TAKING INDEPENDENT MODELS TO THE NEXT LEVEL IN ASIA

TO DISCUSS AND DEBATE SOME OF THE KEY DRIVERS, OPPORTUNITIES, CHALLENGES AND OUTLOOK FOR ASIA'S INDEPENDENT WEALTH MANAGEMENT COMMUNITY IN 2014 AND BEYOND, HUBBIS HOSTED A LUNCHTIME DISCUSSION IN LATE 2013 IN SINGAPORE WHICH BROUGHT TOGETHER SEVERAL SENIOR INDUSTRY EXECUTIVES.

There's no doubt that the independent wealth model has a great future in Asia. In Singapore, for example, the number of independent asset managers (IAMs) has grown from four to five firms a few years ago to nearly 30 today, judging by the number of members of the Association of Independent Asset Managers alone.

"In general," says Philipp Piaz, partner at Finaport, the model provides bankers with a lot more room and scope to develop deeper and longer-lasting relationships with clients."

Yet while few practitioners from any sector of the wealth management community would argue that the independent model doesn't offer a good proposition for clients, the value is not obvious in the eyes of many typical Asian HNW individuals.

European clients understand the model better and this is where most of the traction has been for IAMs, explains Vikas Gattani, founder and chief executive officer of Progress Capital.

"It will take time for Asian clients to appreciate the value of this type of independent advice."

Geoffroy Ganshof

EuroFin Asia Group

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For Performa Investments, the main objective for the firm is to find Asian clients, explains chief executive officer Simona Prati.

Although different to the European model, where clients are signed up to discretionary mandates when they are onboarded, Asian clients prefer an advisory approach.

"This is more complex than the approach of a model portfolio, and can pose challenges for smaller IAMs."

STANDING OUT MORE CLEARLY

Gattani adds that IAMs themselves need to differentiate from the private banks with their ability to utilise their investment expertise. This means either investing in niche sensible themes or hedging portfolios better and displaying risk management expertise.

Size is also an issue. According to Geoffroy Ganshof, head of wealth management at EuroFin Asia Group, firms need a minimum of US$500 million in AUM to be able to survive. "For us, we look for a smaller number of clients but with each having a higher net worth," he says.

This is not unique to IAMs in Singapore. "The challenge for IAMs in Japan has been similar," says Hiroshi Motoki, vice president, head of sales channel and marketing at Chartered Investment Managers, "as the mentality of many clients is to go to a bigger investment institution."

Essentially, clients want to see value in the offering, regardless of their background and experiences.

"This might mean, for example, helping them to appreciate why they should create a global portfolio for diversification purposes, and take money away from investing in their businesses," says Yash Mishra, managing director, and head of private clients for Taurus Wealth Advisors, which has around 60% Asian clients.

Yash Mishra
Taurus Wealth Advisors

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SUFFICIENT SCALE

Many practitioners in the independent space expect that as the model evolves in the next few years, they will consolidation among IAMs.

The issue of scale is therefore vital to deal with demands on infrastructure and operations. "In the last few years, the costs have increased, requiring firms to increase the scale of their operations, in terms of compliance and other infrastructure," says Ganshof. "I agree that consolidation will happen."

And costs will continue to escalate, especially in terms of compliance.

"This poses challenges for IAMs and therefore, preparations for them," adds Henry Leong, chief operating officer at Swaen Capital.

The challenge for independent firms relating to scalability also exists in terms of attracting more bankers to this industry.

For example, says Mishra, individual firms don't yet have the brand awareness of some of the traditional wealth management players."The type of person suited to this environment is some-

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No private clients are surprised any more to learn they actually pay higher fees than they had previously thought when it comes to structured products they buy from banks, adds Piaz.

However, in countries like the UK and Switzerland, for example, new regulations now require the banks to point out all fees that are part of an individual product.

This is clearly to the advantage of clients, and is something that will eventually come to Singapore as well over time, predicts Piaz.

one who inherently believes in making things simple."

"Secondly, the individual needs the right motivation to join an IAM in terms of them being focused on providing real advice. It is not a move which bankers should make if they think it will lead to less pressure and an easier life."

Adds Martin Lechner, founder and managing partner at Falcam: "We only hire experienced people as we deal with various private banks and we want people who know the industry."

"Clients need to know what fees they are paying and why they are paying those fees. They are then more likely to get to the stage where they are willing to pay fees."

Daniel Marty, senior client adviser at Helvetic Investments, says that a key differentiator which can help with this is the fact that IAMs offer advisory rather than sell products.

Clients will then know exactly how much the bank is earning, and from which part of the bank and transaction process the fees for individual products are derived.

THE SHIFT TOWARDS A FEE-FOR-SERVICE CULTURE

Key to the success and sustainability of the independent model is an acceptance of fee for service.

This is something that Ganshof says he is seeing a gradual change towards, although this will take time.

Yet there is an educational process required to get more clients aware of the model, and of the benefits of paying a fee for advice, adds Leong.

Henry Leong

Swaen Capital

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APPROACHES OF SINGLE FAMILY OFFICES

When it comes to some of the more prudent and established single family offices in Singapore, there isn't the same rush to borrow for investment as can be seen among some of typical Asian clients.

The rationale for not borrowing, and therefore to be able to control exit timings for an investment, is to avoid margin calls – a lesson learned through taking on certain risks in the past.

"Private banks in Asia have mis-educated a lot of clients in terms of the need for leverage and investment products more generally," says Lechner.

On the flipside, in certain markets, such as Taiwan, the concept of a family office is very new, yet a lot of families do need to think about succession and tax planning.

More broadly, for transactions that single family offices want to undertake with private banks or other wealth managers, they increasingly look for transparency and also there to be an alignment of interests.

Some of them also want the institution to co-invest alongside the family, as well as with other families which might be approached.

"We manage mostly European families that are led by first-generation entrepreneurs," says Lechner. "We manage the liquid part of their portfolio and look to help them diversify into Asia. And they are interested in club deals so are keen to meet other entrepreneurs and exchange ideas. They want to talk about the assets that they have experience in."

CONSIDERATIONS AROUND CUSTODY

When it comes to custody, a slightly different approach for family offices in Asia to consider is to have their own custodian, rather than using the custody of the various private banks that they transact with.

Private banks which also want the family office's transaction business say that they will offer their custody services for free, but this isn't the case in reality.

Having their own custodian enables family offices to approach three to four brokers to request a bid on an individual transaction.

This can create a better picture of the trading capabilities and the pricing of each broker.

Plus, it allows the family office to have greater control over their own destiny, for example through quick and easy access via the custodian to a consolidated overview of their portfolio.

While the European private banking business is a universal concept where they bring all banking services to clients as a one-stop-shop, the model of segregating the broker and custodian can make a lot of sense, says Piaz.

However, he adds, the question is whether a custodian wants to deal with IAMs in Asia?

"[They] tend to be smaller than their European peers," he explains, "often having a client base of just US$100 million or US$150 million when taking up business."

Many IAMs don't have US$500 million or US$1 billion in AUM, or big investors as cornerstone clients, to back the business in the early stages.

"Size does matter in this instance," says Piaz.

Rather than many private banks focusing on AUM, some single family offices question why the banks don't instead just concentrate on the investment management piece, where they have the expertise.