Delivering Investment Products & Advice – Time to Re-Calibrate?

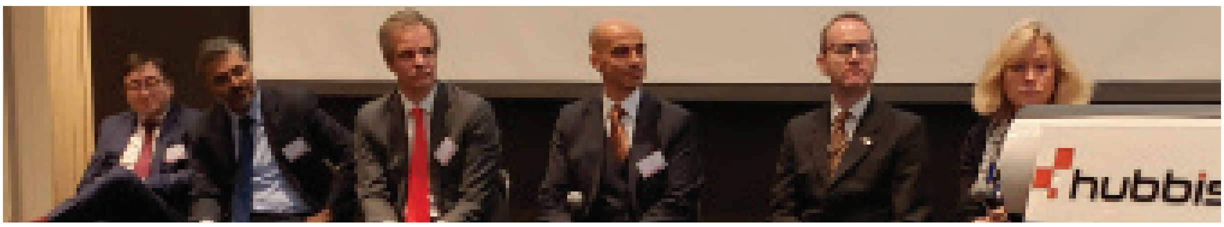
What needs do wealth management firms meet for the clients when developing products? How do the clients fit into different categories, for example discretionary, advisory and transaction-driven? How much overlap should there be between these disciplines? How does digital fit in, for example, will robo-advisory result in evolution, or revolution? Are compensation structures suited to ensuring the product and idea flows are client-centric, not sales-centric? A panel of experts deliberated these and other matters in the second discussion of the Asian Wealth Management Forum.

These were the topics discussed:

- *Transparency, Margins, Costs and Fees - what's changing?*
- *How must we tweak the investment models?*
- *What digital expectations do clients have?*
- *As transactional revenue reduces how do you compensate?*
- *What's the future for discretionary and advisory portfolio management?*
- *Connecting customer data to market data - what does this mean?*
- *The role of technology and AI?*
- *Are FinTech's and Tech Giants threatening our business model?*

PANEL SPEAKERS

- **Patrick Donaldson**, Head of Market Development, Wealth Management, Asia Pacific & Japan, Refinitiv
- **Tariq Dennison**, Investment Advisor, GFM Asset Management
- **Aman Dhingra**, Managing Director, Head of Advisory - Singapore, UBP
- **Sebastien Chaker**, Executive Director, Head of Sales & Relationship Management, UBS Fondcenter - Asia Pacific, UBS Global Asset Management
- **Jean-Louis Nakamura**, CIO, Asia Pacific, Lombard Odier
- **Alison Brown**, Head of Sales, Wholesale Business, HSBC Global Asset Management



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THE KEY TAKEAWAYS

Transparency is paramount

The evolution of the wealth management model continues, but panellists concurred that the major change in recent years is the need for transparency of products, ideas and fees. Providing clients know what they are being charged and why they are being charged, they are generally receptive.

Information is the new oil

Sales advisers and client-facing professionals need more and more data to help them provide products and advice that are up to date, and they must also keep an eye on the regulatory demands.

The search for relevance

Advisers are generally overwhelmed with too much information, hence the mission is to refine more relevant information within all of the noise, to help them to uncover actionable insights, help them make the right decisions.

Bankers must be objective

The role of the private banker, opined another panellist, should be more involved in trying to protect the clients from being too emotional in their decisions and to inject more discipline in the investment vehicle and investment practice. The transactional model is not based on this credo.

Staying the course

If the emotion is dissipated in investors' decisions, then they tend to stay invested in the markets for the medium to longer term and generally returns are better. The timing of entry and exit points are extremely problematic, but adhering to strategies and discipline is more advisable. However, banks should consider balancing DPM with some more transactional activity in order to keep clients engaged.

The fee revolution is in train

Asia lags behind Switzerland and "old" Europe in that trailer fees and other opaque forms of remuneration persist in the region. However, wealth management firms must proactively prepare for the time when all trailer fees are eliminated. Transparency is again vital, as banks and others can charge upfront, advisory and/or product fees, but these should be transparent and appear to offer fair value. For example, it often takes considerable time and effort to promote funds to clients, hence there should be a proportionate model for compensation.

Robo-advisory simply another delivery methodology

The panel appeared to agree that the rollout of robo-advisory, especially to the younger digital natives, is simply another element of multichannel distribution that has been around in various forms for decades, it is therefore just another way of getting access to the market for clients, and improving the accuracy of the sales teams. The most important element is that clients end up investing, otherwise the model falls apart.

Robos need data too

Robo algorithms are only as good as the data they are fed, and in the future the sales advisers will therefore also be enhanced, or held back by these algorithms.

Private banking remains human

In the private bank world, it is the relationship that counts, so any technology to help RMs, any algorithms available, will benefit the activity and process, but not eliminate the human interaction. Robos can help the RMs make consistent decisions and be able to manage more clients more consistently.

"**WE ARE A PROVIDER TO THE DISTRIBUTORS**, so our objective is obviously to provide propositions that clients want," said one banker. "We focus on a number of factors such as pricing, valuation, yield, liquidity and other factors, depending on people's emphasis and different points of time in the markets. As to fees and pricing, we continue to evolve, but the discussions are not dissimilar to 10 or 20 years ago. What is important is that clients understand what fees they are being charged, so the transparency needs to be there. Generally, I would say if companies are providing something that provides value to a client, then clients will pay up for that."

TARIQ DENNISON
GFM Asset Management

The quest for relevance

Another expert said that what has changed is information flows to the advisers and salespeople in order for them to be accurate in their product or advice formulation. "If we look back over the last few decades, we can see very clearly that the cost of providing that advice has risen, partly due to regulations, partly due to compensation models that in place at the moment. And our research definitely suggests that the revenue generated is going down in general, while the amount of information presented to advisers and investors is growing exponentially, all of which represents a huge challenge, as seeing through to what is relevant is vital."

ALISON BROWN
HSBC Global Asset Management

Clients are generally overwhelmed with too much information, the same expert added, so the mission for clients is to refine more relevant information within all of this noise, help them to uncover actionable insights, help them make the right decisions. “Every investor has a particular set of objectives, specific to that individual or their family,” he remarked. “They will have a certain risk tolerance and a time horizon, both very specific and personal to them, and being able to use information that brings certain specific relevant insights”

Controlling the emotions

The role of the private banker, opined another panellist, should be more involved in trying to protect the clients from being too emotional in their decisions and to inject more discipline in the investment vehicle and investment practice. “The transactional model is not based on this,” he added, “because the transactional model is driven by the necessity for banks to sell products on a continuous basis. That is why the challenge in moving them from the transactional model to more DPM model is difficult for many banks because there is a threat of losing revenues.”

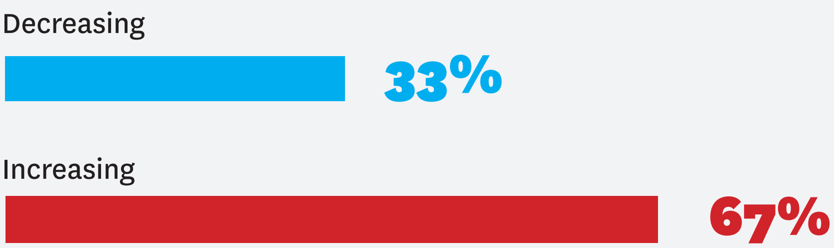
However, he advised that the banker needs to be akin to a personal coach, motivating them and keeping them on track and invested for the long term, which he believes is the best way to make money from financial markets. “So,” he noted, “finding the right balance between DPM, which is disciplined and advisory, which will always remain the cherry on the cake, and the storytelling part of the investment, the emotional part which is helpful also to remain motivated and remain disciplined is a real challenge for private banks.”

AMAN DHINGRA
UBP

Patience is a virtue

Another expert agreed that keeping clients focused and also patient is indeed important. “Behavioural

DO YOU THINK THE PENETRATION OF DPM IS..



Source: Asian Wealth Management Forum 2019 - Hong Kong finance teaches us to be patient," he said, "to stay in the game, stay invested, maintain diversification, concentration, avoid over-concentration in single asset classes, understand correlations, understand unintended risks that your portfolios are carrying and so forth. There is actually a lot of basic education still required and that is what we try and drive through a disciplined investment process, through better communication, through better education."

A panellist returned to the theme of data, remarking that there has also been a huge rise in the amount of information required with an eye on regulatory matters. "It is a major risk to provide the wrong data to the client, or not provide the right data," he said, "and that is a major change from before. The regulators are auditing on a regular basis, so the risk of miss-selling is huge now and is getting more and more acute."

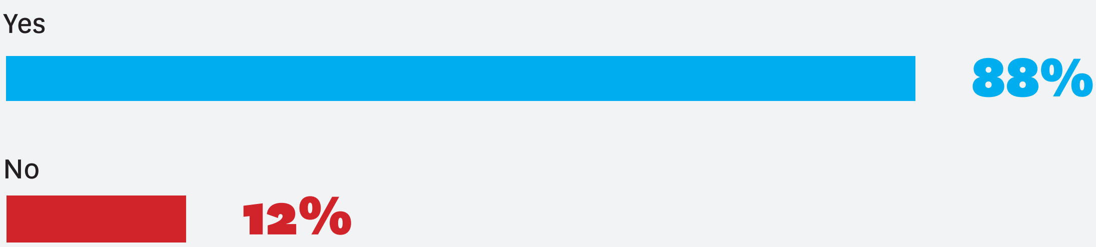
Less truck with the trailers

He also noted that whereas 10 years ago an estimated 90% of funds on a platform might have had trailer fees, in Europe today that number might be down to only one-third of the products. He indicated that in Asia, however, trailer fees remain far more prevalent, although this is changing, driven by MiFid ii. "The first step will be the elimination of front-end fees," he commented, "and I think the next step will be to go a little bit further in terms of planning or controlling trailer fees, and then banning them. That is the trend."

PATRICK DONALDSON
Refinitiv

SEBASTIEN CHAKER
UBS Global Asset Management

DO YOU CLEARLY SEE THAT THE ROLE OF AI AND TECHNOLOGY IS GETTING GREATER?



Source: Asian Wealth Management Forum 2019 - Hong Kong

"Well, we can do away with the front-end fees, and the trailer fees, then we can shut down the bank because we do not have enough revenue," interjected another banker, somewhat ironically. "The question is whether we can start charging an advisory fee to our clients and that will be a transparent model in which clients pick what they are paying for. The reality, however, is that funds are not naturally bought, there is often a lot of work to be done to show investors why they should buy a fund rather than select individual stocks, or passive investments. Therefore, given the amount of effort that goes in, there has to be a proportionate model for compensation."

Whatever the fee, make it shine

This, he says, could be in the form of the advisory fee, but so far banks can't achieve that. It could be the front-end fee, because, he remarked, that is actually very transparent and in fact, banks used to be highly opaque but today are more transparent.

"Additionally," he said, "looking at any one fund it might have numerous share classes, each one with a different theme for a different distributor, so simplification is required. However, at the end of the day, this is about banks being transparent and also getting compensated for adding value, that is what we need to drive towards."

Another panellist said that he pays more attention to ETFs than any of the other investment products because it is easy to understand, the fee is easy to see. "My goal would be to make it like an American nutritional label, where the calorie count is in nice big bold letters right on the top, because I often say fund fees are like calories, you don't want them to be zero but you want to know that for every calorie you consume you get some real taste value. Discretionary should be this way. People take discretionary because they want to hire a chef, they don't want to take cooking lessons and they don't have time to cook themselves."

Robo an evolution, not a revolution

Turning to the topic of robo-advisory, which one expert said was targeted at the millennial's demographic, another panellist commented that this protocol was likely to expand, especially robo advisory plus. "Robo is actually just another element of multichannel distribution that has been around in various forms for a long time, it is actually just another way of getting access to the market. The most important is whether people invest, because if they do not, they won't achieve their objectives. So, robo, robo plus, advice, advice plus, all these have benefits, but the clients must execute."

JEAN-LOUIS NAKAMURA
Lombard Odier

"ROBO IS ACTUALLY JUST ANOTHER ELEMENT OF MULTICHANNEL DISTRIBUTION THAT HAS BEEN AROUND IN VARIOUS FORMS FOR A LONG TIME, IT IS ACTUALLY JUST ANOTHER WAY OF GETTING ACCESS TO THE MARKET. THE MOST IMPORTANT IS WHETHER PEOPLE INVEST, BECAUSE IF THEY DO NOT, THEY WON'T ACHIEVE THEIR OBJECTIVES. SO, ROBO, ROBO PLUS, ADVICE, ADVICE PLUS, ALL THESE HAVE BENEFITS, BUT THE CLIENTS MUST EXECUTE."

Another expert commented that there is a danger over-generalising on what is meant by robo-advice. "I think there is also the danger of getting caught up in the marketing hype around the level of success of robo-advisory businesses particularly in Asia, but what I can say is that to function properly robos need information in order to produce the right output, the right advice. They need access to information, analytics and the technology to help make the most of that data. I also think the business-to-consumer robo market is highly very questionable, but passive managers using technology to help improve the efficiencies of their investment management process, that is definitely accelerating."

A panellist referred back to the need for clients to invest, remarking that if robo-advisory helps achieve that because of efficiency and low cost then that is an advantage. "However, in the private bank world, it is the relationship that counts, so any technology to help RMs, any algorithms available, will benefit the activity and process. These can help the RMs make consistent decisions and be able to manage more clients more consistently."

He added that research that had been conducted showed that RMs today spend 90% of their time focused on 10% of their clients. "The idea is to bring technology to identify which clients should be focused on and how to improve the relationships, where the risk profile can be improved, what proposals can be made."