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INDEPENDENT ASSET MANAGER

IAM industry still resembling too much like private banking

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HP Wealth Management started in 2009, and was part of the first wave of external asset managers. The firm started with three people and now has 23 members.

Founder and managing partner Urs Brutsch added six people last year, of which three are relationship managers.

99.9% of the firm's revenues are from clients. 'Whatever we get from the banks, we pass it on to them,' Brutsch told *Citywire Asia*.

When asked what is Asia lacking right now compared to counterparts in Europe. He said 'the industry in Asia is still resembling too much the private baking industry.'

Q: Tell us about your firm in a nutshell

A: HP Wealth Management started in 2009, and were part of the first wave of EAMs. We started off with 3threepeople and now have 23. We added six people last year, of which three were RMs. 99.9% of our revenues are from clients. Whatever we get from the banks, we pass it on to them.

Q: How has your business model changed throughout the years?

A: We started as a typical EAM and developed a family office capability overtime. In 2015, we onboarded a single family office (SFO). They wanted a plug-and-play SFO in our firm with someone looking after them exclusively. Everyone was happy – it is much cheaper for the client, and he has a dedicated person working for the family. We still have the EAM business of course, but the growth in terms of assets in the last few years has been in the family office space.

In 2017, we started our private equity capability. Families are rightly more excited about the private markets. They know they need 60-80% of their money in public markets for liquidity, but the returns in the private markets are expected to be better as the investor gets an illiquidity premium. We have two people to work on our private market capabilities, mostly in private equity.

Q: Most pressing business challenge for your firm?

A: The biggest challenge is to find senior bankers who understand, see the value of the business model, and are able to tell clients that they have to pay for advice. Every banker I talk to complains about being in a bank. Even though we cannot run away from the markets and compliance, we have much more control of our destiny. Bankers tend to have a tunnel vision and don't seem to understand the value of offering multi-custody for the client.

Q: How has the independent landscape changed?

A: When we started the association in 2010 and founded it in 2011, out of the 10 founding members, eight were Swiss-linked and only two were local outfits. Today, the ratio is probably equal. This is a very good sign for the industry. It has evolved in a way that there are a lot more local bankers, clients, and bookings. We were 10 members then, and today, 35. Most of the firms are also fairly sizable.

We were lucky back then because it was easier from a regulatory perspective. In the past, once we submitted our application, we could immediately advise clients. Now, you will take three-to-six months to have your license approved before you can talk to the clients. The curve today is much steeper than a decade ago.

Q: What is Asia lacking right now compared to your counterparts in Europe?

A: The industry in Asia is still resembling too much the private banking industry. Bankers have to change their mindset from selling products to working for clients who expect solutions. Nobody needs daily flow products like accumulators and credit-linked notes. If a banker goes independent and still

pushes those, he is motivated by money. When full disclosure becomes mandatory, their model will no longer work.

Europe is more transparent. In Switzerland, you cannot accept retrocessions or trailer fees in discretionary portfolios, as it may poison decision-making. The only honest way to advise a client is to work without that constraint and truly bring to them what is best for them.

Q: How is the wealth management mindset different with next gen clients as opposed to the first generation?

A: They are more open and are asking more questions. It is fantastic that they are asking more about the environment. One client told me 'my daughter told me that I have to look at the portfolio differently now'.

It is a misconception that the next generation will do everything online, especially for a wealthy individual or family. They may want access to their bank accounts online, but when it comes down to making decisions, they still want to talk to someone more than ever before. Personal touch remains exceptionally important and I don't think any applications or robo-advisors can take that away.

Q: How do you select your custodian banking partners?

A: We have a core group of seven custodians that we work with. The rest are usually on a one or two account basis, based on client requirements. We have three people in the company today who have access to e-banking to look at all the transactions and to put them into our system, cutting out costly automatic interfaces with banks. However, we are currently reviewing the way we operate to further automate the processes.

We select custodian banks based on a combination of factors – brand name, bank balance sheet, pricing, service quality and people. The people who look after us are the most important. They shouldn't be bankers who are pushing transactions, they have to understand the business and their role in the tripartite relationship client/bank/IAM. We are not pushing our custodian bank partners too hard on pricing. They have to make a living. On the other hand, we want to make sure that they see us as a valuable partner and provide top notch service to our firm.

Q: Do you think brokerages and/or fintech solutions have the potential to replace the role of custodian banks?

A: Brokerages and fintech solutions - absolutely not. Global custodians - definitely. There is also some work around using blockchain for custody which may shake things up. However, in blockchain, once you lose your key, it is gone. As a private client, I don't want to hold the key to my assets in case I lose it.

The model in my eyes is that private banks will be disrupted almost entirely in 10-15 years. Large families will execute with the online brokers, custodise with global custodians, and take advice from

family offices. They will get better economies of scale. If I were a bank CEO today, I would be worried about that.

However, clients are not ready for this change yet. We have talked about it with some of our clients, but it is still in the exploratory phase. All it takes is another banking crisis for them to realise that they want to custodise their assets with someone who is just a custodian and doesn't take risks on their balance sheet through lending or proprietary trading.

Q: Largest pain points when working with custodian banks?

A: The worst is when custodian banks approach clients directly. Of course I understand that the bank has a contractual relationship with the client, but all communication should be channelled through the IAM. This tells me that they don't fully understand our business model.

Q: Any regulations you are currently watching?

A: There was a MAS paper recently for the wealth management industry regarding pricing, product suitability, and risk profiling. That is something we always want to be ahead of the curve. Risk profiling, and potential changes to a client's risk profile is something we are looking at today and how we can make that a bit more structured and disciplined. We are also looking at how we can do things in an automatic and systematic way.

Q: Personal Hobbies?

A: My passion is football – I watch, play, coach, and referee. I play either centre back or centre forward positions depending on which team and age group. I support Arsenal and Schalke 04.

Q: Most used app on your phone?

A: New York Times and EuroSport.