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INTO THE FUTURE - THE EVOLUTION OF ASIA'S WEALTH MANAGEMENT MARKETS & THE OUTLOOK AHEAD

INTRODUCTION

Hubbis has conducted a comprehensive survey involving over 300 wealth management practitioners and experts in Asia. The survey aimed to gain insights into the current state of the wealth management industry and predict future opportunities, challenges, and developments.

Hubbis acknowledges the importance of the collective wisdom possessed by these industry experts and recognizes their role in shaping the future of private wealth management. As the interpreter of these insights, Hubbis has worked closely with numerous professionals who generously contributed their time and expertise to the survey.

This report provides a condensed yet comprehensive overview of the survey's key findings, presented in an editorialized manner for reader convenience. The information gathered from this survey is invaluable to those working in private wealth management, as it offers insights into the industry's trajectory based on the perspectives of respected colleagues. By distilling the diverse experiences and perspectives of industry professionals, this report serves as a guiding compass, providing a glimpse into the future of the wealth management industry in Asia.

By studying this report, industry professionals can deepen their understanding of emerging trends, potential challenges, and untapped opportunities that lie ahead. The survey findings act as a compass, guiding wealth management practitioners to make informed decisions that align with the evolving industry landscape. Whether it involves identifying new growth areas, anticipating regulatory changes, or adopting innovative strategies, the survey serves as a valuable resource, enabling professionals to navigate the ever-changing private wealth management landscape with confidence and foresight.

We hope you enjoy.

KEY FINDINGS AT A GLANCE

- 45% of replies believe growth will come from winning more AUM from existing HNW and UHNW clients and 19% expect to scale up and move into the dynamic mass affluent segment.
- 36% believe that the biggest challenge ahead for private clients in Asia is transitioning their wealth and businesses to the next generations, while 32% believe that investment performance will be a major challenge. Privacy and security are also notable concerns.
- 76% of experts fear that the wealth industry as a whole will suffer a reduction in margins, indicating that the quest for revenue growth, value-added products and services and some degree of scale will be of paramount importance.
- At least 77% of our go-to market experts believe the RM will be either more important or as important to the wealth management proposition in the future in Asia, with only 23% expecting the RM to be of less importance.
- Nobody seems to think that the digitisation journey has been a huge success as yet in Asia, but on a more positive note, 78% agree that while some progress has been made, greater advances are needed.
- With revenue growth and client acquisition or retention as very clear key priorities, it is not surprising that 36% of replies prioritised new digital solutions to deliver greater RM capabilities and better tools, while closely linked to that 21% pointed to the need for enhanced client lifecycle management, and 19% zoomed in on tools to help with client acquisition and prospecting.
- A fairly encouraging 50% of the experts we polled believe that there will be greater revenue predictability ahead with far more demand amongst clients for the Discretionary Portfolio Management proposition in Asia for HNW and UHNW clients. And a reasonable 42% of replies see rising demand for the advisory proposition in the form of research-led & insights-led and RM-delivered advice.
- 89% of the experts we asked expect the onshore wealth management markets in Asia to rapidly evolve, mature and expand.
- There is positive news with regard to the impact of the rapidly expanding onshore wealth management offering across Asia on

the offshore market and proposition, with only 13% stating that the offshore model is under huge threat, 50% arguing that offshore will rise to the challenges and hold its own, and another 37% believe the offshore market will keep growing amidst the wider growth in the private wealth arena.

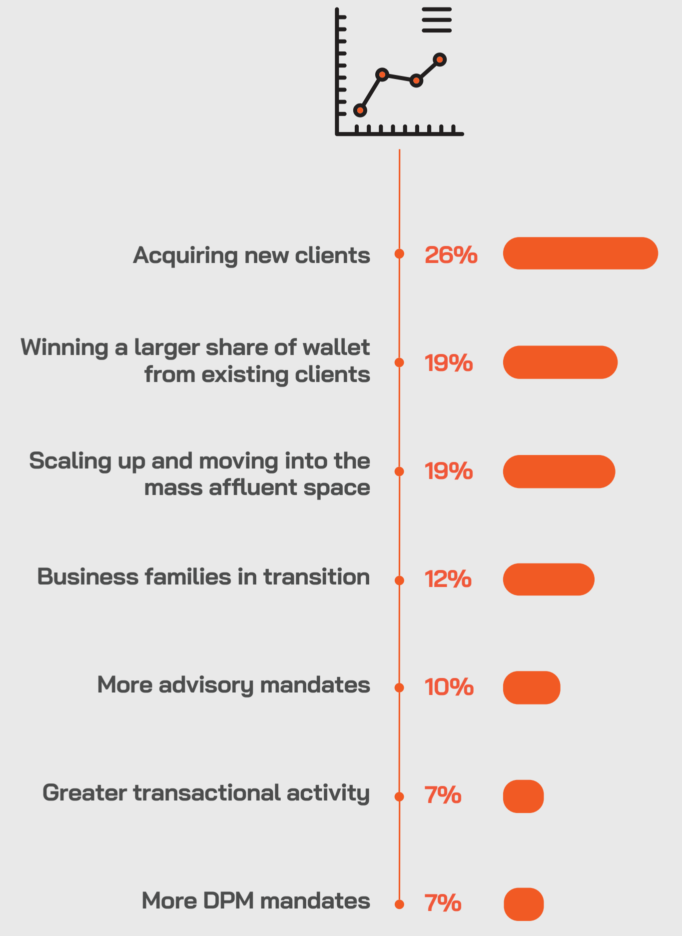
- 96% of replies highlight either the fast growth ahead in Asia's mass affluent wealth management markets, with 67% expecting dramatic and rapid expansion of this segment.
- 78% of replies indicated that the mainstream, or traditional, wealth market competitors will be able to keep growing and win over the next generations of Asia's private clients, while 22% believe new entrants and disruptors such as the Robo-advisors/FinTechs/Super-Apps/GlobalTech Brands will be the big winners.
- A very worrying 95% of experts we polled argue that there is a shortage of RM and advisory talent in Asia, with 55% believing it will get worse.
- There will no doubt be a sharp rise in consolidation in the industry, perhaps especially in the independent wealth sector as smaller or less capable players are forced aside by not having the people, the scale or the technology investment required to compete effectively and win and retain clients.
- 91% of those we asked are expecting there to be either a lot of or at least some consolidation in the wealth management industry in Asia in the decade ahead.
- The results might be somewhat skewed, to be fair, but amongst the main incumbent players in Asia's wealth markets, only 9% expect the new entrants/disruptors to be the winners in the foreseeable future, with most anticipating that the global, boutique international, regional and local private banks and their wealth arms will continue to fare well, although it is worth noting that they do also expect the independent wealth sector (EAMs and multi-family offices) to outperform the overall market.
- While Hong Kong still leads the way as the favoured booking centre, Singapore is set to overtake it in the decade ahead, with Asia's private clients will likely downsize their booking in Switzerland and upscale their participation in Dubai/the UAE.
- Some 68% of experts see significantly rising connectivity between Asia's wealth markets and those of Dubai/the UAE.

Whatever the challenges that lie ahead, there are great opportunities to be grasped

This is a time when incumbent players and new entrants in the wealth management industry in our remarkably dynamic and diverse Asia region are confronted by a number of key challenges to overcome but also drawn inexorably by the many great opportunities that lie ahead. There are numerous predictions and guesstimated for the growth in the overall AUM of Asia's offshore and onshore wealth markets.

Suffice it to say that Asia has kept surprising by delivering growth on the upside of expectations ever since the breakout growth began back in the early 1990s. Yes, there have been times of stress and strain, for example following major events such as the Asian Financial Crisis of 1997 and then the Global Financial Crisis of 1997/1998, but the Asian economic and private wealth creation miracle remains intact, and a bright future certainly awaits any organisation that can compete efficiently and effectively in Asia's rapidly expanding private wealth markets, both offshore and onshore.

WHERE DO YOU SEE THE GREATEST GROWTH POTENTIAL IN THE DECADE AHEAD IN ASIA?



Leadership needs to be more strategic, sharper and more agile than ever

To compete in the world ahead, wealth management leaders in Asia need a prescience that in past decades was simply not necessary, as the pace of change in the world of traditional private banking was, quite understandably, so slow. In fact, things basically stayed roughly the same for many decades, as attested by the number of boutique European private banks that are a century or two old, and some of which are still owned by their founder families.

But today, Asia's wealth managers not only need to be as strategic as possible, but they also need to be imaginative and as agile and flexible as possible. That agility is indeed seen in some of those oldest boutique private banks operating in Asia, as they have rapidly adjusted their business models and strategies to capture more of the offshore wealth business, as well as forging alliances with major financial institutions around the region to participate in the rise of the onshore wealth offerings.

Margins are falling, compliance is ever more onerous, and virtually all other costs are set to keep rising

And of course, all of the remarkable opportunities on offer in the region's wealth market have to be grasped against a backdrop of fee compression globally, expanding and intensifying regulation and therefore even more complex compliance needs, requiring the wealth management community to commit high levels of investment in people, expertise, external counsel, and of course, training. Moreover, all the other costs keep rising, whether it is rents, utilities, people, or technology, and that demands either greater efficiency or more scalability, or both.

Interestingly, amongst the findings of the quite recent ***BCG Global Wealth Report 2023: Resetting the Course***, which is the 23rd annual global wealth report from Boston Consulting Group (BCG), they reported margins in the wealth industry had been eroding for some time, but wealth managers had for many years been buffered by the favourable climate in the financial markets and rising client business volumes, at least until the 11% decline in 2022.

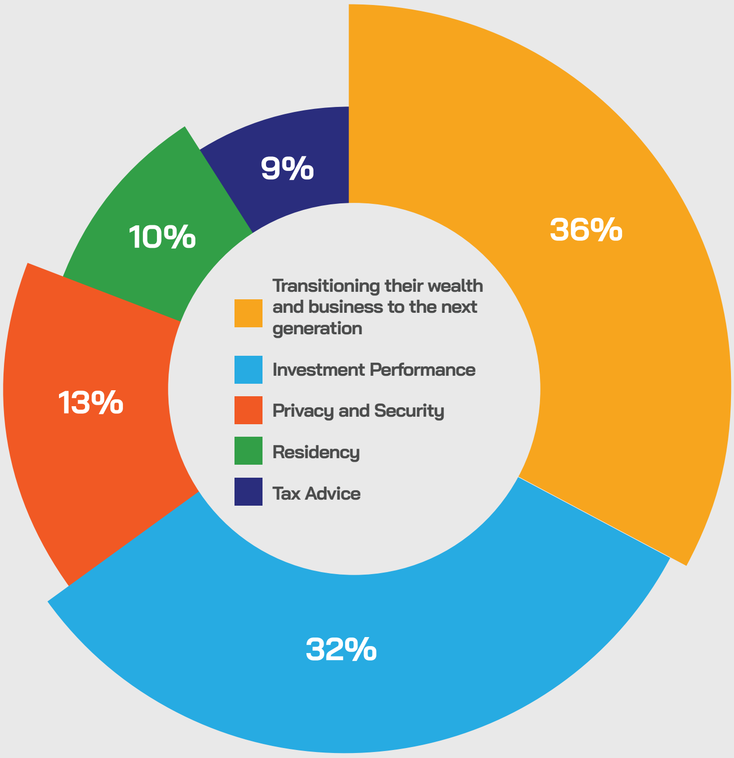
In addition, the BCG report highlights how costs rose across the industry, driven by larger front-office teams, wage inflation, and technology spending, and that these elevated costs are expected to remain high as inflation persists at levels above the previous decade.

But the worst news for Asia is that BCG pointed out that while pre-tax profit margins for wealth managers globally in 2022 decreased by an average of 2.3 basis points, the number was a hefty 5.5 basis points decline in Asia Pacific, the biggest fall of any region in the world.

Technology and digitalisation are facilitating operational efficiencies and also helping drive scale and at the same time greater personalisation in wealth management

When the pandemic struck, after the initial shocks, the pace of change then escalated dramatically. The need for digital solutions intensified beyond all wildest expectations, leading to an unprecedented technological arms race across the wealth industry. That dramatic intensification still

WHAT ARE THE BIGGEST CHALLENGES PRIVATE CLIENTS IN ASIA FACE TODAY AND NEED HELP WITH?



prevails today, as solutions evolve further, and as innovations such as AI and Machine Learning take deeper root.

On the operational side, the thrust to operational efficiency and greater automation will continue, with the adoption of more and better digital tools, the application of AI and ML to enhance data analytics, and a more seamless and more enjoyable client interface with their organisations.

All these developments are helping in the thrust towards greater personalisation of the offering for clients, resulting hopefully in improved outcomes for both the clients and the banks or other wealth firms.

And as all this takes place, there is an ongoing transition for many of the incumbent players in the private client space to the hybrid model of wealth management that combines both digital and human connectivity.

The hybrid wealth model and how the enhanced and empowered RM is vital to the future of wealth management, especially as the client's wealth profile increases

There is no doubt that the hybrid model combining digital and human connectivity and delivery is well-confirmed throughout the wealth industry. In the upper echelons of wealth management for HNW and UHNW clients, the RM and individual advisor model traditional to private banking will continue in the future.

But these specialists will a) need to become more expert in all their fields and b) they must be supported by technology and c) clients will want to choose on occasions to go digital first or human first; hence the hybrid wealth management model will dominate the upper segments of wealth management.

The wealth industry at large must reposition RMs from salespeople to partners/advisors who have the aims of the clients front and centre of their thinking and their solutions.

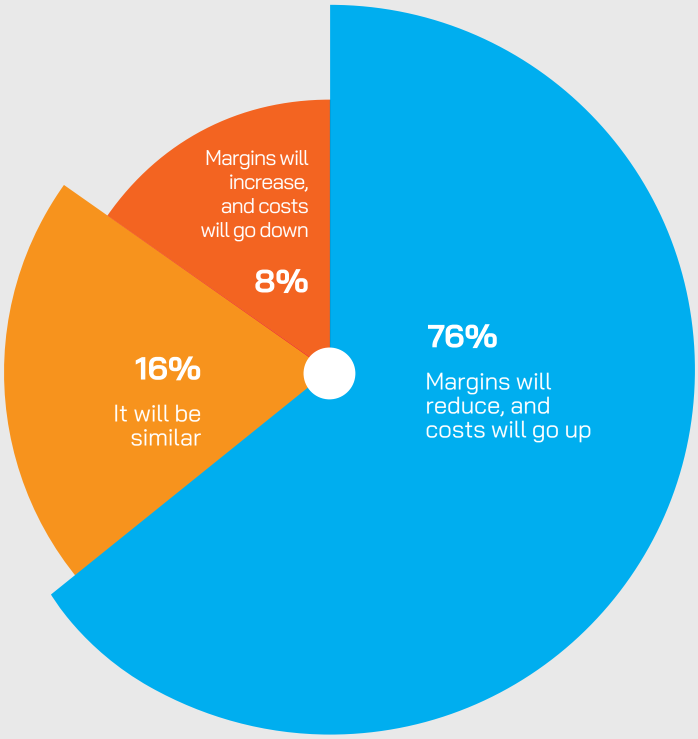
Let's face it - technology upgrades and additional investment are constant needs

Digital transformation is not a one-off; there is a constant need to upgrade technologies and onboard new or better digital solutions, in order to remain competitive. This is as true for the international private banks, or the regional private, retail and corporate banks as it is for the increasingly diverse independent wealth sector. Investments and upgrades will be needed from front-end to back-end in their organisations in order to enhance efficiencies, boost capabilities, achieve scale, and deliver more client-centric and compliant solutions replete with an excellent user experience.

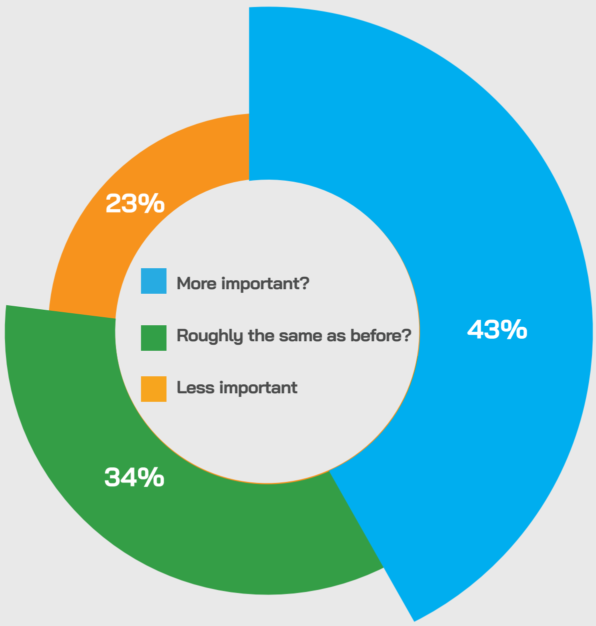
There is a major drive to achieve more predictable revenue streams

All these developments are helping to both fuel and

TEN YEARS FROM NOW, WHAT WILL THE PROFITABILITY OF THE PRIVATE WEALTH MANAGEMENT INDUSTRY LOOK LIKE?



IN THE CURRENT AND ANTICIPATED ENVIRONMENT IS THE RELATIONSHIP MANAGER LIKELY TO BE:



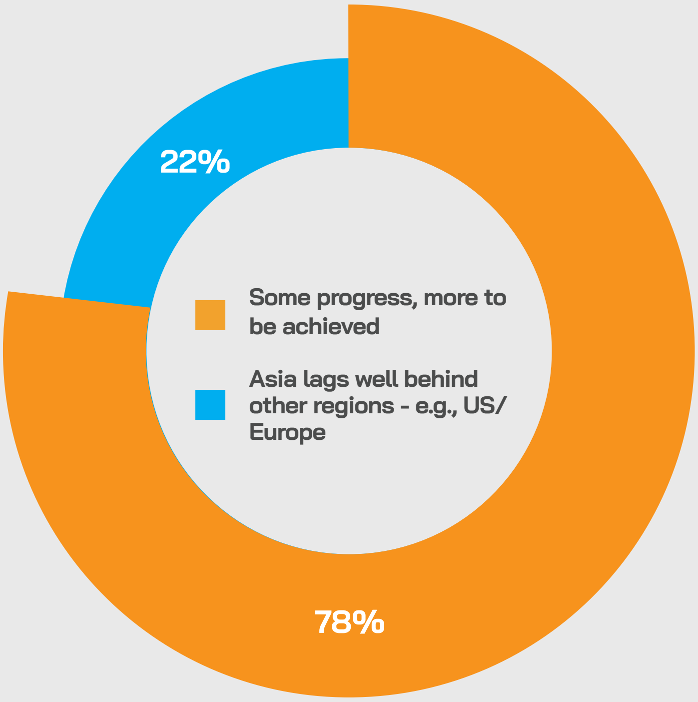
facilitate a remarkable shift towards advisory-led rather than transaction-led wealth management. At the HNW and UHNW levels, the traditional offshore private banks and EAMs or MFOs sitting in Hong Kong and Singapore are working hard to achieve more stable revenue flows from advisory and discretionary portfolio management mandates. They are making some headway, but still find considerable headwinds in trying to convert the traditionally more transaction-oriented and hands-on clients in Asia to these concepts.

Onshore is rising fast at the same time as the offshore model also looks well set for the future

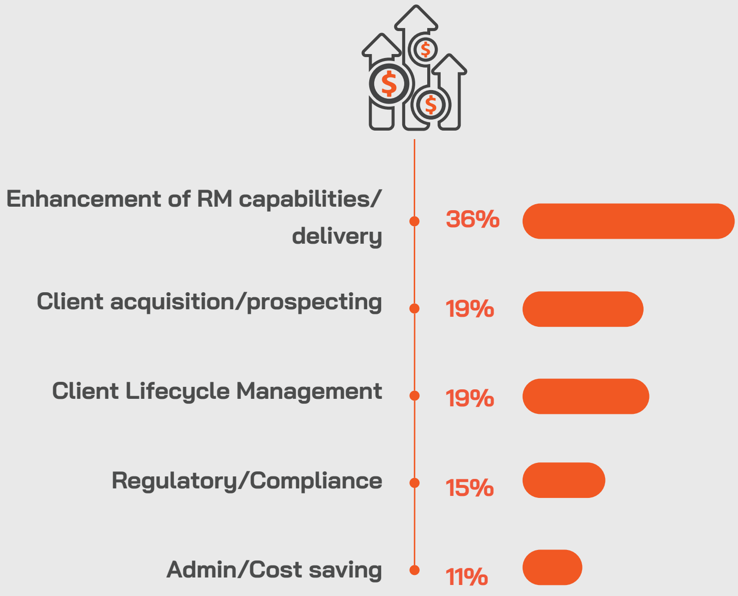
The 'onshorisation' of wealth management in Asia continues apace as authorities and regulators in Asia seek to boost the onshore wealth management offering to retain more of the wealth of their citizens at home, to help their local economies and to help boost their domestic capital markets, and as more and more of the local banks, insurers and other financial institutions see the immense opportunity to elevate their revenues in the sphere of wealth management.

The major onshore banks and other financial institutions are extremely well placed to use both their branch networks and also digital tools to connect to these affluent and mass affluent clients. In vast and highly populous countries such as India or Indonesia, this mixture of physical and digital connectivity is vital to the wealth management aspirations of prominent financial institutions, as well as to the hopes of the often now very large

HOW SUCCESSFUL HAS THE DIGITISATION JOURNEY BEEN THUS FAR IN WM IN ASIA, IN YOUR OPINION?



RANK WHICH AREAS OF DIGITAL/TECHNOLOGY THE PRIVATE BANKS SHOULD INVEST IN MORE HEAVILY IN THE COMING YEARS.



independent wealth firms that have built significant operations, for example in India.

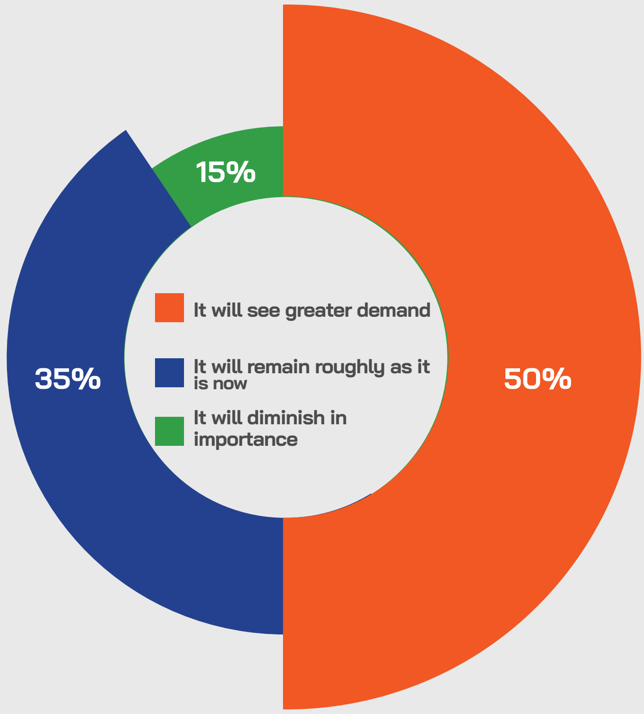
At the same time, no one is giving up on the offshore and mid-shore models as most clearly represented by Hong Kong and Singapore. There is still huge and growing demand amongst HNW and UHNW clients for these offshore offerings, and such clients value the connectivity that these private banks and leading EAMs and MFOs offer, as well as coveting the levels of personal service and advice on offer. Moreover, the really serious regional and global wealth has been flooding into these centres, especially Singapore, as the world's super-wealthy set up their single-family offices in increasing volumes.

Oiling the wheels of wealth transition in Asia as the region's vast and expanding private wealth is set to get 'younger'

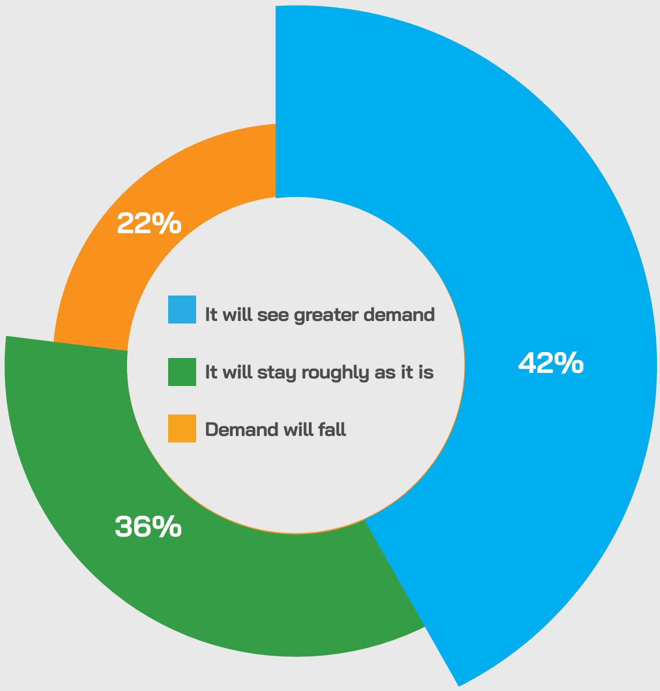
Amidst all these developments, there is also the well-publicised 'Great Asian Wealth Transfer' that is already underway. The older patriarchs and matriarchs of Asia's businesses have been either passing away or more proactively passing over control, leading to unprecedented volumes of family businesses and wealth shifting to the second generations and further beyond to the younger generations. The numbers are in the trillions of dollars and the time horizon is now, the next 10 years and then continuously.

This means that the traditional HNW and UHNW client relationships and their 'stickiness' are to come extent gradually

CHARACTERISE DEMAND AHEAD FOR THE DISCRETIONARY PORTFOLIO MANAGEMENT PROPOSITION IN ASIA FOR HNW AND UHNW CLIENTS



CHARACTERISE FUTURE DEMAND FOR THE ADVISORY PROPOSITION (RESEARCH-LED & INSIGHTS-LED AND RM-DELIVERED ADVICE)



dissipating. The incumbents must therefore make sure they are technologically and psychologically ready to connect to the second, third and even younger generations in order to sustain their businesses and build AUM well into the future.

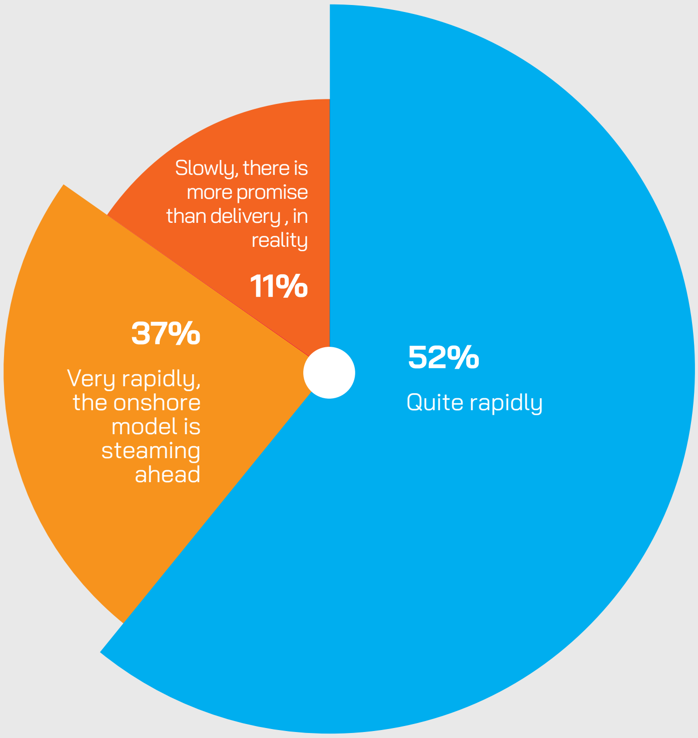
Estate & Legacy advisory, planning and structuring will remain a key additional and added-value service, but perhaps not a fee-generating centre

At the upper echelons of wealth management, the global and boutique international and indeed regional brand private banks are therefore working hard on their estate, legacy and succession planning advisories, aiming to prove to the founder generations that they care about these younger family members and hoping at the same time to connect to and build relationships to these next waves of private clients.

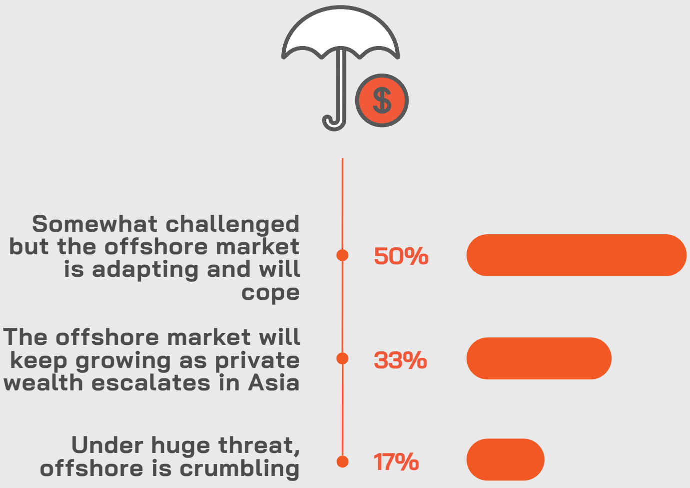
Will this become a profit centre for the private banks and other players? Not in the foreseeable future, as the lion's share of these fees will go to the lawyers, accountants and fiduciary services professionals. However, the availability of such an advisory team in-house at a private bank is increasingly seen as a vital factor in ensuring that the institution remains relevant for and connected to the next generations of HNW and UHNW clients, whose loyalties need to be won and then retained.

Incidentally, life insurance solutions will continue to play an increasingly prominent role in this effort, and their portability

HOW RAPIDLY WILL THE ONSHORE WEALTH MANAGEMENT MARKETS IN ASIA EVOLVE, MATURE AND EXPAND?



FOCUSING ON THE HNW & UHNW MARKET, TO WHAT EXTENT IS THE OFFSHORE PROPOSITION UNDER THREAT FROM THE 'ONSHORISATION' TREND OF WEALTH MANAGEMENT IN COUNTRIES ACROSS THE REGION?



plays ideally to the needs of these increasingly global and mobile wealthy families.

The tsunami of mass affluent wealth and the wealth continuum

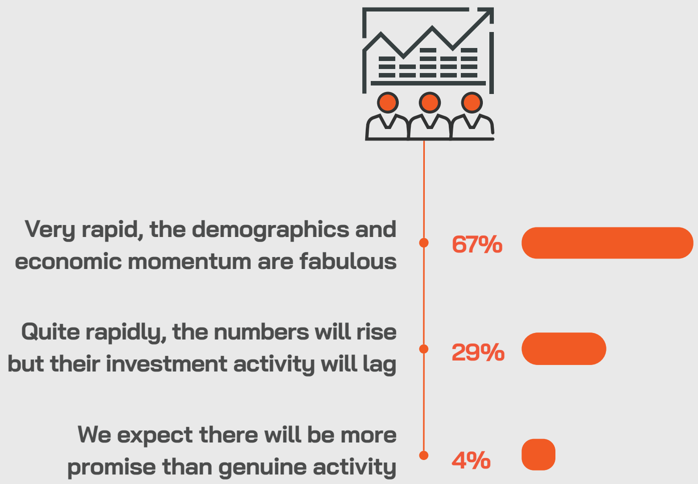
At the more scalable mass affluent market level, there is a remarkably intense jostling for position amongst robo-advisors, digital-first platforms, and of course, the region's numerous established universal banks driving into the wealth space to capture these younger clients whose ranks are growing rapidly and who represent the economic future of the region.

And across the entire spectrum of wealth in the region, there is a major challenge in connecting to and delivering advice and solutions for the younger and next generations of private clients, many of whom will inherit major wealth and many of whom will, under their own steam, create the next waves of economic momentum and private wealth growth in Asia.

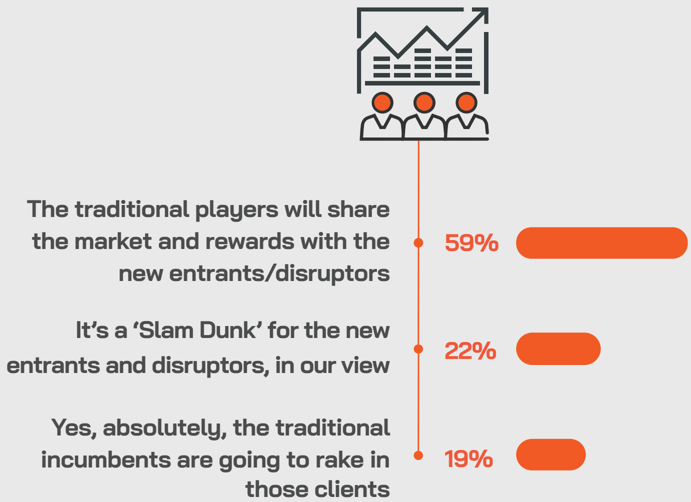
Evolving investor appetites, attitudes and horizons, and an ever more diverse smorgasbord of assets and markets

In the world of investments and portfolio curation, the public markets still hold sway for the retail and mass affluent segments, but for HNWIs and UNHWIs, there is a far greater emphasis on private and alternative assets and more and more of these investors are prepared to hold larger private holdings for the medium to longer-term, thereby side-stepping the volatility of the public markets.

WHAT SORT OF GROWTH DO YOU EXPECT IN THE MASS AFFLUENT WEALTH MANAGEMENT MARKET IN THE FORESEEABLE YEARS AHEAD?



WILL THE 'TRADITIONAL' WEALTH INDUSTRY (THE PBS AND EAMS/MFOS) BE ABLE TO WIN OVER THE YOUNGER GENERATIONS OF CLIENTS, OR WILL THEY WANT TO WORK WITH THE NEW ENTRANTS & DISRUPTORS (ROBO-ADVISORS/ FINTECHS/SUPER-APPS/GLOBALTECH BRANDS)



The rise of cryptocurrencies, other digital assets and tokenisation are at a nascent stage, and despite the headline problems we have all seen in the emerging exchange and brokerage ecosystem, there seems to be intensifying activity and interest across the entire spectrum of wealth management, from the retail level to the traditional private bank levels.

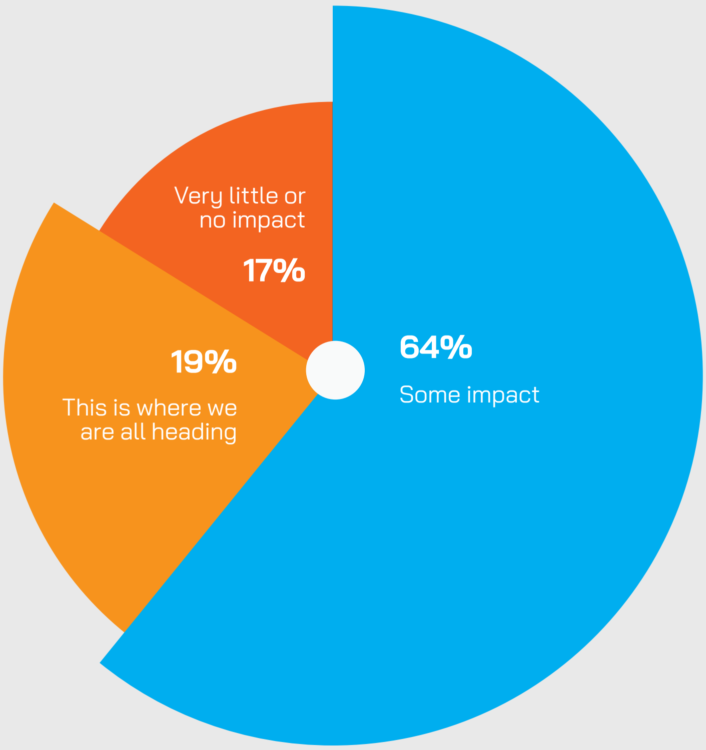
Indeed, there are plenty of surveys that highlight how many, perhaps most, of the major sovereign and pension funds and investors around the globe have been establishing in-house teams and building expertise in these areas and getting to grips with the Blockchain technology and its potential dramatic impact for the exchange and settlement of securities and assets of all types in the years ahead.

The competitive landscape is remarkably dynamic and will become even more so

While growth in the mature wealth management markets is, to say the least, muted, for example in the traditional private banking markets of Europe, global and international wealth and asset management businesses and wealth-related firms from all over the world are crowding into Asia. At the same time, local and regional banks in Asia are expanding into wealth management as private wealth escalates across the vast region, from China to India and from the Philippines to Vietnam, and everywhere in between.

All these changes were already resulting in a significant upheaval in the competitive landscape across the board, as all types

HOW WILL DIGITAL ASSETS AND TOKENIZATION IMPACT PRIVATE WEALTH MANAGEMENT?



CHARACTERISE HOW EASY OR DIFFICULT IT IS AND IS LIKELY TO BE TO FIND THE RIGHT ADVISORY/RM TALENT IN ASIA?

of new entrants and disruptors crowd into the market in anticipation of what promises to be truly significant growth ahead, and as the leading and established players set about adjusting their business models and offerings in light of these developments and in anticipation of more such changes possible surprises ahead.

And disruptors are also coming your way. New digital-first platforms, robo-advisors and Fintechs have been enjoying the fruits of private equity funding to enter these markets and begin to compete, often quite aggressively, in key niches, especially in the ballooning mass affluent customer segments across the region.

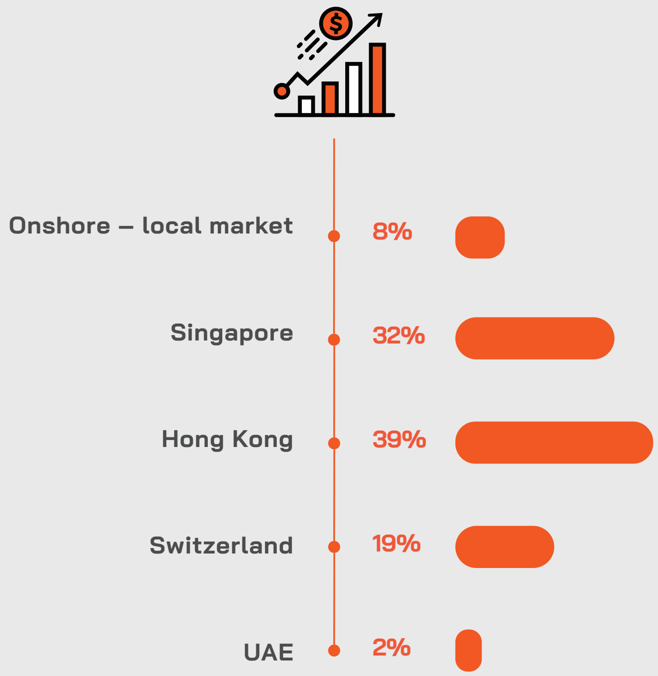
Moreover, the super-apps in the region – for example, most prominently in China and Indonesia – are shifting some of their focus and firepower to wealth management, while embedded finance is opening the doors to established corporations, for example, the big-brand retailers in the region, to compete in the financial and wealth spaces as well.

There is a major struggle to hire and retain talent

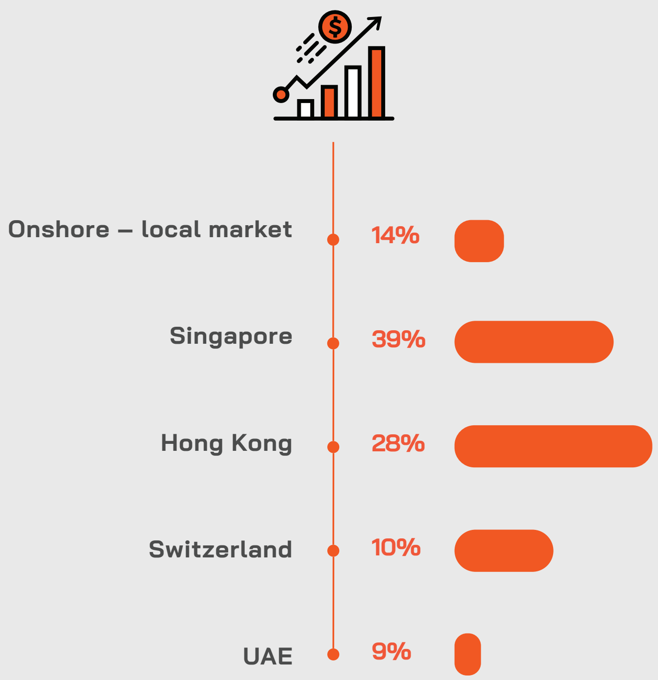
From front to back in each private bank or wealth firm and across the region, the challenges and opportunities ahead can only be addressed with the right talent, with the quest for RM and Advisor talent one of the most difficult areas to address.

Many of the older and highly experienced private bankers are retiring, and younger bankers are coming into the industry, but there is still a significant and growing shortage of talent, due to

WHICH BOOKING CENTRE IS MOST APPEALING TO ASIAN PRIVATE CLIENTS TODAY?



WHICH BOOKING CENTRE WILL BE MOST APPEALING TO ASIAN PRIVATE CLIENTS 10 YEARS FROM NOW?



the rapid expansion of the wealth management markets in the region, both offshore and also in the fast-growth onshore markets.

Compounding the difficulties in retaining or hiring the right RM talent, banks and independent wealth firms must find the right people to fit the cultures of their organisations. Training up RMs and advisors from within can address some of these needs, but that is a more medium-term solution and private banks need a more immediate and continual injection of experienced bankers, at the same as nurturing the younger bankers through sophisticated training and also on-the-job experience. Neither of these missions is easy to achieve.

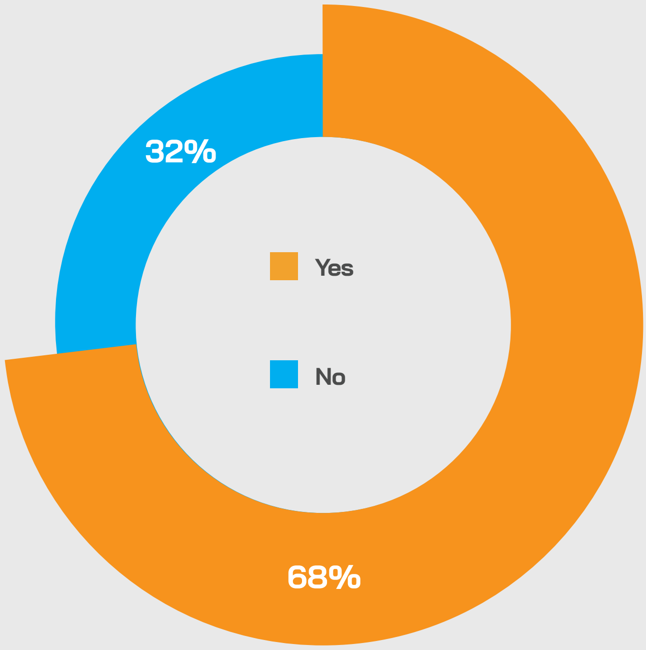
The competitive environment and the implications for the major booking centres

As all these elements play themselves out over the years ahead, there is considerable debate as to what it all means for the major booking/custody centres and for additional optionality in the future.

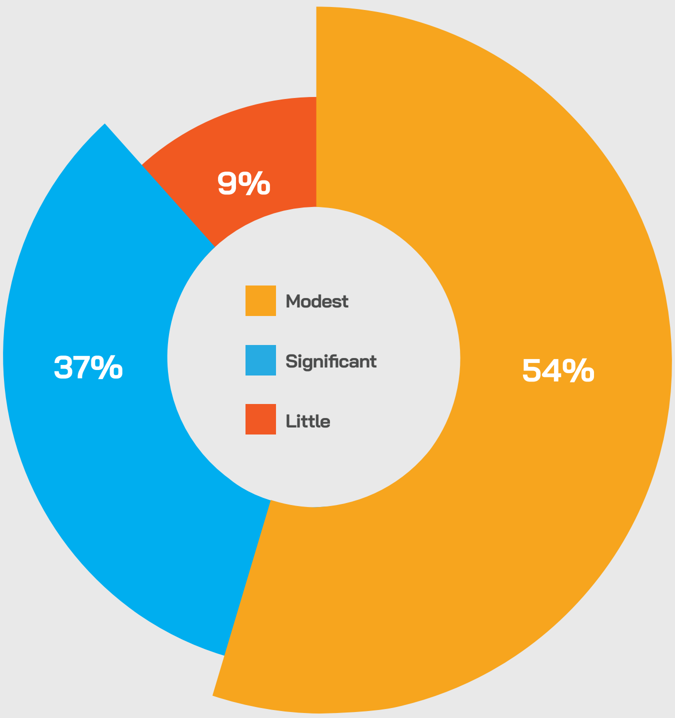
The replies we received on this issue were entirely divided, with some arguing, for example, that no single centre would win and that clients will continue to use two or three established centres that are complementary, so for example, either Hong Kong and Singapore, plus perhaps Singapore, and potentially Dubai if it can gear up its custody proposition in the future, as many there hope.

Some argued that Hong Kong is set to lose traction. They maintain that clients will choose stable political situations with little or no

IS THERE INCREASING CONNECTIVITY BETWEEN THE MAJOR OFFSHORE CENTRES IN ASIA AND DUBAI/THE UAE?



HOW MUCH CONSOLIDATION WILL THERE BE IN THE PRIVATE WEALTH MANAGEMENT INDUSTRY IN ASIA IN THE DECADE AHEAD?



government or state interference. Meanwhile, although Singapore appears currently to be a clear favourite in the competitiveness stakes, a negative might be the cost pressures in Singapore, which are already high and might spiral out of control and then that will push talent and clients away.

There was a consensus that the winners will be those with strong financial and regulatory environments and with very high standards of governance. Some argued that the private clients will want to further diversify as to where to book their assets to have better protection of wealth and assets, so they will also consider other centres like Bermuda, the Isle of Man, Jersey and others, again for stability and diversification.

WHAT TYPE OF PRIVATE WEALTH MANAGEMENT INSTITUTIONS WILL BE THE WINNERS IN THE YEARS AHEAD?

Some competitors in Asia's wealth markets will win, some will struggle, and there is more consolidation ahead

The big picture reality is that the world of wealth management in Asia is far from static. The offshore model must become more efficient, more professional and more dedicated to excellence in order for competitors to survive and prosper. The onshore model will draw more clients and more talent to each local market, but the competitors there will all need to define their strategies and their target clients carefully, invest significantly in technology and processes, and continually refine in the face of many new disruptors arriving and challenging them.

There will no doubt be a sharp rise in consolidation in the industry, perhaps especially in the independent wealth sector as smaller or less capable players are forced aside by not having the people, the scale or the technology investment required to compete effectively and win and retain clients.

Agility is vital, nothing stays the same for long, and there can be no room for complacency

The markets in Asia will continue to grow, but that certainly does not mean there is latitude to offer second-rate or irrelevant products, services, solutions and connectivity with the client base, which will no doubt become increasingly discerning and demanding. ■