming off the back of a very strong 2017, and '18 is interesting. We've had a strong month in January followed by a bit of uncertainty. I think there are a lot of opportunities in this market. Firstly, I think fundamentally we remain risk on in this world. We see opportunities across equity markets, be it thematic place, be it geographic place. We can give you an example of Japan- we have liked it for the whole of last year, it's done well for us and we continue to maintain that view.

Where we are seeing a pivot in client portfolios is first and foremost on the fixed income side, because I think that's where the vast of the majority of the concerns are, and for a multitude of reasons. It is linked, in fact, to the rising treasuries, which are not good for fixed income. It is also linked to the shape of the curve, where we are seeing a flattening, we're seeing libor move up, and that is not very good for clients who typically use leverage. Last of all, obviously we are all concerned with the credit spreads which are compressed.

In this context, we are trying to pivot client portfolios, a little away from fixed income. As you know, fixed income is owned by a large number of conservative clients. That makes this task even more important and more challenging at the same time.

We are looking for alternatives to fixed income, be it through insurance and securities, be it through investments in alternative assets, which behaviourally are like fixed income. They are not fixed income in themselves. Finally, with fixed income, we are trying to be more discerning, and I think that's where active management comes in. Active managers will see a lot more flows into this year, as the environment remains challenging.

Michael Levin
Credit Suisse Asset Management

It's a wonderful time for the Hubbis conference. In particular, I really think from a market perspective, it's a critical inflection point. In other words, what's worked in the past may not work going forward. Particularly, if you look at the fixed income environment, this could be the end of a 37-year super cycle in bonds. We need to think about how to diversify the portfolio.

In the last nine years, really, anything you did other than assume risk, anything you did to diversify your asset base, to manage risk may have had a negative impact. As we look forward, yields are diminishing, we have an environment of rising rates. Equity valuations are relatively rich. You have to be much more thoughtful about building a diversified portfolio that's well fortified.

Clients have to think about curbing leverage and in particular the allocation to alternatives. When equity and fixed income are doing well, that may be less relevant to client portfolios. They often talk about adding uncorrelated asset classes, except they don't like the asset classes that underperform. It's a real opportunity for us to assist clients in migrating their portfolio to something that is positioned to perform on an ongoing basis in an environment that we're likely to face going forward as we've experienced with potentially lower returns and higher volatility.

When you talk about fees, which came up a lot in today's conference, I think it's something that people really resist, whereas I look at the long-term sustainability of the industry. We have to be much more strategic about fees. How do we align our interests as managers with those of our clients? How does active management compare with passive management and compete effectively? Fees are a wonderful way to do it.

I don't think we've been as forward looking as we could be in terms of fees. When we look at the scale of our multi-trillion dollar industry, what other industry of this size has a one size fits all approach when it comes to product and no price competition? There's a real opportunity to incorporate those two elements which is customised solutions for clients, greater degrees of personalisation, and actually more strategic approach to fees. ■