Independent Wealth Management in Hong Kong: Where are We Today?

Panellists reassured delegates that Hong Kong remains a respected powerhouse in the wealth and financial industries, although the recent political and social unrest there have shaken some confidence. Meanwhile, Singapore's wealth management prowess is growing apace, but not yet eclipsing Hong Kong's history and merits. Panel members were in agreement that retrocessions are outdated and confirmed the trend that the industry in Asia is migrating its model towards advisory and discretionary fees, which is seen as a challenging, but certainly positive move.

These were the topics discussed:

- *What does the IAM landscape in Hong Kong look like today and what's the outlook for the industry given recent challenges?*
- *How will Private Banks and Independent Firms collaborate or compete in the future?*
- *In comparison to ten years ago. What has changed?*
- *What are the regulatory and compliance challenges for the Independent wealth management?*
- *What are some of the common challenges for the IAMs/MFOs today?*
- *What's the potential for M&A?*
- *How has the competitive environment changed?*
- *Are the majority of independent wealth management firms truly independent?*
- *Do you think international private banks will find it difficult to grow and increase revenue in the next three years in Asia?*
- *Is Singapore today a more robust and organised financial centre for UHNW wealth?*

PANEL SPEAKERS

- **Chi Man Kwan,** Chief Executive Officer & Founder, Raffles Family Office
- **Jessica Cutrera,** Founding Partner, Capital Company
- **Salomon Wettstein,** Managing Director & Partner, Synpulse
- **Kenneth Ho,** Managing Partner&Founder, Carret Private Investments
- **Philipp Piaz,** Partner, Finaport
- **Tariq Dennison,** Investment Advisor, GFM Asset Management

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THE KEY TAKEAWAYS

Unrest in Hong Kong causing concern but not panic

Recent political demonstrations in Hong Kong have taken their toll on some sectors, with the real estate and hospitality industries each taking a hit, as well as some of the local HNWIs seeking alternative jurisdictions. However, Hong Kong is still the gateway to China and a financial powerhouse, so investors and HNWI clients are not yet running for the door.

Filling the top slots - not simple

The panel admitted that finding outstanding wealth management advisers often comes down to dangling the biggest carrot, as the relationship managers in the larger private banks, traditionally the academy for such expertise, are unwilling to leave the relative safety of those big banks in the current climate, and while the wealth industry is still relatively in its evolutionary phase in Asia.

Honesty is the best policy

The discussion became animated when the subject turned to the reluctance that some firms have to renounce retrocessions in favour of a fully transparent, fee-based business model. The consensus was that it is better to choose this more honest, client-centric protocol, even before regulations come in to demand this. Wealth management firms should use the grace period before any regulatory change to explain clearly to clients how they will benefit in terms of advice and also overall costs by switching to a more transparent pricing system.

Maintaining objectivity and high standards

The wealth management industry must act in the best interests of their clients. Who would visit a doctor who charged no fees, but got all his revenue from the drug companies? Private banks and the independent wealth advisers should hold themselves to a strict fiduciary standard, but all too often in the profession in Asia, this is not yet the norm.

Boutique brand personalisation can win through

Clients who are looking for personalised service will often find that smaller bespoke wealth management advisory firms are much better able to offer that individual service, taking into account their specific risk appetite and requirements. While the more standardised offerings from the big brand names can be a safe option, no two clients are the same, so tailor-made solutions are in strong demand.

The US offers a world away from CRS

On the topic of regulation, compliance and privacy, a panellist remarked that the US, surprisingly, offers greater privacy than most jurisdictions around the world, as the Common Reporting Standard is removing any veils of banking secrecy between authorities. With ever-tightening regulations leaving many with a hunger for privacy and investment freedom, he remarked that, curiously, South Dakota is a very appealing option when compared with most countries these days. Moreover, he noted that the process of opening a bank account in the US is relatively easy still today, and leaves other places trailing far behind.

In Asia, Hong Kong still has what it takes

Hong Kong remains among the most respected financial centres in the world, said the panellists. It offers unique benefits not found anywhere else, and investors will do well in the reputable, stable environment, they agreed, despite the recent difficulties there. It remains the logical and expert gateway to China. Singapore's reputation is untarnished by the events and Singapore continues to expand its wealth management market apace, irrespective of events in Hong Kong.

CHI MAN KWAN
Raffles Family Office

WITH THE RECENT EVENTS IN HONG KONG PROVING TO BE A CONCERN FOR MANY, a panellist began the discussion by explaining that the most direct impact is being felt in the real estate, luxury goods and hospitality sectors, but there are concerns that if the unrest continues it will impact the financial sector, including wealth management, which of course relies hugely on trust, regulation, integrity and transparency. "People are not yet shutting businesses down," the expert explained, "but there has been a dramatic decrease in revenue in some sectors of the economy."

"First, I would say that the word 'channel' is very organisationally focused, whereas firms these days are moving away from that to be more client-centric. From our perspective, there are three categories of the omni experience."

Another panel member reiterated just how important a financial centre Hong Kong remains in Asia and indeed globally for both mainstream financial trad and services, and of course for wealth management.

"Hong Kong is the gateway to the vast wealth of China," they argued. "No other city in the world has that privilege, including being a special administrative region and offering low taxes and smart regulation."

The discussion then moved to the topic of privacy, with a delegate asking where the best place to find that increasingly elusive commodity might be found. "South Dakota," a guest quipped,

SALOMON WETTSTEIN
Synpulse

JESSICA CUTRERA
Capital Company

surprising the audience. "The US is actually not a signatory to the CRS, so if you have an account in the US, that information is never coming out. This is in direct contrast to Switzerland, for example, where you have FATCA, CRS and the taxman potentially knocking on your door," they added.

Part of the appeal is the ease with which bank accounts can be opened in the US. "It can be done in around a week, which is quite shocking compared to other parts of the world," this expert explained, "Actually, both Singapore and Hong Kong in this region are very cumbersome in comparison, due to ever-tighter regulations."

The cream of the crop

The panel then considered the current challenges in the industry in attracting and hiring quality relationship managers. "One problem is that the industry is still nascent in Asia compared to Europe and America," an expert began, "but the main issue is that top performers are comfortable in the bigger name banks, and it is difficult to get them out of their comfort zone."

For this reason, the experts agreed that a variety of incentives are also necessary, as well as the financial carrot, including relative independence, a greater entrepreneurial approach, and the reassurance of job and financial security. "A greater effort on PR must also not be overlooked, to make the industry visible, credible and with strong branding," added a guest.

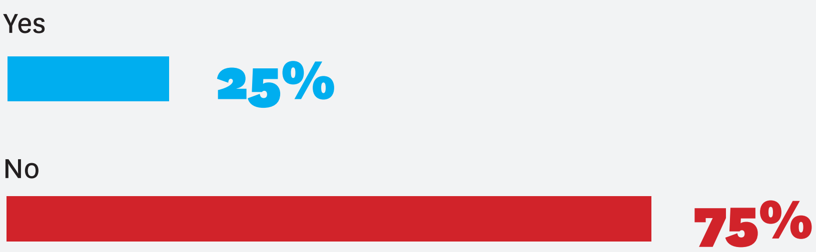
"The three biggest issues we are facing are fitting individuals to our company culture and ethos," said another panel member, "and finding the right core banking system to keep up with the ever-increasing regulatory requirements, and then of course ensuring that we have the right conversations with our clients to ensure they understand our business model and we offer them tailored solutions."

TARIQ DENNISON
GFM Asset Management

Following the money trail

Independent wealth managers should ideally be transparent with their fee structures, as well as genuinely independent of third parties, the panel concurred. However, one expert complained that some independent wealth managers are

ARE THE MAJORITY OF INDEPENDENT WEALTHMANAGEMENT FIRMS TRULY INDEPENDENT?



Source: Independent Wealth Management Forum 2019

still charging retrocessions and creating a bad impression for the segment.

"Independence refers to the integrity of the money trail following products offered, so there is genuine objectivity," he elucidated, "but there are always some dependencies, for example the banks, your partners, custodians. There should be a flexibility in pricing that private banks cannot offer. A more bespoke offering is a great USP and advantage afforded by such independence."

Regarding retrocessions, in particular, one guest argued that choosing business models with higher integrity and transparency is beneficial overall to the industry. "When retrocessions were banned in Switzerland," he said, "it substantially improved the industry because there was then no choice other than to rethink the pricing model." And the result is a booming and diverse wealth industry in Switzerland, which today is still maintaining its competitive edge.

"Why on earth should wealth managers not be held to the same professional standards as medical doctors?" an expert wondered. "How many people in this room would go to a doctor that does not charge you for a clinical visit, but instead makes all their money on medicines that the pharmaceutical companies pay them to use? Who would be willing to take free financial advice from an adviser who gets paid for placing a product? Wealth management advisers should hold themselves to a strict fiduciary standard, but most in the profession in Asia do not even know what that term means."

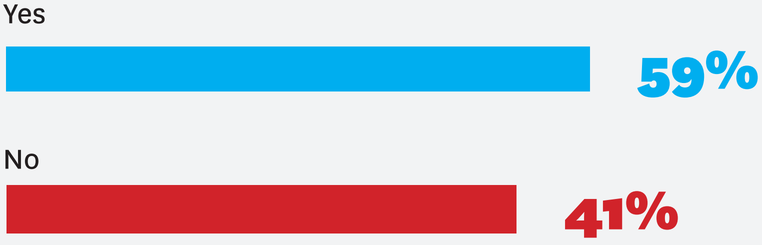
KENNETH HO
Carret Private Investments

"Should it be the responsibility of the associations of independent asset managers in any jurisdiction to force members to disclose their business economics?" one guest asked. "Actually, they are not enforcement agencies," a panellist replied.

But they do of course encourage high standards, offer training assistance, guidance, and some have a component to membership that requires members to be fully transparent in their fee arrangements, regardless of whether they take retrocessions or are fee-based.

Another panellist then pointed out that jumping the gun and demanding all retrocessions cease

DO YOU THINK INTERNATIONAL PRIVATE BANKSWILL FIND IT DIFFICULT TO GROW AND INCREASEREVENUE IN THE NEXT THREE YEARS IN ASIA?



Source: Independent Wealth Management Forum 2019

before legislation demands that, is not necessarily helpful. "Instead, we should be using the time before the regulations change in Singapore and Hong Kong to gradually educate the clients, the banks and the advisers not to be dependent on retrocessions," he elucidated. And therefore, naturally, to build the advisory and discretionary management propositions.

Bespoke can win out

The panel then offered some advice on how smaller wealth management advisory businesses can keep growing in the current environment. "It is not about scale, it is to do with having the right bespoke, tailored offerings, you have to stand out from the big banks," an expert explained. "Think about what you can do to add value and use your partners wisely. Having the right digital platform that offers great diversity of product, that is easy to use and with powerful functionality is invaluable."

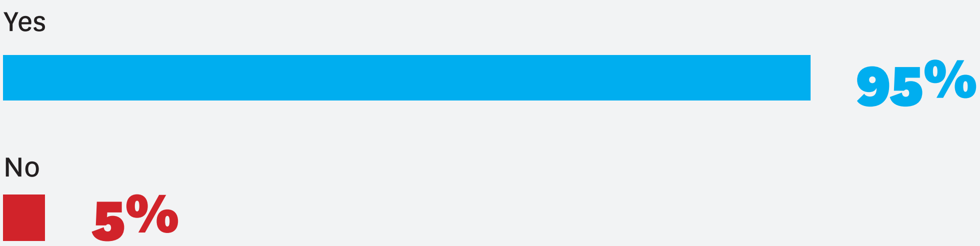
PHILIPP PIAZ
Finaport

Singapore and Hong Kong—each unique in Asia

A panellist then quizzed the group on their opinions of the value propositions that Singapore and Hong Kong represent to ultra-HNW families. "Singapore clearly has a unique position within Southeast Asia. India and the main ASEAN countries have large economies, huge private wealth but potentially unstable systems," an expert replied. "Singapore covers those areas very well for offshore wealth management, it has had a fantastic reputation and track record over the last 50 years and is further enhancing its capabilities and appeals."

"Hong Kong is also a well-established, well-regulated market and is the gateway to China," he added, closing off the discussion. "Any entrepreneurs and families with dealings in China would still do well to choose this stable, secure financial market, despite the recent political and social unrest." ■

IS SINGAPORE TODAY A MORE ROBUST ANDORGANISED FINANCIAL CENTRE FOR UHNW-WEALTH?



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