

Hywin International: Riding the China Waves

Nick Xiao joined China's Hywin Wealth in November 2019 as Vice President in charge of overseas business, and also took up the reins as CEO of its Hong Kong arm. Hywin Wealth boasts more than 1,500 relationship managers serving over 100,000 wealthy clients globally. Xiao met with Hubbis this week to explain how Hywin is dedicated to serving High-Net-Worth families in Greater China and beyond, leveraging its platforms across the 4 global financial centres of Shanghai, Hong Kong, London and New York.



XIAO IS CLEARLY ENERGISED BY THE OPPORTUNITY HIS NEW ROLE AFFORDS, as

Chinese private wealth expands at a phenomenal rate and as Chinese High-Net-Worth Individuals (HNWIs) and the ultra-wealthy globalise their investment portfolios, their footprint, and also their lifestyles.

"China's wealth market is now the second-largest globally, and very soon will become the largest," Xiao reports. "This claim is based on various measurements, including the total pool of deposits, the total pool of investment management products and the number of HNWIs or ultra-HNWIs. And if I may put it this way, Chinese wealth will be the single largest bull market for global financial institutions in the next decade."

The global picture

Hywin Wealth is led by its CEO, Madame Wang Dian, who is seen as one of the leading figures shaping China's wealth management industry. Her philanthropic passions and cultural pursuits also set the benchmark for China's entrepreneurial classes.

Hywin Wealth's overseas business operates out of three offshore hubs: Hong Kong, London, and New York.

In Hong Kong, Hywin Wealth provides wealth management, asset management, and insurance brokerage services through various businesses that form "Hywin International", which is a brand used to identify Hywin Wealth's businesses in Hong Kong. These services are offered to Chinese and Asian clients, who are segmented as the mass affluent with wealth of less than USD5 million, HNWIs with between USD5 million and USD30 million of wealth, UHNWIs with wealth of more than USD30

million, and what Xiao calls the 'tycoon' families with in excess of USD100 million of wealth.

Hywin International tailors the range and scale of its services to those different categories, so that when it comes to the top tier of clients, the firm provides access to the wide array of private asset classes such as private equity, private debt, commercial real estate and so forth, as well as the mainstream, liquid investments that would typically be pursued by the lower categories of wealth management clients.

At the top end of the client base, there is, of course, greater empha-

sis on global opportunities, succession structures and the broad array of family office type services.

To add greater access globally, Hywin Wealth has two core operations outside Asia. In Europe, Hywin Wealth in UK is the result of the acquisition of an investment management boutique comprising mostly senior bankers who Xiao says cut their teeth in global private banks. And Hywin Capital Management in US is a fund management platform that offers selective exposure to North American alpha to Hywin's increasingly global Chinese clients.

Xiao's key priorities for 2020

Xiao says a key priority for Hywin International in the year ahead is to ensure that governance and risk control regime are on par with the very best.

"Our CEO, Madame Wang Dian, has gone on record stating that people have begun to call us China's Lombard Odier as we demonstrate a similar rigour, the same stability of ownership, the same passion for excellence and continuity, while being able to adapt well," he explains. "We see governance as the central element of a very good risk control regime for our clients and for the firm."

His second priority is to build more scale. "Our insurance business is doing very well to the extent that we received some prestigious awards recently," he reports. "I guess that tells you where we are in the insurance brokerage space. For our EAM activities, we want to make it one of the best in Hong Kong, and one of the largest, and we are on track."

The third priority, he adds, is synergies across locations. Recently, Hywin UK and Hywin US have been grouped under Xiao as well, so he is working to identify and unlock synergies in clients, products, and branding across Hong Kong, London and New York. "I am getting a new coffee machine, to be ready for very long days," Xiao says, unfazed.



MADAME WANG DIAN
CEO of Hywin Wealth

Tailored to the clientele

Xiao says a core element of his expertise is in the family office space, a rapidly expanding practice across Asia. He says this background is ideal for handling the growing wealth of Asian UHNW clients, as there is an ever more intense focus on the key elements required to achieve wealth preservation and tribal continuity.

"We aim to assist our clients in their family journey, guided by a family constitution to ensure direction and cohesion," he reports. "We also aim to help safeguard family interests through trusts, PTCs, and other carefully crafted structures for security, continuity and smooth succession. The wealth of these families is custodised at the best and most creditworthy private banks around the world for efficiency, security and confidentiality, across booking centres including Hong Kong, Singapore, Switzerland, the UK, Luxemburg, and Liechtenstein."

Getting Personal with Hywin International's Nick Xiao

Xiao was born in Chongqing, in the southwest part of China. He describes it as mountainous, and "Italian in a way", namely people are very family-driven, extremely loyal to each other, good at bargaining, and creative at finding solutions. "Like in Italy," he says, "people there also love good food and tend to live interesting lives."

Schooling was rotated between China and the UK, until he completed his PhD at Wuhan University in China on credit risk controls of over-the-counter interest rate derivatives - a topic that's so niche-ish that Xiao compares it to studying the shape of Shakespeare's quills with academic rigour, over 5 years.

His early career saw him join a blue-chip US management consultancy, and that led to him becoming Head of Priority Banking of Standard Chartered Bank (China) while he was still in his '20s. "There I soon learned that banking is like a Swiss watch, there are numerous components, and when even the smallest one breaks down the whole thing falls apart," he reports. "Attention to detail is paramount."

His career path then included Credit Suisse, where he says he learned about global collaboration and securing 23 signoffs to get things done, and also Bank Julius Baer, where he learned how an intense focus on people is so essential. "There," he quips, "a top banker would, for example, instantly recall the name of the terrier of the third daughter of a tycoon in the Philippines, without effort. Clients were people and deserving of genuine interest, they are not simply representing numbers on a spreadsheet."

Xiao also observes that his very considerable experience of working in China has shown that Chinese firms will adapt, grow, upgrade, and strive forward. "No sector of financial services is immune to the China shock or impervious to the China momentum," he says, "and as China embraces wealth management, they will be immensely successful, as they have been in commercial banking, securities, insurance, and of course, FinTech."



Nick Xiao, Madame Wang Dian, Peter Wang (Head of Strategy of Hywin Wealth)

Global convergence and the four seasons

Xiao also explains that Hywin International believes a conservative but adaptive approach should be at the centre stage as Chinese wealth matures.

“We look at what we call the ‘four seasons’ of long-term investing,” he explains. “When trends emerge, clients should discern and then deploy capital. When positives appear, pursue those judiciously. When exuberance starts to appear everywhere, reap gains and re-calibrate portfolios. Then when gloom prevails, observe, re-orientate and re-deploy with foresight.”

Xiao considers that Chinese clients are becoming increasingly similar to other wealth market clients. “Like other HNWI and UHNWIs in Asia,” he comments, “they are getting older, so the first-generation entrepreneurs are now in their ‘70s, and the second gener-

ation is already in their late ‘40 to ‘50s. As the clock ticks on, people must think about succession planning, family cohesion, trusts, and everything about wealth and estate planning. Succession has moved from an after-thought to a pressing and priority focus in client conversations.”

“In short,” he says, “they are doing exactly what had been predicted some 15 or 20 years ago. It is not a hurried shift, but a natural evolution as Chinese clients age into the prototypes we have all along expected.”

He also observes that China and the world at large have largely converged. “Globalisation,” he says, “has resulted in closer linkages in terms of economics, markets, regulation and so forth. And concurrently, global diversification of wealth and investments are more important than ever, for reasons displayed on Excel models

and also deep down the hearts. As China’s economy is now somewhat slowing, clients tell us they see fewer opportunities at home, so are expanding their businesses to overseas, as well.”

Xiao explains that for example, these Chinese entrepreneurs can go to Vietnam for the labour-intensive industries, to the US, Israel or Western Europe for high-performance engineering, pharma, bioscience, and to Japan for retirement services firms and artisanal brands.

No surprises in market evolution

Xiao also observes that the typical Chinese HNWI is today also far more comfortable with digital than ever before. “We see tech not as a threat to wealth management, to private banking, but as an enabler,” he comments. “Anything that is transactional or supposed

to be done with certainty, such as payments, deposits, transfers, settlements, and so forth, can all be handled with digital. But anything requiring people to overcome chaos, ambiguity, fluidity, and sentiments, then human effort, experience, wisdom will count more than ever.”

He extrapolates therefore that allocation into private equity, structuring of trusts to cater to the needs of families dispersed around the globe, citizenship and tax planning, commercial real estate selection and structuring, and a host of other problem-solving challenges, all these require human discernment and judgmental calls to achieve optimal outcomes.

Hywin International's competitive position

As Xiao surveys what is a very attractive high growth yet also fiercely competitive wealth management market, he expresses confidence that Hywin International can compete with the different categories of players vying for the attention of the rapidly growing ranks of Chinese and Asian HNWIs and UHNWIs.

“The best way to compete in the Greater China market or even the broader Asia market is to have three core attributes,” he observes. “First, your AUM should be sizeable and rapidly scalable. You should also offer asset management with branding to capture alpha and to achieve more ‘sticky’ recurring earnings. And you must have sufficient revenue to carry the business forward sustainably from the outset. For Hywin International, we leverage the strong revenues of insurance to fund the rapid growth of EAM, which synergises with asset management to bring the weighting of manage-

ment fee in revenue mix to more than 60%.”

“As to our onshore positioning,” he reports, “our mother-ship - Hywin Wealth in China is probably the largest independent wealth manager, which aggregates the offerings from the RMB100 trillion universe of wealth management products, offers the best to clients guided by asset allocation models perfected over 15 years, and advises clients on alternatives, to the extent of running onshore Fund of HFs for the most sophisticated. Hywin Wealth’s conceptual servicing framework is ‘LCS’, i.e. masterminded by Madame Wang Dian, CEO of Hywin Wealth, to analyse and serve clients through lifecycles. It is not a marketing pitch, but a bible for organising resources, formulating propositions, setting performance metrics, and finetuning other aspects of the business, as well.”

Insurance a cornerstone

In Hong Kong, a steady revenue stream is provided by the insurance segment Xiao had earlier highlighted. He remarks that by offering insurance services itself, rather than referring clients to other brokers, the firm can build better rapport with its clients and leverage the insights the firm already holds on those clients.

“Moreover,” he adds, “the economics are better for clients as we do not refer them to other parties, which just adds to fee structures, and can as a result offer better overall pricing.” Nevertheless, Xiao also notes that in some cases, Hywin continues to refer clients to other insurance providers if the firm thinks the referral model can result in a better outcome for the clients, “for example, when a UL case requires co-brokering to do a syndication deal”.



Madame Wang Dian, CEO of Hywin Wealth at ribbon cutting ceremony for Hywin International's new office in Hong Kong



Nick Xiao and his senior team

Wealth management in transition

Xiao steps back to look at some of the key trends he sees in wealth management in the region. “Wealth management, as a business segment, has become even more appreciated by all financial institutions for its importance to valuation,” he reports. “In 2009, in the darkest hour of the GFC, I was in Zurich working with colleagues to analyse the valuation of selected European banks as potential M&A targets. Almost as a rule, these banks had the bulk of their value attributed to private banking and wealth management, with asset management contributing modestly and investment banking a volatile negative. Today, even mid-tier Chinese banks have dedicated wealth management entities instructed to improve the whole firm’s valuation profile through the

quality of income and the capital efficiency of the operations.”

The second trend he sees is that clients are increasingly as smart as their bankers. “Imagine a famous dentist sitting in his office, expecting to charge high fees. Then a patient comes in to say I have a sore tooth and I need help. By the way, I am a dental surgeon myself and would like to hear your ‘second opinion’. Well, it is becoming that way for those clients with perhaps USD50 million of investible wealth or more. This means that the delivery of what we offer, and the transparency required will be increasingly different from before.”

The third trend he sees is the struggle to integrate technology. “My view is that the back office will be intensely tech-enabled, but the client interaction will remain human in the foreseeable future. So, we must balance the aggressive digitalisation of the

back office for costs, for accuracy, for connectivity, while retaining the bespoke offering at the front end, keeping the interface very human and intensely tailored.”

The long game

Having opened its new office in the prestigious ICBC building in Central of Hong Kong in November 2019, Hywin is clearly putting its money behind its vision of the future. And that future is longer-term, not just short-term. Xiao, for example, is not unduly concerned about the social and political dynamics in Hong Kong for the past 6 months.

“My view is let’s raise our perspective and look at the big picture,” he says. “China’s economy, Chinese money, Chinese corporates, they need an English-law financial centre where the money can be allocated globally, where their hard currency bonds could be sold and rolled over, and where

they can raise money on the capital markets in US dollars or other G7 currencies. They can go to New York, London or Hong Kong as the pre-eminent centres today. I tell clients to look structurally, leaving aside sentiment, which comes and goes. And structurally, Hong Kong is Hong Kong, so I believe everything will come together and calm down.”

Hywin partners with VP Bank

While using the custodian and booking services from a wide web of global private banks, Hywin Wealth has also been forging a partnership with VP Bank since mid-2019 to boost its proposition for its HNWI and UHNW clients.

Hywin Wealth had announced in July last year a strategic col-

laboration with VP Bank (headquartered in Liechtenstein) to meet the demands of wealthy Chinese clients for sophisticated wealth management services, both onshore and offshore.

Madame Wang Dian, as CEO of Hywin Wealth, said at the same time: “The proposed collaboration enables us to tap and house the extensive expertise of VP Bank as an established, globally active financial services provider whose clients count on decades of experience allied with a fully modern infrastructure. We will now be able to follow and service our clients more closely in their global aspirations and accelerate our mission to become a wealth manager of the highest global standards.”

VP Bank, established in 1956, is a leading bank in Liechtenstein

with an international presence in Switzerland, Luxembourg, Singapore, Hong Kong and the British Virgin Islands. VP Bank Group offers comprehensive wealth management solutions for private individuals and intermediaries. Listed on the Swiss stock exchange, the bank is well capitalised with a single-A rating from Standard & Poor’s.

A standout feature of VP Bank is the access the bank provides to leading investment houses through its open architecture. VP Bank boasts great strength and commitment in working with financial intermediaries and wealth managers to offer best in class solutions for clients. As Xiao says, “VP Bank is probably the best ‘wholesale’ private bank out there.” ■



Hywin International - A Snapshot

Hywin International is the marketing brand for various Hong Kong-based businesses.

Hywin International's wealth management services include EAM, investment advisory, discretionary portfolio management and family advisory, provided through Hywin Asset Management (Hong Kong), which is licensed by the Hong Kong Securities and Futures Commission for Types 4, 5 & 9 regulated activities.

Insurance brokerage services are provided through Hywin International Insurance Broker Limited (HIIB), which is licensed by the Insurance Authority of Hong Kong. Leading trust companies, law firms, immigration consultants and other external advisors are also engaged to support and execute insurance solutions when needed.

Ultimately, all these businesses are controlled by Hywin Wealth, which was founded in Shanghai in 2006 and is today a leading independent wealth management institution in Mainland China, with 148 subsidiaries in 72 cities across China and with more than 2,300 employees nationwide as of October 2019. Hywin Wealth is itself majority owned by Hywin Financial Holding Group, which was founded in 1989 and is today headquartered in Shanghai, China's international financial centre.

Hywin Financial Holding Group is active in asset management, wealth management, insurance, inclusive finance, and cultural tourism and has over 5,000 staff across Mainland China, Hong Kong, the UK, and the US.

Hywin International in November also unveiled its new Hong Kong office, located in the heart of Central, in the ICBC Tower at Three Garden Road.

Madame Wang Dian, CEO of Hywin Wealth, hosted the opening and stated at the time: "Hywin International is the gateway between Hywin Wealth's vast client base in China and the offshore markets. This new office spanning 7,000 square feet is part of the strengthened infrastructure of Hywin International and demonstrates Hywin's commitment to Hong Kong and underlines our mission to support Chinese clients on the globalisation of their wealth, footprint, and businesses."

Nick Xiao added that "ICBC Tower is the perfect location for us. Our institutional partners, our clients' favourite hotels, and many of the cultural, arts and dining gems of Hong Kong are all located within a radius of 600 meters. Flanked by Hong Kong Park and Cheung Kong Park, Hywin International's new office will be the oasis for clients, literally as well as metaphorically." ■