

State of the Independent Wealth Management Market and Devising the Best Models for the Future

The independent wealth management (IWM) segment has grown apace in Singapore and Hong Kong in the past decade or more, but set against the truly dramatic expansion of HNW and UHNW private wealth in the region, is it punching its weight and what is the outlook for the sector, especially as the major and boutique and even regional/local private banks have boosted their propositions and platforms? And very importantly, is there still room for new entrants, especially at this time when the effort to seek out new clients and new business is impaired by the travel, work and social restrictions imposed due to the pandemic? And if there is room, who is establishing the new firms and what are the essential steps they must take to ensure successful launches and future evolution? Getting it right from the outset for firms that have limited capital and where the founders are taking some considerable risks is absolutely critical, and there are many elements to consider, not just the business model but the administrative structure, licensing, compliance, talent, platforms, technology, branding and communication, and a host of other key considerations. And of course, there is the key question of how the IAMs/EAMS/MFOs (multi-family offices) compete against the significantly improved efforts of the private banks, which have been working hard to enhance their platforms, offerings and approaches to their clients in the past five-plus years in particular. Focusing on Singapore and Hong Kong in particular, the Hubbis Digital Dialogue of September 30 took a detailed look under the hood of the dynamic and multi-faceted IWM market in Asia.

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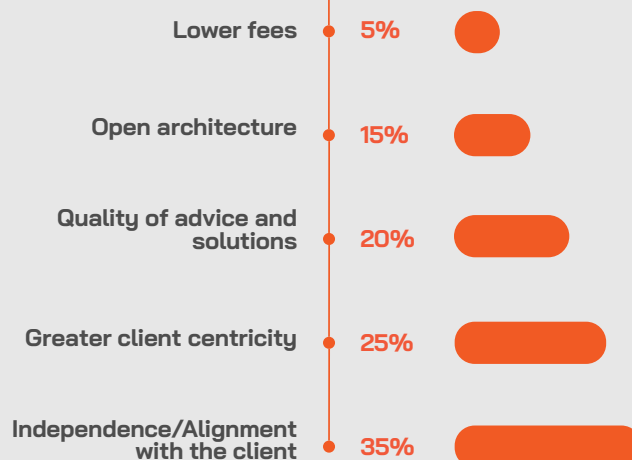
There is little doubt that the IWM community in Asia is in the right place at the right time as to market demand. But can they adopt the right model to win more market share of the rising AUM? The world is changing, and the next generations are inheriting or building more of Asia's vast private wealth. The market is surely there, but the independents need to keep their eyes set firmly on the targets and chart a course for their businesses, their people and their clients that will see the independent sector emulate the great success of their peers in mature markets such as Switzerland.

So, what are the key developments that have been driving the evolution of the independent wealth management sector in recent years? Are more new entrants arriving, or is there consolidation in the sector, or are some players exiting, and why? Are private clients in Asia migrating more towards to big brand names such as the global, boutique or regional banks, or further towards the independent model, and why? Can Asia's independent wealth sector really grab a much larger share of the AUM, as has been happening for example in Switzerland? What are the vital factors to consider when establishing or upgrading an independent wealth firm?

These and other key issues were at the core of the discussion on September 30. And the panel of experts rapidly warmed to their task of analysing the evolution of the independent wealth model and assessing what makes those that are successful such achievers, as well as predicting how incumbents can re-shape their models and how new entrants might best structure their businesses to capture the demand that so many are excited by for the years ahead.

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WHAT ARE THE KEY ATTRIBUTES THAT MAKE THE IAM SO VALUABLE FOR HNW AND UHNW PRIVATE CLIENTS?



Expert Opinion

SHILPI CHOWDHARY, Chief Executive Officer, Lighthouse Canton

"Independent wealth managers must take an active approach to build a diversified base of clients through a mix of talent and technology. Many in the industry are heavily dependent on a few clients, with these clients contributing 80% to 90% of their total AUM. This is not sustainable, and you become almost subservient to these clients. The industry faces two challenges – capturing the next generation of wealth who have a different mindset and approach to investments, and the rise of technology. To overcome these, the industry needs to attract and train wealth managers with new mentalities, mindsets and skillsets."



Progress, but not quite as fast as many hoped

More than a decade on from the launch of the Association of Independent Wealth Managers in Singapore, there is today perhaps less progress than the early proponents had expected. "We had indeed hoped for much faster growth in the industry, and we had also expected more consolidation and the formation of larger EAMs in Singapore," an expert observed. "Yes, the industry is evolving, more smaller players are coming through all the time, with bankers leaving their private banks, but the market is still very fragmented."

Another guest explained that there is not enough talent being drawn to the independent sector, and part of that is the perceived security of working with the brand name banks. However, while he acknowledged that might have been true years ago, it is far less so today.

Taking control of your future

"But we are striving to relay the message that those who venture into the independent sector are taking their own future into their control," he said. "As an independent, you actually have a lot of the components for your luck, in your own hands. The talent is definitely around in Singapore, but the mindset is needs to change."

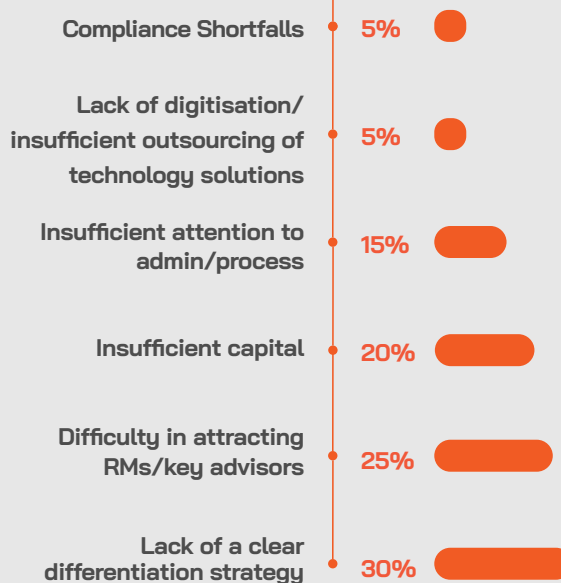
Turning to the models that can and do work in a real-world situation, a guest commented that the sustainable revenue and compensation matter is vital, and that in the successful independent model, bankers need to be driven by client outcomes, not by their own revenue expectations.

"The moment you start going down the path where you are also driven

by a certain revenue, you almost are giving incentive to your people to churn portfolios, or adopt the behaviour driven by 'incentives'," he observed. "We are moving from a more incentive-driven programme to a more balanced

scorecard approach which is more institutional. We look at wealth based on how an institutional manager manages money, which is more of a process-driven approach rather than a reactive approach. It is certainly paying dividends for us,

WHAT ARE THE KEY PITFALLS FOR IAMS TO AVOID WHEN BUILDING THEIR BUSINESSES?



Expert Opinion

SHILPI CHOWDHARY, Chief Executive Officer, Managing Director, Lighthouse Canton

"The wealth management space is becoming increasingly democratised, and it is imperative to build long-term sustainable relationships with clients. Industry players must look to provide clients with investment solutions that align with their long-term interests, focusing on the user experience and utilising technology as an enabler to enhance or solve for the client's needs."



and offers better and engagement with the clients, and differentiation.”

Friends and competitors at the same time

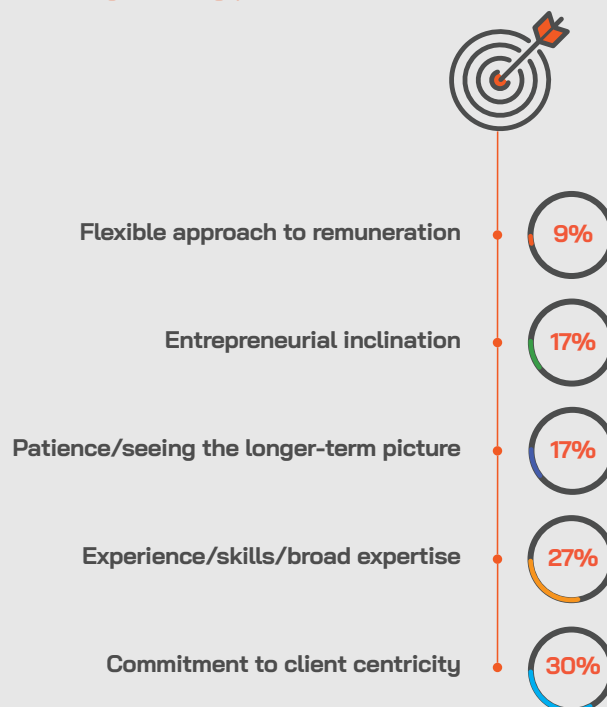
He also commented on the relationship of the EAMs to the banks. “The banks for us are great allies, they’re our partners, they really help us execute some of our strategies,” he explained. To that extent, he said his firm is largely agnostic about which platform, but certainly considers that custodians play a great role, and his firm generally tries to not influence clients on booking with one or another. He indicated that the banks that offer the best service and quality are reaping the rewards as people become more discerning.

As far as the technology and the digital technology platform are concerned, he observed it must be driven the user experience. “Actually, we are in a digital era but in the wealth space, especially in the HNW and UHNW segments we inhabit, the solutions are perhaps not as elegant as one would expect, in fact are far better in the mass affluent and retail spaces,” he reported. “So, there is actually much progress to be achieved.”

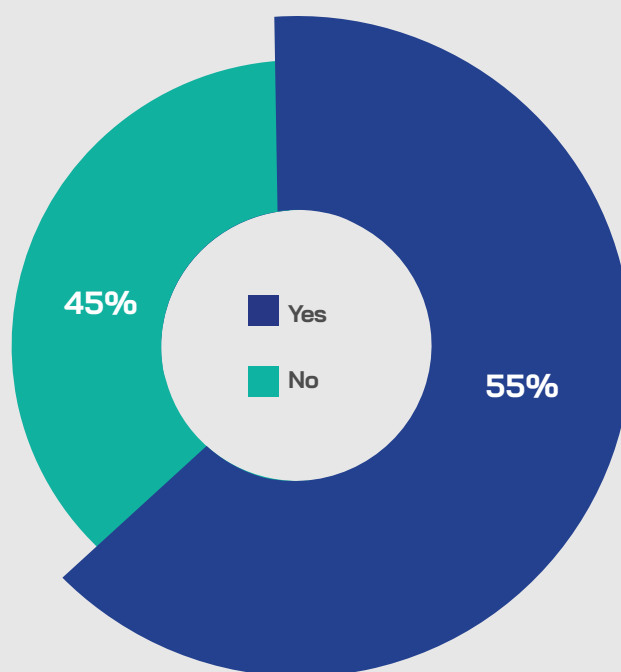
Evolving multi-directional connectivity

He explained that the banks themselves are not very open for APIs in Asia, with Europe and the US far more evolved. Secondly, further progress is needed in privacy and security. And many, perhaps most of the digital solutions that have emerged are not necessarily coming out from the business side. “Technology builds some solutions, but sometimes we realise that we need to find a way to build something of our own,” he explained.

WHAT ARE THE KEY ATTRIBUTES THAT MAKE AN IAM RM SUCCESSFUL FOR HNW AND UHNW PRIVATE CLIENTS?



SHOULD THE IAMS OUTSOURCE EXECUTION TO THE DIGITAL PLATFORM COMPETITORS RATHER THAN THE PRIVATE BANKS?



Private banks - catering to the EAM clientele

A private banker commented on how important the EAM market is for the bank's own business model. He explained the strategic emphasis on EAMs in any of the key markets, including Asia, and the efforts the banks had been upgrade its digitisation, including working very closely with Expertsoft globally, with especially benefits in terms of consolidated reporting and transparency for the end clients.

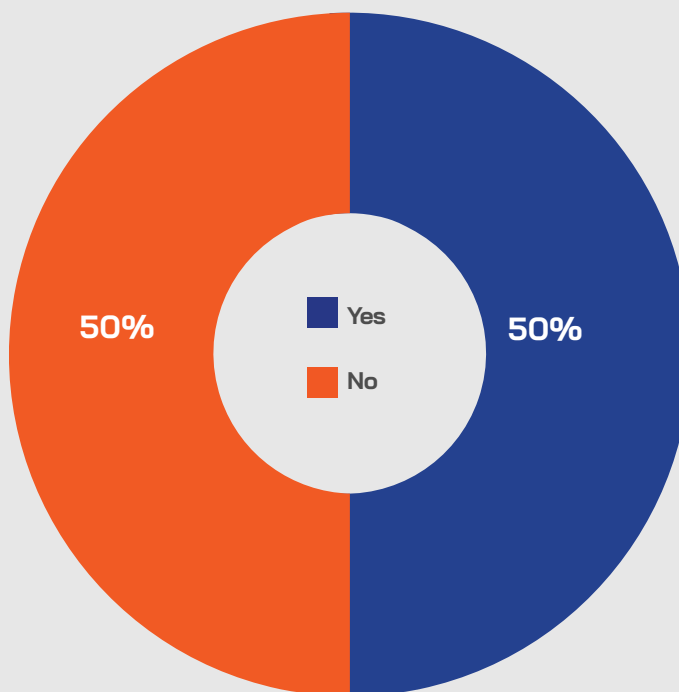
"We see the independents as partners," he explained. "Their success is our success and if we are both successful, then clients are satisfied. And we have in this region hired key dedicated talent in Hong Kong and Singapore, professionals who have made their entire career dedicated to the EAM business. The result is substantial growth in both Singapore and Hong Kong."

In the 22 years roughly that this banker has focused on EAMs, he said he had seen a dramatic rise in their sophistication. "Twenty or so years ago, EAMs were portfolio managers and today they're offering more services, not just managing portfolios but offering also wealth and a variety of creative solutions."

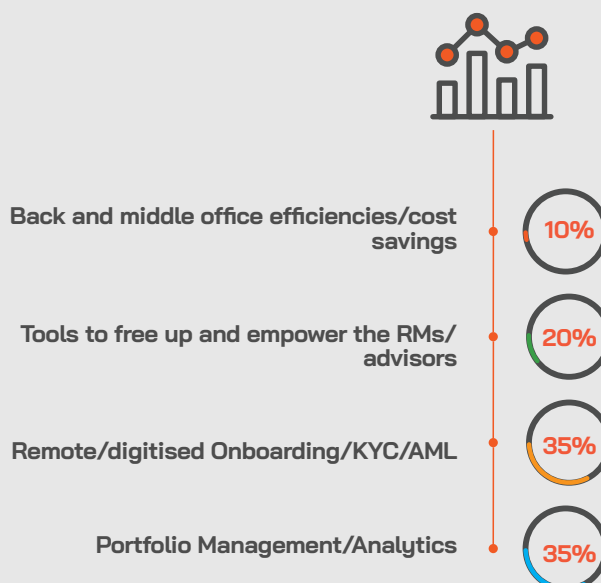
Seamless solutions from the outset

As to the digital solutions on offer, an expert reported that they focus on the entire value chain of the EAM. He explained that when an EAM deploys its software they are compliant right from onboarding and KYC, and then have a head start for suitability and the entire CRM protocol. The software also addresses investment offerings suitable for the particular clients according to the risk profiles, knowledge, experience, and so

SHOULD THE IAMS OUTSOURCE CUSTODY TO THE DIGITAL PLATFORM COMPETITORS RATHER THAN THE PRIVATE BANKS?



WHAT ARE KEY AREAS OF DIGITISATION THAT THE IAMS NEED TO INVEST IN AND IMPROVE UPON?



forth, with a dedicated focus on portfolio simulation and creation of model portfolios. Seamless execution is also vital, with STP, then moving through to custody with external parties, and the requisite data and reporting interface.

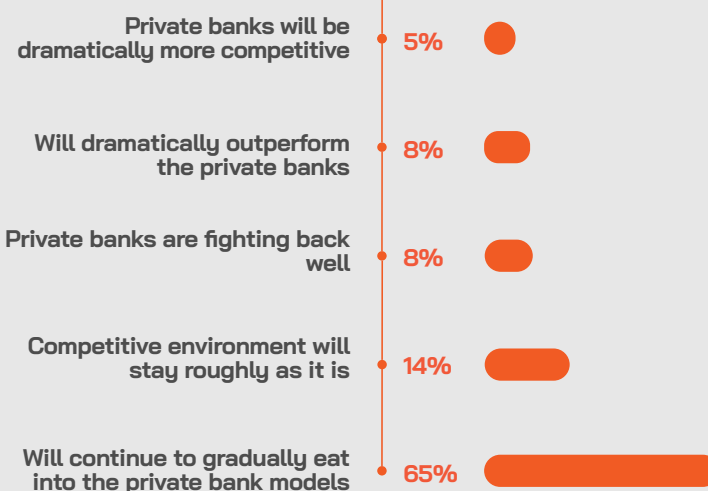
He observed that the reporting side is remarkably important, almost like a business card and branding. "The corporate identity of the independent asset manager is really vital," he said. "To me, it's always like a business card when you are able to provide your own reporting to your end clients, with your own logo, colour scheme, and so forth. And we work multi-custody." Additionally, he pointed to the connection to the end client of the independent asset manager via a mobile app his firm had launched in 2020, and to the migration to cloud the firm will offer.

Sleeping peacefully

Remarking that two-thirds of the firm's clients are EAMs, he said the mission is to provide complete coverage, to help them sleep better, with better controls and more control, knowing that the regulatory matters are compliant, and to help them become more effective and more efficient in serving their clients. "The goal is to free them up to serve the clients," he explained. And he added that as the EAM market is so dynamic and fluid in Asia, the opportunities for the sector and for his firm are remarkably encouraging.

Another expert remarked that Asia is not really showing signs of shifting further towards the European fee-based model, as it remains significantly transactional, with regulators appearing unlikely in the foreseeable future to impede the retrocession model, which drives a considerable portion of the revenues still today.

HOW DO YOU THINK THE INDEPENDENT WEALTH SECTOR IN ASIA WILL PERFORM IN THE COMING 2-5 YEARS?



Expert Opinion

STEVE KNABL, Chief Operating Officer & Managing Partner, Swiss-Asia Financial Services

"Best models for the future. It has to be well balanced between bespoke curated Wealth Management Services for clients and Technology integration. We need to emphasize technology, but not only for investment and reporting purposes, but emphasis on control is a must. Risk and mandate compliance monitoring is extremely important. Technology can bring many competitive advantages to a firm, and not only to save Human Resource costs, but to strengthen the offering and seep up internal processes. Examples range from Investment analysis, AML analysis on portfolios, Environmental Risk Management and AML & KYC process facilitation to name a few. I think that technology needs to be used across the board to professionalise and facilitate business processes."



Transparency is essential

“The pure management performance fee-based remuneration model is not something I think that is possible today, or in the close future in Asia,” he observed. “The regulators have stated that it is important to inform your investors that you’re taking a variable remuneration based on rebates from the commissions, but we’re not seeing more of a firm approach from the regulators.”

However, he acknowledged that there are various different models amongst the EAMs in Singapore, for example, as well as a large variation of pricing models, which go from a simple management fee, with no rebates, super low commissions in the bank, to the rebate model where there’s no management fee, no performance fee, but only a pure rebate. “It is open to discussion what the right model is, but I don’t see things changing anytime soon,” he concluded.

The question arose as to how the EAMs can you compete against the power and the glory of the big private banks when it comes to delivering performance and delivering advice. An answer came that the EAMs can offer access to a wide variety of products that perhaps the banks might not prefer to promote or approve of.

Differentiation comes in many forms

“But that is not particularly sophisticated in terms of differentiation and the vetting process must be very carefully handled,” he commented. “If you really want to be able to differentiate yourself and grow the business and become a really serious EAM with a large business base with a large number of clients

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ARE YOU OPTIMISTIC ABOUT THE OUTLOOK FOR THE INDEPENDENT WEALTH MANAGEMENT SECTOR IN ASIA (ESPECIALLY IN SINGAPORE AND HONG KONG)? WHY, OR WHY NOT?

- » Yes, as private clients in Asia are increasingly demanding and sophisticated.
- » Yes, to some extent. The banks are more closed minded, but the EAMs don’t articulate their value proposition as the private banks.
- » Somewhat, yes. The outlook would be better for the EAMs if traveling was not still so restricted.
- » I am averagely optimistic, although the EAMs are weighed down with a lot of regulations and processes.
- » Yes. There is a lot of talent leaving the traditional banking and asset management sectors and going into the EAMs one and there is new technology entering the market that will help EAMs be able to adapt to the new times.
- » Yes. EAMs have much to offer in terms of diversity and independence. EAMs offer open architecture in design and construction of portfolios not influenced by what I consider rather self-serving private banks. EAMs also cut layers of management and operate with better cost-income ratios and greater flexibility.
- » Yes, as clients are increasingly savvy and want to be empowered in their wealth management, hence the demand for an independent platform to access a wider array of curated products and offerings to meet their financial needs and objectives.
- » Yes, I’m optimistic. The independent wealth management industry is growing, and we see more private bankers are leaving the bank to join or setting up his/her own IAM business.
- » Yes, especially SG and HK. I am optimistic because as clients grow in their affluence, they also grow in their expectations of the services for their wealth management.
- » Yes. Independence is of paramount importance to manage clients’ wealth and IAM can truly focus on customising solutions.
- » Yes, but so far results have not been stellar – the anticipated demise of the private bank is still to come!

coming to you not as a bank, but as an independent party where they can trust that you really have their interests at heart, you need to emerge with a big difference that's curated specifically to the needs of your clients, to each individual one. But that is especially difficult to achieve."

Another guest added: "Where I feel we have a lot more flexibility is we can literally oversee the entire process, we can pick and choose what investments are right for the client rather than having a subset of pre-approved products, which usually come with an agenda from the banks. But with that comes more responsibility. In a bank, if products or markets turn down, you can always fall back on the bank's recommendations, whereas in an EAM, you are the one that together with the client and your team essentially steers the boat, the responsibility is now on your shoulders. But at the same time, it is also a lot more rewarding than singing the company song."

Scale is increasingly important for longevity

An expert opined that the EAM must be truly sophisticated in its delivery of products and advice and the firms themselves should scale up rather than remaining very small operators that are essentially beholden to the needs and expectations of only a few clients. Essentially, he was calling for the right levels of professionalism at all levels in the EAM, throughout the firm's operations and infrastructure.

Adding the technology perspective to the conversation, a guest highlighted the vital importance of the broader service offering, noting that seamless and efficient

- » Yes, but it will take time to develop as Asian clients are conservative and like brand names.
- » Yes, because of greater alignment to clients' interests.
- » Yes, although I am more confident in relation to Singapore due to its independence, and less confident about Hong Kong due to the increasing interference from China.

WHAT ARE THE KEY ATTRIBUTES THAT MAKE AN IAM SUCCESSFUL?

- » A wide range of products and services.
- » Independence.
- » Instincts on the markets, attention to customer needs.
- » Rapid response.
- » Experience, technology.
- » Client centricity.
- » Avoids the typical client/bank tension especially when banks push for in-house products and services.
- » Being a channel to diversified products offered by a wide variety of banks and providers.
- » Technology infrastructure, compliance structure, the right human resource, skillsets with global networks and partners to curate the right solutions for clients and the ability to attract the right relationship managers.
- » The ability to work with many private banks, instead of only one private bank and to be able to serve many of client's needs which might be done with the right bank.
- » Leadership, trustworthiness, integrity.
- » Alignment to clients' interests compared to RMs in the banks, who are more loyal to those institutions than their clients.
- » Product independence, elevated array of investment ideas, transparency.
- » Continuity and the longer-term vision.
- » Independent/alignment with client, greater client centricity, lower fees, better quality of advice and solutions.
- » In our experience, IAMs offer more flexibility in products and services than traditional PBs, and they tend to be also friendly in terms of fee charges, and transparent in terms of various consultant/advisory services.

back-office operations are a great advantage in winning and retaining client confidence, thereby at one swoop overcoming the numerous administrative hurdles many EAMs face, as well as addressing the key compliance concerns. He also pointed to the USX for the end-clients, the capabilities around ESG, and also improving connectivity and interface with the banks, platforms, custodians and so forth, increasingly utilising APIs.

“And every single client of ours benefits from whatever we roll out in terms of new products and features,” he added. “We count the biggest universal bank in Switzerland as one of our clients as well. But whenever we do something for them, the intellectual property is ours.”

Investing in technology

Another expert commented that technology investment is not a cost, it is indeed an investment, and certainly an excellent risk management tool. “Even though smaller firms have tight budgets, they should be saying they want put extra money into technology, because if they do not, they will be constantly behind the curve and need more and more people to handle things.”

Another view is that while technology is incredibly important, it is also highly complex, so choosing the right partner to devise or instal new solutions is crucial, as it can go horribly wrong if not approached in the right manner. The partner also needs to have the potential to incorporate other solutions as well

as the business evolves, and to potentially work with other vendors.

Choosing the right technology partner(s)

The final word went to a guest who said he agreed with that comment, and that this makes it doubly important to select a technology partner who has genuine understanding of the business and of the needs of the EAMs. Is the technology sufficiently elastic? Can it keep pace with the evolution of the regulations, the products and the needs of the EAMs and clients? “I think the way that digital adoption is happening across the board, I’m very confident you would see some very elegant solutions coming along,” he concluded. ■

