THE CHANGING WORLD OF WEALTH MANAGEMENT

The future of the Asian wealth management industry depends on a sustainable model where clients pay for advice that is delivered by competent professionals, said panellists at Wealth THINK 2014 in Singapore in late September.

Panellists at Wealth THINK 2014 in Singapore in late September reflected broad industry thinking when they agreed that the business model needs to move from one which is transaction-led to being advice-led.

"This has been said for many years, so either the industry doesn't want to change, or perhaps it cannot change with cost-income ratios where they are," said Urs Brutsch, managing partner & founder at HP Wealth Management.

Urs Brutsch

HP Wealth Management

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Regardless, he added, there is an urgency to move to a model where the client pays for advice. Part of the pressure for this is coming from the realisation that execution is a commodity, and with various electronic alternatives to using a bank or adviser, the chances of making money from transaction-led clients are getting ever-slimmer.

According to Pius Zgraggen, chief executive officer of OLZ & Partners, the primary goal is to produce at the lowest possible price a product which the customer wants.

Yet clients often have the wrong expectations – as a result, he explained, of the way the product is positioned and sold, and it isn't clear if it meets the needs of the customers. This creates a conflict of interest between the industry and end-clients, he added.

Change will only come if there is enough pressure, said Zgraggen. "I don't think this should come from regulators, but rather the clients themselves."

The key driver of a successful private banking and wealth management organisation, therefore, will be differentiation. "We need to be confident that our advice is good enough that clients will pay for it," explained Brutsch. "The winners in this industry will be those firms which can command a fee for advice and don't rely on transaction income."

A re-design of the incentive system for financial organisations would help, suggested Zgraggen.

"If we look at technological developments like mobile phones since the 1970s, we have seen an incredible evolution," he explained.

"What evolution has there been in asset/wealth management?"

Addressing many challenges

Amid the various challenges the industry is grappling with as it looks to re-shape both the model and the mind-set going forward, panel speakers highlighted several areas for consideration.

Some of the issues that Rajeev Hassamal, ASEAN lead for wealth management at Accenture, said he talks to organisations about include: how to integrate business processes such as know-your-customer; how to educate relationship managers (RMs) to provide quality advice; how to provide timely and relevant information for clients; and how to make the advisory process consistent.

Making more of the "digital" trend is also a key goal. This is specifically in terms of how to use the information to generate insights about clients and make it accessible to RMs, added Hassamal.

Another of the areas within the private banking value-chain which needs attention is client reporting, said speakers. According to Jonathan Paul of Asia Pacific Advisors, there is a limit to the extent of the thoughtful analysis which goes into the regular reporting. In his opinion, a lot more information needs to be included. "The current reporting doesn't give me any ongoing evaluation about how much risk I am taking within my portfolio," he explained. "Most investors would need this information."

This shows a pitfall in terms of the client experience, too. The quality seems to be down to luck, depending on which adviser a client gets.

Francis Koh

Singapore Management University

"Understanding differences [between families] can help give more confidence about advising them in a more relevant way"

Jonathan Paul

Asia Pacific Advisors

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Pius Zgraggen

OLZ & Partners

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Against the backdrop of the mounting compliance and regulatory challenges, one of the latest issues confronting the industry in Singapore relates to the definition of accredited investors (AIs).

There is a difference between this and the definition of HNW individuals, said Evelyn Koh, head of compliance, Asia Pacific wealth management, and Singapore, at RBC Wealth Management. And that looks likely to impact those private banks which are not affiliated with a consumer bank.

All about competency

Speakers generally agreed that there is no substitute for competency.

The business is all about providing competent advice, but this is only possible if there is consistency, said Francis Koh, vice provost (special projects) and director, MSc in Wealth Management Programme at the Singapore Management University (SMU).

According to Koh, a trusted wealth management adviser needs to have five Cs – so that he or she must: be client-centric and put the interest of clients above all; be communicative with clients in good times and in bad; be compliant with corporate and regulatory guidelines; be connected and up-to-date with market developments; and, very importantly, be competent and capable, possessing both soft and hard skills.

Getting to that point relies on the wealth management industry investing in more in-house training and development, said Koh at SMU, and for individual wealth managers to invest in continuous learning.

By extension, he added, more funds will flow into discretionary portfolio management as well as investment advisory management.

Rajeev Hassamal

Accenture

"[The focus on digital needs to be] how to use the information to generate insights about clients and making it accessible to RMs"

Value-adding

With investors increasingly accessing commoditised products via electronic channels, and combined with the low interest rate environment, there is a need for banks and advisers to be a bit more creative from an investment perspective.

Some private banks are doing more club-style transactions, said Paul, making assets previously hard to find more accessible.

The appeal of these grows when management at the bank put some of their own money into these types of deals. "Then they become more interesting as a proposition," he added.

There is also much more of a role within wealth management generally for technology in terms of data analytics. "This can provide a lot of insights into customer behaviour," said Koh at SMU. In particular, in an environment where a client chooses between three or four banks or other advisers, organisations need better segmentation. Koh said this can be driven by better analytics. ■

Evelyn Koh

RBC Wealth Management

"The question is how the private bank will be run.… Will there be an AI model as well as meeting the non-AI criteria"