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# Products and Platform: What is the EAM Value Proposition Today & Tomorrow?

*Are third-party digital platform providers offering external asset management (EAMs) the products, service and price they need to compete effectively with the ongoing digitalisation of private bank platforms? Aside from product, which is becoming increasingly commoditised, how can EAMs differentiate themselves? Will technology efficiencies and the ensuing cost savings be offset by higher regulatory costs? There was only one clear consensus, that the independent wealth sector will grow apace in Asia, just as it has in developed markets such as Switzerland.*

*These were the topics discussed:*

- *What are the challenges and opportunities you face today around products and services?*
- *How can you improve your platform? • What is your investment process and philosophy? How do you deliver advice?*
- *Can you pick investment products better?*
- *Can you really do due diligence of funds?*
- *How can independent firms deliver alpha?*
- *Whats the opportunity that insurance represents to you and your clients?*
- *Does your platform need to be shaken up and reengineered?*
- *FinTech and Robo Advice - does it have any real relevance to you?*
- *How do you decide who to partner with?*
- *What can you outsource? What's impossible to outsource?*
- *How can you increase revenue? Reduce costs?*
- *How can you compete with the big private banks?*

## PANEL SPEAKERS

- **Damian Hitchen, Chief Executive Officer, Middle East & Asia, Swissquote Bank**
- **Werner Schlossmacher, Managing Director, Platform Solutions Group, APAC Solutions, Markets, Asia Pacific, Credit Suisse**
- **Harold Kim, Founder and Chief Executive Officer, Neo Risk Investment Advisors**
- **Keith Wong, Chief Executive Officer, Winland Wealth Management**
- **David Varley, Chief High Net Worth Officer, Sun Life Hong Kong, Sun Life Financial**
- **Sandro Dorigo, Chairman, Founding Partner Leonteq Securities**
- **David Friedland , Managing Director, Asia Pacific, Interactive Brokers**

A **STRUCTURED PRODUCTS EXPERT** with a global bank began the discussion by remarking that one of his missions in the past 15 plus years has been to make structured products (SPs) more accessible to the independent wealth community, where he anticipated tremendous growth in coming years.

He also gave some insights into the direction of the overall industry, whether global private banks or independents. "Differentiation of products and accessibility are difficult," he observed, "but the client experience is the one true differentiating factor. With the standardisation of availability, then we must do more to inform the clients, so for each fund, for example, we need to make sure we conduct due diligence, suitability checks for the clients, bring the relationship managers (RMs) tailored information to help their clients and so forth. In these areas, the major financial institutions such as ours can collaborate with the independents. This will help ensure that the gross margin decline which the industry is experiencing is not a race to the bottom."

## Flexibility and functionality

A digital platform expert highlighted the opportunity in the EAM space to offer an alternative model to the traditional, global custodian banks. "We can offer both more flexibility and potentially more functionality, but we need to raise our brand awareness in this region."

The provider of a similar digital trading platform added that his firm's offering is a digital technology solution that is flexible and scalable. "We are also now offering some of the structured products or OTC products or maybe private equity that are out there," he reported. "People are not just sticking with one platform these days, they are looking at diversification of risk, as we all saw in 2008 and in the aftermath that there is considerable risk in the large banks. We have nothing off balance sheet, it is transparent, we have a strong balance sheet, a very strong capital structure, so we find ourselves increasingly competing in that space for the active trader but at the same time we actually also run orders for many of the banks behind the scenes because we are accessed globally."

HAROLD KIM
Neo Risk Investment Advisors

SANDRO DORIGO
Leonteq Securities

DAMIAN HITCHEN
Swissquote Bank

## Staying ahead of the game

He expounded in the technology, noting that even in the mid-1980s his firm was already doing automated electronic trading. "We were a fintech before the fintechs," he remarked. "Every day there is a new piece of code and we have maybe 300 to 500 programmers worldwide and we are just constantly reinventing things, reacting to problems, reacting to client recommendations. Unlike the major banks, we do not have to go through thousands of committees to get something done."

Reacting to this comment, another expert said that some of the global banks are ahead of the game in terms of technology spend and the associated R&D. "They also look at relevant partnerships which are necessary to bring them to the next level."

So that we are working on it and it's all with a purpose in mind and that's increasing in the end client experience which instead will bring better businesses to everyone, again focussing on the industry growth and making sure that we can capture the value thereof.

Michael Stanhope: Sandro, at Leonteq, you have been on a journey now for several years and I thought you might share that journey with us, and to what extent what do you do differently today in comparison to when you founded the business?

## Offering individualised solutions

A structured products expert highlighted how his firm devotedly serves the EAM sector. "We

KEITH WONG
Winland Wealth Management

WERNER SCHLOSSMACHER
Credit Suisse

### WHAT'S THE BIGGEST BENEFIT OF PLATFORMS AND TECHNOLOGY?

Reduce cost

38%

Drive efficiency

25%

Better client experience

38%

Source: Independent Wealth Management Forum 2018 - Hong Kong operate in 10 countries with 11 offices and our base is in Switzerland, which represents almost 40% of our business and where there are more than 3000 EAMs," he explained. "We have a low cost of creation of products and a highly automated platform which is scalable to allow for individualised solutions. As we see it the EAMs need to focus on individualised solutions to compete well with the major banks. To do so, they need a provider who helps them create solutions that fit the risk profile of the client. Additionally, we focus heavily on the client experience, offering a better service, greater transparency and more individualised approach. With technology and scalability, we can also help reduce costs."

The discussion turned to the evident failure of the private banks to penetrate the life insurance sector, with one guest commenting that EAMs are increasingly offering insurance as part of their proposition, either directly or through partnerships with insurance brokers. "Everyone has feasted on Universal Life in the past decade," he said, "but different clients have different needs, such as legacy planning, estate planning and liquidity planning and EAMs can often help identify clients who need individualised solutions that we can provide for them. The EAM community often has a broader range of expertise and look after client needs more adeptly."

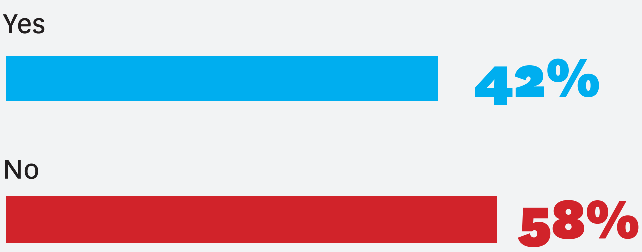
## Private solutions abound

The family office expert noted that their clients are moving increasingly towards private credit, private equity and private venture products. "Many clients want less correlation to the markets nowadays," he observed. "They see some risk to be leveraging and liquidity issues, so they are asking for these types of products. As we custodise, we can offer solutions we identify ourselves and, in the size required by our typical ultra-HNW family client, which wants exposures of USD5 million per product and above."

He explained that co-living investments are a trend amongst his clientele. "Co-living," he clarified, "is the trend of a new type of living where the young generation, who generally do not have the money for their own properties after university, they live together with part of the accommodation is common and part private, for example, the bedrooms. Our clients like to participate almost like pre-IPO venture capital before it goes out into the market, so as they are investing when it is not liquid that is where, like the developers,

DAVID FRIEDLAND
Interactive Brokers

### CAN WEALTH MANAGERS DIFFERENTIATE THEIR PRODUCT OFFERING?




Source: Independent Wealth Management Forum 2018 - Hong Kong you achieve the highest returns. Essentially you take the journey with the developer. The equity and the debt can then be sold off to pension funds, insurance companies and others."

## Future banking - in the hands of tech behemoths?

The discussion turned to the ability of technology to weaponise start-ups to compete with the traditional banks and other financial institutions. One guest noted that his firm had applied for a virtual banking license in Hong Kong, which are soon to be confirmed with up to five candidates. "It looks negative for us, to be honest," he reported, "but the opportunity is there. Banks right now are charging massive spreads for foreign exchange, even on your credit cards. The world is going mobile, cashless, so for us, the virtual bank would give us a chance to pay higher interest rates and just really shake up the market a bit in terms of what is fair. There is a lot of competition out there, the Alibabas, Tencents, the Amazons, they are likely to enter the space as well."

To win a license, he explained, requires demonstration of compliance expertise and protocols. "Of course, you need capital and a business plan," he explained, "but the biggest challenge is compliance, you have to show that you are regulatory compliant, you have to show that you have the AML capacity, the KYC, and unfortunately those costs keep going higher and higher."

Another panellist envisioned a future where clients are somewhat polarised between those who conduct everything via technology and those who want to keep some element of human touch. "Those who prefer some human touch would come to boutique firms like ours and the ones who prefer not to speak to other people would go to the technology route where most of the time is spent on the screen," he commented.

## The human touch

Another expert concurred, adding that "there is no doubt that looking ahead a few years, particularly for the HNWI and ultra-HNWI markets, they will be looking for boutique firms to give them face to face advice because they can obtain access to niche products which are not available on the street. We are a digital provider, but I think there will always be that requirement for a face to face professional advice. However, what the client will also want is digital ease of access to their financial data and portfolio information, which will also play into the hands of the non-bank players and boutique firms."

DAVID VARLEY
Sun Life Financial

Another expert observed that cost-saving by accessing digital platforms will likely be offset by rising regulatory costs, which will likely only become even more complex and costly. "I think revenues will come down, margins will come down because the more the business is digitalised the more we would like to give transparency to our clients, so it is easier to compare certain products and certain services to each other which automatically means that margins will come down. With that taking place, differentiation will become even more important, which will be vital for the HNW and ultra-HNW space, where there will still be a high level of engagement on the personal and advisory sides."

The final comment went to one attendee who commented that those who are willing to pay for advice will have to accept the price tag associated with that. "The pricing model of a bank will change significantly over the next 10 years to make sure that the value which the financial institution delivers is priced appropriately," he observed. "There will be areas of the bank that see severely compressed margins but other areas where margins will potentially increase and where the value will be enhanced. The collaboration will help reduce costs and improve client access and experience, for example. As we see considerable growth ahead in the EAM segment, there is considerable potential in partnering with the global banks in certain areas."