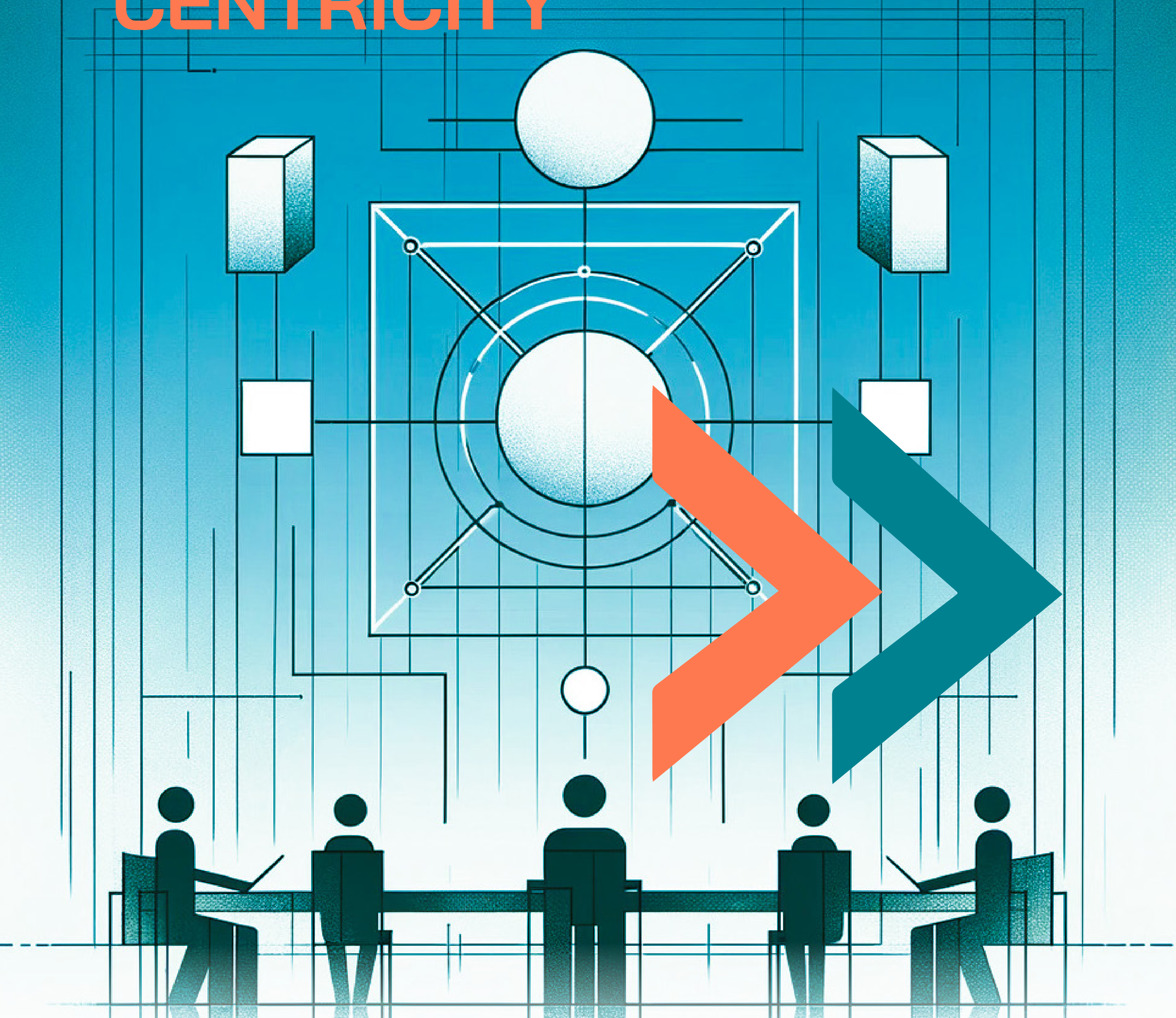
COVENANT CAPITAL'S LEADERS EXPLAIN THE CRUCIAL ROLE TECHNOLOGY PLAYS IN DELIVERING CLIENT CENTRICITY



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INTRODUCTION

Covenant Capital is a Singapore-based independent wealth manager that prides itself on what its leaders call a fundamental bond with the HNW and UHNW clients they serve, with that rapport built on professional and social ethics, expert knowledge and unbiased stewardship towards the articulation of a holistic wealth offering and relationship. Hence the name Covenant, alluding to what is tantamount to a pact of trust to deliver (and obtain) long-term investment advice, wealth preservation, accumulation and partnership. The firm states that this alignment is made possible with its open architecture, fee-based model, steering far away from a product-led offering and from retrocessions, which still dominate much of the wealth industry in Asia. The open architecture spans investment products, insurance and estate/legacy planning, with Covenant selecting best-in-class partners to work with their clients. Moreover, every member of the founding team at the firm is a stakeholder, meaning their financial futures are intimately aligned with the financial and indeed personal well-being of their clients. Hubbis met with Edwin Lee, Chief Executive Officer, and Kian Ngiap Tay, Chief Operating Officer, recently to learn more about the firm and also to discuss their participation in a recent White Paper report on the technology and platform required to operate a successful EAM or MFO.

The report, co-authored by Peter Golovsky of Berkshire Global Advisors and Shaun Parkin of Hall Road Services, is titled 'Family Office Technology - Ferrari vs Utility - Key Considerations for Asian Family Offices'. Their findings and recommendations emerged from detailed research on the strategies for and implementation of technology platforms and solutions amongst seven rather different single- and multi-family offices in Asia.

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KIAN NGIAP TAY
Covenant Capital

Covenant Capital was in good company for this latest White Paper project - the other six Singapore-based family offices were DL Family Office, Finaport, HP Wealth Management, Lighthouse Canton, Lumen Capital Investors, and Raintree Asset Management. Their very significant contributions were further rounded out for the authors by the involvement of Bryan Henning, the Singapore-based APAC head of specialist family office consultants Eton Solutions LP.

The basic premise for the White Paper was that family offices seem to be at a crossroads. They are often grappling with key decisions as to what technology solutions to 'build' or 'buy', what to 'insource' or 'outsource' against a backdrop of rising IT and other costs, ever-increasing complexity in compliance, reporting and investment allocation, and the pressing need to manage risk across multiple jurisdictions, markets and asset types, from mainstream public investments, through structured, OTC, private and even digital assets.

And it was clear, the authors reported, that no single solution or approach works for every entity - one size does not fit all, and strategic differentiation appears to be a requisite for any family office technology platform, especially MFOs, which must deliver open architecture and flexibility at all levels, not just across investment solutions, compliance and fiduciary matters, but across data management, automation and IT connectivity.

Covenant strives to get it right

"We knew from the outset that we needed a superior solution in order to offer the level of quality and service to our clients, but also for our wealth managers and investment managers to function effectively and to deliver the best of themselves," says Kian. "Information, easy access to data, a comprehensive and seamless operational process, all these add up to our own team being able to make better decisions."

He explains that without a full understanding of client portfolios, their activity and their overall financial situations, through efficient linkages to the various banks and custodians Covenant partners with, they would have been unable to provide wealth managers and the clients with what is a highly effective offering.

Not a straightforward road

But he concedes the outcome they sought was not easy to either identify or implement. "We have now arrived at what we consider to be a remarkably powerful solution, but it took three iterations to arrive at our preferred destination," he reports. "The third solution comes from Clearwater Analytics, but our two first efforts were, honestly, missteps for different reasons."

He drills down further into the background noting that the first effort was simply a bad decision and poor articulation by the company they worked with, while the second effort was better in many aspects, except that the service provider did not wish to build direct connectivity with the banks and other custodians even though these counterparties are open to provide connectivity.

Unexpected hurdles

Kian elaborates: "At that time, we were actually pretty pleased with the second provider we worked with, but when it came to building all the connectivity and flows required to make it effective, the service provider simply told us that in Europe, their clients were still fine with keying in transaction and other data manually without getting API or other access to the banks directly. In other words, we were ahead of our time."

EDWIN LEE
Covenant Capital

Third time lucky

The third iteration with Clearwater Analytics actually provides connectivity with the banks, and Clearwater is very happy to build the connectivity, even if they do not have any connectivity currently.

"We increasingly see nowadays that the custodians have been shifting towards this type of adoption and being more willing to connect," Kian reports. "This is a subtle but visible difference, and what it means is that we are forging ahead more precisely in the direction we wish to travel. All in all, we have learned a lot along the road, and we are much happier with what we now have, for the firm, our teams and our clients."

Spreading the word to the EAM and MFO community

Kian explains that it was the reality of their challenges that encouraged them to join the cohort of family offices participating in the White Paper. "We have gone through all this, and we have seen a lot of other MFOs struggling with these challenges, many still using Excel sheets to try to consolidate data," he says. "We have gone through a lot of the pain, and it is good to share."

Kian says that although the other MFOs might be actual or future competitors, they are within their peer group, and the overall mission should be to help evolve the bigger ecosystem consisting of the private banks, MFOs and other EAMs.

For the greater good…

"We are talking here about the development of the independent wealth model in Asia and there is far greater growth potential than is this far being realised, so we have a broader vision," he explains. "We want to help promote and enable the independent wealth space by realigning investment professionals to their original role of stewardship of clients' wealth and well-being and not being product-driven, commission-hungry bankers."

Technology as an enabler of the greater vision

He says that comes back to Covenant's original creed of aligned interests in partnership with their clients. "Technology can help achieve these very positive goals," he states. "The more we can provide our teams and partners and clients with technology solutions that enhance alignment, the better it is for all. We do not have a complete solution to all the challenges, but we are able to equip the team with the aggregation tools to offer better investment advice and outcomes, and that is a vital part of the overall equation."

He looks further ahead, noting that this is also about the corporatisation and professionalisation of MFOs and EAMs, so they can become standalone businesses that are capable of survival well beyond the founders who brought in the rump of the clientele.

Sustainability of the business model

"One of the biggest problems we all face is the succession of our own businesses," he explains. "Some people try and get their kids involved, but that is hit and miss. Selling out is far from easy, as there are concerns over continuity and motivation and retention of talent."

Edwin then offers his own view on the context of the independent wealth market and its evolution, the pace of which most would acknowledge having been far slower than many hoped for when the first independents first emerged in Singapore and Hong Kong around the time of the global financial crisis and onwards.

Asia lags behind more mature independent wealth markets

Talking first about Australia, where he has been closely involved in what is now a very deep and vibrant independent wealth community, Edwin reports that there is a groundswell of activity, with more independent firms, strong regulation and governance, and more and more banks setting up EAM desks to handle these firms as clients.

Dramatic change- still on the distant horizon

"We see the same sort of momentum happening in Singapore, the tailwinds are in favour of our sector, but there are actually some key obstacles," he observes. "In particular, the culture in Asia is more of a trading mentality amongst clients, and that plays to the private bankers and the whole retrocession model."

Moreover, Edwin also remarks that this also means that many so-called independents are not especially independent – he points to recent research by SMU-BFI "The Growing Ecosystem of Wealth Management in Singapore: Lenses on the External Asset Manager has shown that almost two-thirds of these independent firms in Singapore still take retrocessions. "In Australia, you are not, in law, allowed to call yourself an independent firm and take retrocessions; you are legally obliged to declare that situation," he states.

The wave has not yet grown

Edwin notes that the regulatory environment, therefore, needs to change in order to drive change itself. "Looking at other jurisdictions where the EAM and MFO models have thrived, we can see that regulations have evolved that put everyone on a more level playing field and drive greater alignment with the clients in terms of transparency, retrocessions, suitability, fiduciary responsibilities, and so forth," he reports. "Without this, there is often little difference in the outlook and behaviour of an RM in a private bank and an EAM. That should change."

Nevertheless, Edwin is not convinced that top-down change will emerge in the foreseeable future. "Changes such as I am articulating here are a long way off still," he reports. "This means that we must keep driving towards positive change ourselves, hoping that we reach a tipping point where adoption of what we believe are the right approaches and the right culture is so widespread that it becomes more the norm than the exception."

But he says way before that point, they need to cross a certain percentage. "To arrive at the point where we can push for the top-down shift from regulators, we need a crystallisation of enough critical mass from the bottom up, but we are still far from that point," he states.

Technology - a critical pillar of the Covenant proposition

Edwin draws the discussion towards a close by reiterating the value of technology in helping the firm deliver their own more holistic vision of wealth management. "Our mission is to help our clients better allocate and use their resources and their assets, and to structure themselves better for their futures," he says. "Open architecture and the right technologies and an optimised platform are key elements in helping us achieve those goals." ■

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For readers who would like to access the White Paper on family office technology, see THIS LINK.

Or you may wish to CLICK HERE to read exclusive insights from the report's authors, Peter Golovsky and Shaun Parkin, in the main Hubbis article produced from this discussion.