The Art of Differentiation in Delivering Investment Solutions to Asia's HNWIs

To differentiate themselves from the private banks, independent and external wealth management firms need to emphasise their unique, personalised approach to their clients and to investment selection and advisory. A panel of experts gathered at the Hubbis Independent Wealth Management Forum to discuss the independent mode, including debating the evolution of fee models, compliance and the role of RegTech, custody solutions, selection, delivery and maintenance solutions and the role of digital, and the required and evolving balance between transactional, discretionary and advisory revenues.

These were the topics discussed:

- *What investment products and services must you deliver to clients to compete effectively with Private Banks?*
- *As Private Banks focus on wealthier clients - is this an opportunity for you?*
- *Transparency, Margins, Costs and Fees - what's changing?*
- *What are your requirements today from your 'custody platform'?*
- *What digital expectations do clients have?*
- *What's the future of Discretionary and Advisory Portfolio Management?*
- *What's the role of technology and AI?*
- *Are FinTechs and Tech Giants threatening our business model?*
- *Do most independent wealth managers have a robust investment process and philosophy?*
- *Do you use a digital wealth manager or robo platform today?*

PANEL SPEAKERS

- **Gary Dugan,** Chief Executive Officer, Purple Asset Management
- **Keith Wong,** Chief Executive Officer, Winland Wealth Management
- **Vincent Au,** Managing Director - Head of Investments, ALPS Advisory
- **Harmen Overdijk,** Partner, Capital Company
- **Tom Curtis,** Investment Consultant-Principal, Mercer
- **Damian Hitchen,** CEO Singapore, Swissquote

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THE KEY TAKEAWAYS

Delivery and service are the keys

The provision of investment ideas and products is commoditised these days, so the key to differentiation for the independent wealth managers is in the delivery and the service quality focusing on the clients and their precise needs and expectations.

Partnering with the digital platforms

There is great logic for the IAMs and EAMs to upgrade their capabilities by partnering with digital platform providers, which can broaden the offering, enhance capabilities, improve the client's user experience, and improve costs for the customers and profitability for the independents.

Tailor-made advice

Independent wealth managers survive and thrive on their client relationships, so forensic attention to the needs and expectations of the HNWIs and the ultra-HNW clients and their families is essential in order to then offer optimal and fully bespoke solutions.

Moving up the knowledge scale

An expert highlighted how more and more IAMs and family offices seek institutional levels of research and information, which helps the firms improve client service, build scale and improve revenues, vital in a world of compressing fees. New areas such as private markets and ESG also require expert research.

Paid by the AUM

The discussion turned to fees, with guests agreeing that fees based on AUM will eventually become the norm in Asia, thereby boosting transparency and reducing conflicts of interest. In this regard, the Asia wealth management model lags behind the US and European templates by many years, but the need for change is inevitable.

Get your custody solutions right

The older model of firms and clients holding tightly to the private banks for their custody solutions is changing, with a variety of credible, secure alternatives outside those brand-name banks and all at a lower cost and more transparent fee structures. Asia's HNWIs increasingly want professionalism and cost management rather than the full gamut of private banking relationships.

Pay to play

High-quality service and solutions come at a price, so clients must be aware that fees must be charged, and generally clients do not see pricing as such an issue when truly personalised and optimal solutions are offered.

Keep in front of the client

The robo-advisory protocol was somewhat debunked for the Asian HNWIs and ultra-wealthy, while AI is more suited to middle and back-office efficiencies. In short, the business for the independent wealth segment will remain face-to-face, and value-added will come from people, at least for the foreseeable future.

GARY DUGAN
Purple Asset Management

“WE ALL PROVIDE INVESTMENT PRODUCTS AND ADVICE,” a panellist began, “so the delivery of that and the associated service are key. One of the issues in Asia is that more and more private banks are shifting in recent years to delivering investment advice, to an increasing emphasis on advisory. But differentiation cannot be achieved from offering access to investments, because everyone can offer that access, so it is the delivery that counts. And taking care of the wealth of the family client across different jurisdictions goes way beyond the investments.”

Another expert pointed to the logic for IAMs and EAMs to upgrade their capabilities by partnering with platform providers. “A very competitive low-cost digital custody and execution platform is a smart move, rather than going to the incumbent private banks or global custody players,” he observed. “And you can also outsource the CIO role to expert firms, rather than hiring someone in-house. We see a growing ecosystem that actually allows more senior bankers, family offices and others to basically get access to build what is essentially a mini private bank. And from a software perspective, make this all more accessible.”

The key, added another guest, is to build long-term relationships with our ultra-HNW clients and their families to fully understand their objectives, as well as their detailed financial situations, both

KEITH WONG
Winland Wealth Management

VINCENT AU
ALPS Advisory

assets and liabilities. "One solution for families we advise is not possible," he said, "Everything must be individualised and tailored. For now, we work mostly with the global custody banks, as we know them well, but we are always receptive to other ideas if those solutions make sense for the clients."

Newer solutions and alternatives

Another expert who works with UHNW families noted the rising interest currently in newer types of solutions, such as private equity, private venture, private credit, real assets, in short, newer asset classes.

A panellist then highlighted some of the key services his firm offers, remarking that their mission is to empower the wealth managers, banks and clients, and work with them in partnership. The firm offers access for wealth managers to more institutional-quality research, the type of research the firm has provided institutions for many decades.

Secondly, they provide an outsourced solution to allow wealth managers and banks to build scale, which is especially helpful in a world of compressing fees. They also cover private markets, thereby offering access to solutions that wealth managers or banks do not necessarily have the skillset to access themselves. And the final element is ESG integration into portfolios, an area which is expanding rapidly.

HARMEN OVERDIJK
Capital Company

DO MOST INDEPENDENT WEALTH MANAGERSHAVE A ROBUST INVESTMENT PROCESS AND-PHILOSOPHY?

Source: Independent Wealth Management Forum 2019

Pricing power

The discussion turned to fees, with one guest explaining that his firm charges a management fee based on AUM, and therefore, he said, fully transparent. "That's where the industry is moving to," he explained, "that is how it is done in the US and Europe. In Asia, the private banking model is comparable to where the US was 20 years ago, or more, much more of a brokerage model, while wealth management in the US right now is much more based on effectively independent wealth management. So you see major investment banks and brokerages there buying independent wealth managers. The trend is clear, and things will change in that direction in Asia in the future."

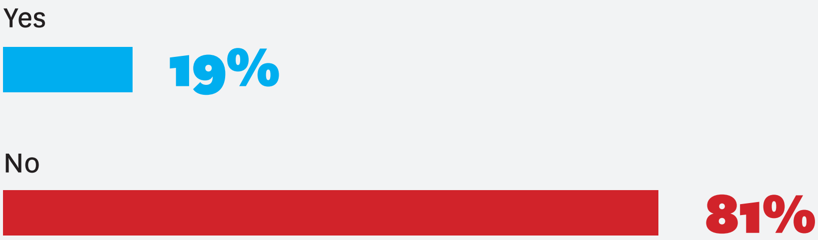
He added that while nobody can control markets, advisers can help control two things in the portfolio strategy, namely costs and tax implications. "Yes, private banks can help on occasions, but out of the USD1.2 billion we manage we have less than 10% with traditional private banks and the majority is with electronic platforms like Interactive Brokers, or Schwab, or Fidelity. We offer clients the option of the private banks or the digital platform models, and with pricing so compelling they often go with the electronic option."

TOM CURTIS
Mercer

Building from the platform

"As I see things in this region," said another expert, "more of the HNWI clients and the wealth managers in the region want simply professional asset management, not the whole trappings of private banking relationships. They actually just want the portfolio to be managed professionally by the appointed EAM at the lowest cost that they can possibly get. Through the digital platforms, they are able to access at least the same investment universe that a private bank has to offer, at least in the mainstream public markets, along with a much more competitive execution cost, and quite often at a much better access to market because you often don't have to go through a relationship manager and all that process. What you get on digital platforms is direct market access and immediacy of action."

DO YOU USE A DIGITAL WEALTH MANAGER ORROBO PLATFORM TODAY?



Source: Independent Wealth Management Forum 2019

Another guest said that clients cannot expect top-quality service for a budget price. "I always tell my clients if you want to go for a budget airline, then go to a budget airline," he said, "but if you come to us, service comes with a cost. But actually, pricing is not really such an issue, we offer personalised solutions, which is what our clients need and want."

Transparency is essential in all aspects

The vital importance for an independent of devising a clear, robust investment process and philosophy was then discussed, with a guest explaining that to win more discretionary business, they have also focused on buying in independent research, avoiding the free research from the banks, largely because it is not consistent. "We build portfolios of all types using systematic models for most of our selection, and have built this to the point where we have a lot of our own clients here in Asia and in the US, but we are now also selling our portfolio management services to family offices in Europe and the US. In the US, it is called Turnkey Asset Management, and we actually see huge opportunity there."

The personal touch

A panellist highlighted the lack of penetration thus far of the much-vaunted robo-advisors, while noting that AI, however, is being well used for more of the admin and back-office functions. "We continue to see the need and demand for human connections with the clients at the front end," he stated, "and accordingly, the reality is again the robo space might be useful for people new to investing, millennials for example, but my belief is that once you get a certain level of wealth you will want personal advice from somebody that you trust. I don't think that's going to change going forward."

Another expert added that the problem with robo-advisors is they are trying to give robo-advice but to do that properly need to build in so many variables as to make it unlikely they will achieve their goals. "Digital makes sense in automation of tasks," he remarked, "so, for example, a digital custodian platform actually delivers better execution at a lower cost."

Another perspective came from a guest who said there is no real AI yet. "It is all about algorithms and pre-programming, it is really called backward testing," he said, "there are no true future predictions. For me, digital is, therefore, a tool that can help with information flows, analytics, monitoring, transparency, and so forth."

The final word went to a panellist who remarked that the markets are never easy, so the application of good sense, diversification and good judgement are essential. "You cannot predict events or cycles," he said, "so apply sense, don't get too greedy when markets are looking a bit better, and don't get too scared when the world looks a bit riskier. That's the key conversation we always have with clients. And advisers should not promise too much in terms of returns. A famous investor once said that more people lose money being scared of the next recession than they actually lose while going through a recession, so the most important is to see this on the long-term view and stay invested throughout." ■