Private Wealth Management – A Time of Dramatic Change

The first panel of the Hubbis Asian Wealth Management Forum in Hong Kong produced insightful deliberation on the current and future challenges and future roles for the private banks and other leading wealth management providers. Over the past decade, it appears that some progress has been made, but far more must be achieved, particularly in the key areas of transitioning to a more recurring and less ad hoc revenue stream, focusing more intently on putting the client first, and creating and adroitly pricing the value proposition.

These were the topics discussed:

- *In comparison to ten years ago, what has changed? What has not changed?*
- *What is being done to improve the value proposition in wealth management and to enhance the pricing model?*
- *How can you transition clients to the next generation of bankers?*
- *Are you ready for the intergenerational wealth transfer?*
- *Is the next generation willing to bank with the traditional family banker?*
- *How to segment clients and how do they want to be serviced today?*
- *How can you get the right people and proposition in front of the right clients?*
- *How has the competitive environment changed?*
- *The search for talent and building from within.*
- *What are the key attributes and what is the future for the relationship manager today and tomorrow?*
- *The sales process, operational alignment and administrative alignment*

PANEL SPEAKERS

- **Vincent Magnenat**, Chief Executive Officer of Asia Pacific, Lombard Odier
- **Dr Silvio Struebi**, Partner, Simon-Kucher & Partners
- **Anna Wong**, Professor of Practice in Finance, Hong Kong University
- **Nick Pollard**, Managing Director, Asia Pacific, CFA Institute
- **Kees Stoute**, Chief Executive Officer, North Asia,EFG Bank

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THE KEY TAKEAWAYS

Many challenges ahead

The panel concurred that the wealth management industry is undergoing a period of great stress and must adapt to w world of increased regulation, higher costs, intensifying competition including from new entrants, technological/digital enhancement, wealth transition from the founder to younger generations and the dearth of higher quality, client-facing experts. And the markets are more volatile and the outlook less promising than for many years.

Re-thinking the model

While there have been improvements in the past decade, many of the challenges and shortfalls still persist. The private banking industry, in particular, has to rethink the model.

Deeper discussions required

To be successful in the current and anticipated environment, client-facing advisers must focus on deeper, more engaging discussions with their clients, and with their families if possible, and then tailor ideas and solutions to fit their needs, rather than simply trying to "push" product to them.

Wealth management firms need to convey value

The wealth management industry is not sufficiently proficient at creating USPs around their core offerings and therefore conveying value to their clients, or in differentiating themselves from competitors. Growth targets for banks in Asia should focus on profitability as much as growing assets.

Segmentation and behaviour

To create successful value propositions and pricing protocols, the banks should clearly segment their clientele. These wealth service providers must then understand and monitor the behaviour of their clients in each category in order to achieve a more meaningful negotiation with the clients and thereby achieve better pricing and communication.

Values and ethics

In a world of far greater regulatory correctness, ethics, compliance, behaviour, culture are all essential, as client trust is vital. But surveys indicate that the industry has far to go to achieve a strong reputation for ethical behaviour and a strong culture of prioritising the client above the provider.

Retain talent

To achieve a culture of stability and trust, it is vital to retain talent, although the demand for RMs and other professionals is so intense that this is difficult. The industry must somehow eschew the current environment in which RMs can move around rapidly and each time leverage their remuneration. In the medium to longer term, this is antithetical to the success of the industry.

THE DISCUSSION BEGAN WITH an acknowledgement that these are times of great change for the wealth management industry, as it struggles with increased regulation, higher costs, intensifying competition, including from new entrants, digitalisations, wealth transition from the founder to younger generations and the dearth of higher quality, client-facing experts. On top of all this, the markets are more volatile and the outlook less promising than at any time since the markets began to recover from the global financial crisis.

Skills must rise faster than costs

The industry's combined costs go up, but the productivity and talent do not improve," observed one expert. "The private banking industry has to rethink the model, although I do believe there have been gradual improvements in the past few years."

Another industry veteran observed that 25 years ago there was a dearth of talent and although it has improved, the same situation prevails today. I am not so pessimistic today, but I can also say that the higher levels today are countered by much higher expectations from clients and we are moving from what I would say is called the suitability standard to a more fiduciary standard, making it more demanding for the firms working in this industry. On balance I am more hopeful than not, especially as the discussions with clients today are more penetrating."

VINCENT MAGNENAT
Lombard Odier

DR SILVIO STRUEBI
Simon-Kucher & Partners

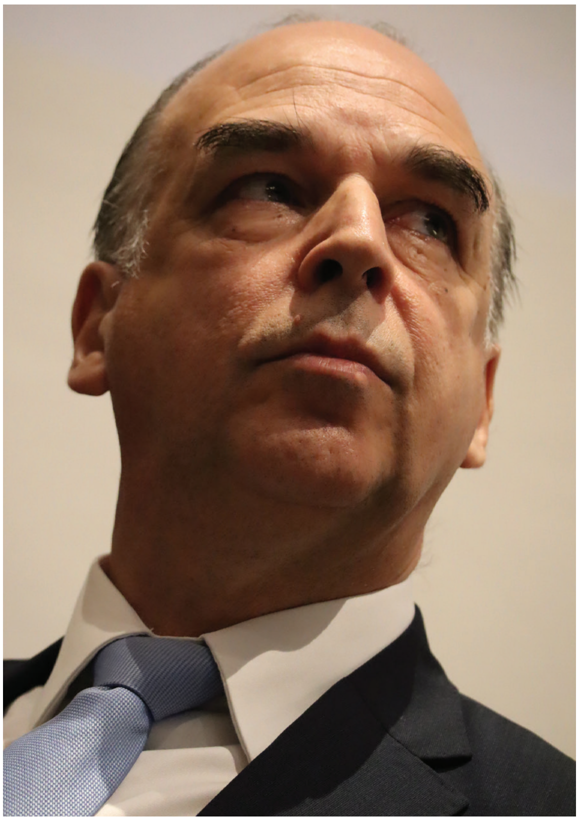
Quality shows through

The same expert highlighted some traits of excellent private bankers. "They work with the larger clients, they have a significant portion of their revenue in recurring income, and three, which is the basis for all this, they have developed deep relationships with their clients. The deeper the discussions and the closer to people's lives, the better."

Another senior banker observed that there have been almost too many changes to mention in the past two decades. "But today there are no more bankers behind big desks with cigars," he remarked. "Today, we need to engage, create the value, we need to ensure that we can prepare them for the coming years, the markets, regulation and compliance, and help them with structuring the family finances and businesses."

Creating and communicating value

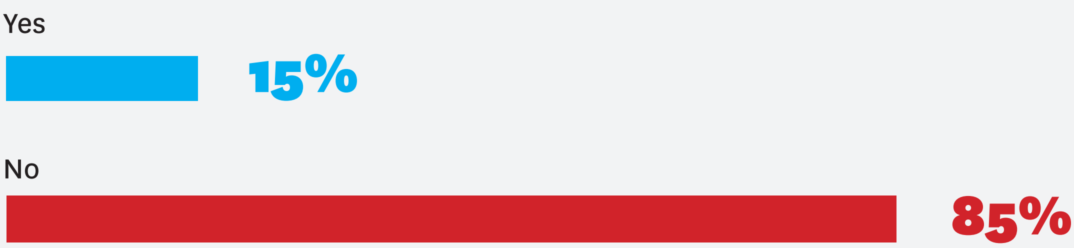
A specialist added that superior private banking also involves superior delivery of value and to make this value tangible, banks have to create more USPs around their core offerings so that the clients really understand what they represent, what separates one bank from another, what is their uniqueness. "Everyone is rather similar as of now," he noted. "And that is true globally, as well, as the banks are simply not really that good when it comes to marketing. Moreover, the banks in Asia are often more focused on growing the book and are afraid of addressing profitability."



KEES STOUTE
EFG Bank

He added that in the future one 'magic' formula will be segmented approaches, with be with clearly defined offerings and clearly tailored pricing to serve the various needs of customers. "That is

ARE BANKS PREPARED AND READY TO TAKE ADVANTAGE OF THE INTERGENERATIONAL-TRANSFER IN WEALTH?



Source: Asian Wealth Management Forum 2019 - Hong Kong crucial," he said. "To achieve this, we also need to consider behavioural aspects, so we are investing in behavioural economics, to help a client adviser have a more meaningful negotiation with the clients, using the right words to achieve better price and service communication. It can be applied everywhere, and in the future, more and more banks will use digital channels."

NICK POLLARD
CFA Institute

Warning: put the client first

A fellow panellist warned of the dangers of not putting the client first, something that from surveys Hong Kong appears to be poor at. "Hong Kong is bottom by a long way, with only about 7% of the respondents saying they feel that their adviser always puts their needs first. We must all work harder to change that dynamic."

"Ethics, compliance, behaviour, culture, these are the new and important topics for those entering this industry, or hoping to," came another voice. "For the industry to be a long-term success we must gain clients' trust. It is negative if your motive is solely driven by your own compensation, the clients' interest must be the focus of professional ethics."

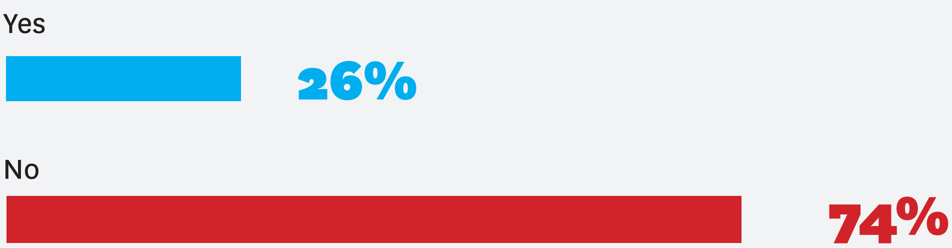
Client-centricity can produce returns

"I agree," said another expert, "and in my view, you should make money by being client-centric. The more advisers develop the relationship with the client family, the more value you add and the greater the likelihood of building a more sustainable relationship that solely the founder generation. We should get rid of the distinction between making money and being client-centric because we are in an industry that has to make money by being client-centric. Similarly, you either are ethical, or you are not ethical. And as to the figure of just 7% feeling their advisers are client-centric, that is shocking and clearly, we must change, although in my experience things are not quite that negative."

Be ethical

The Chair highlighted a poll which showed that 80% of respondents believe the industry is no more ethnical today than 10 years ago. "The first step to fixing something is self-recognition," he remarked. "We have recognised what our clients have told

ARE BANKERS MORE ETHICAL TODAY THAN THEY WERE TEN YEARS AGO?



Source: Asian Wealth Management Forum 2019 - Hong Kong us, and the markets have told us, that we have a challenge. So, at least in recognising it means we can actually address it and do something about it."

The discussion turned to how the banks will adapt their models. "The banks are all investing in digitalisation and other technologies," an expert observed. "However, most of them have no monetisation road map, as their assessment is usually driven by cost not be value for the client. When banks move towards the digital business model, it is more towards subscription-based pricing, with a fee and then transactions, more or less free of charge. Yet based on the current models and how important these transaction fees are today, everyone will be under pressure, as I would say almost 40% of fees and also trailer fees and retrocessions will be under pressure in the future."

Another panel member commented that the bankers employed today have changed from 10 years before. "We are dealing today with offshore centres and onshore in the region, so we need talent not only in Hong Kong or Singapore but also in Thailand, the Philippines, Taiwan, China, everywhere."

Finding and retaining talent

The question was asked as to how to enhance the quality of the relationship managers, especially in a market where the RMs are moving rapidly between firms who are bidding up their remuneration packages.

"We must retain the people we attract," said one banker. "People at our firm do not switch that often, the number of people working for the company more than 10 years is significant. It is a challenge for every employer to make sure that people feel at home at your firm, this is our mandate also as management. We also need to make sure that well-qualified people are in place who can have a real dialogue with the clients, as the importance of relationships is growing significantly."

ANNA WONG
Hong Kong University

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