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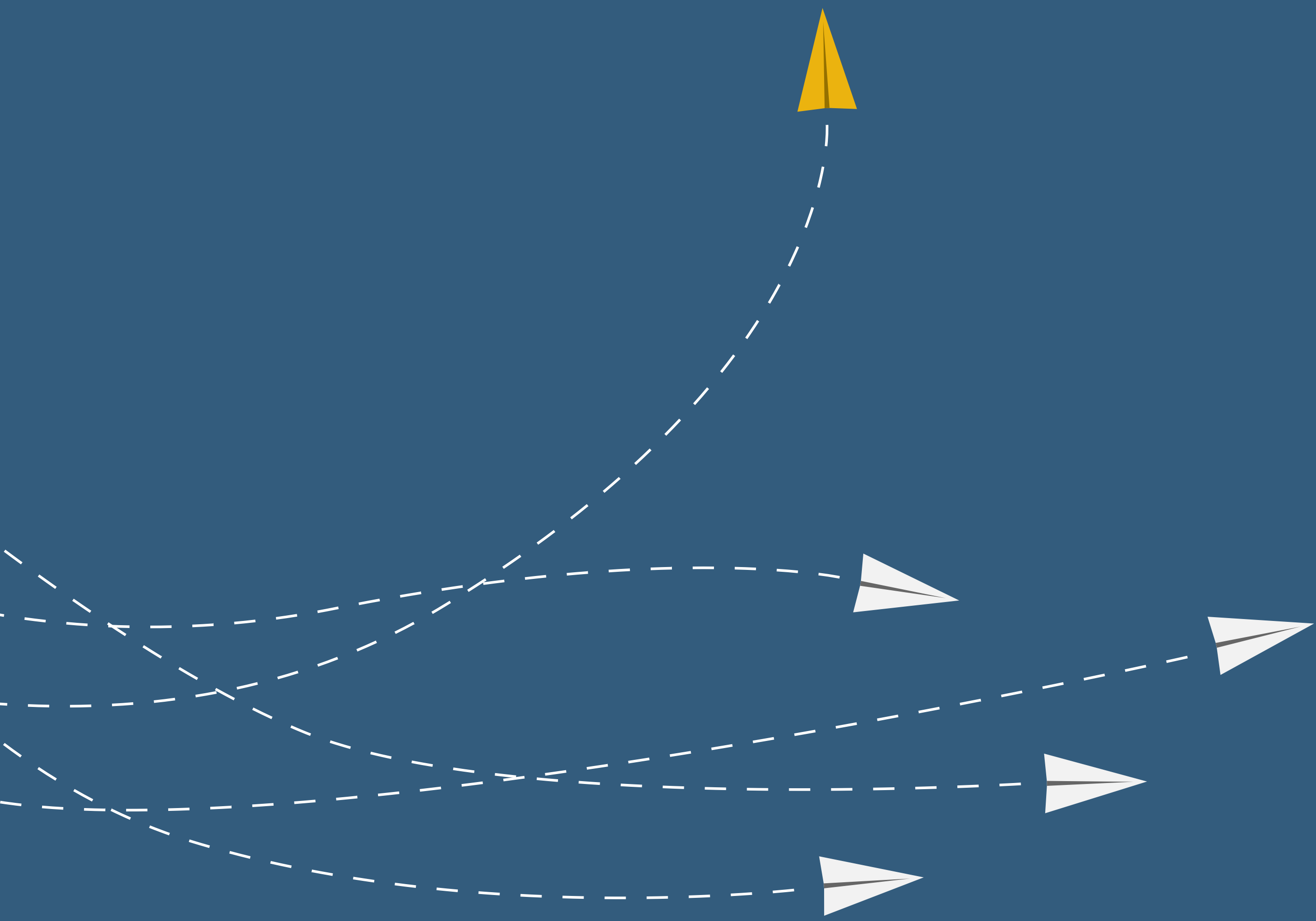


IAM THOUGHT LEADERS SHARE THEIR TWO CENTS

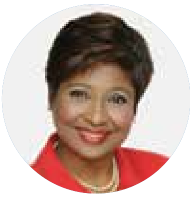
UBS' JOE STADLER: "WE'VE OUTPERFORMED"

INSIDE

IAM thought leaders share their two cents

The challenges facing Asia's independent wealth managers, while multifarious, have done little to dent the industry's optimism. Over 80 attendees at Asian Private Banker's annual IAM and Multi-Family Offices Leaders Conversations in Hong Kong and Singapore this month were candid about those tailwinds and headwinds shaping their businesses across a number of fronts, including profitability & sustainability, talent, products, regulations and, of course, private banks' servicing. Here, we share the perspectives of three thought leaders who spoke from the sidelines of the closed-door event.

Eric Goh, head of investment strategy, ThirdRock Group



Noor Quek, founder and CEO, NQ International

Urs Brutsch, managing partner and founder, HP Wealth Management

The IAM/MFO industry in Asia is forecast to manage US$55-60 billion in client assets by 2020, which would require a CAGR well in excess of what the PB industry is growing at. Do you think this forecast is truly useful for benchmarking the IAM/MFO industry and, more specifically, what is the best measure of the current state of independent wealth management in Asia?

Noor Quek, founder and CEO of NQ International

Not really. The IAM/MFO [industry] is still in its formative stages and PBs will still hold the fort by 2020. They are still better structured and better placed to serve the HNW segment.

Urs Brutsch, managing partner and founder of HP Wealth Management

I think that the numbers are possible to achieve. It would indicate that the IAM sector would grow faster than the industry as a whole, which is what I expect. Whether the sector is ultimately a success story can be measured in a number of ways, i.e. AUM, number of firms; but in the end it will be down to whether firms are profitable. If they are, it will inevitably attract more senior bankers into this space.

Eric Goh, head of investment strategy at ThirdRock Group

AUM is a typical quantifiable barometer of health and growth in the wealth management industry, along with net income and the growth associated with it. However, the IAM/MFO industry is still pretty fragmented and may require further definition for the data collection to be meaningful.

Figures aside, there are perhaps more meaningful but intangible benchmarks such as client satisfaction, client stickiness, as well as the quality of revenue growth – challenging though not impossible to measure.

Do you expect consolidation to pick up in the IAM space, and is this a 'good' thing? How different do you expect the IAM/MFO industry to look a decade from now?

Noor Quek

Consolidation will definitely happen as many of the smaller IAMs/MFOs will not be able to cope with increased costs and substandard staff.

However on a consolidated basis with niche providers within the consolidated structure relating to wealth management services, I see in a decade some of the restructured IAMs/MFOs looking like existing boutique private banks serving sophisticated clients and thus offering competition to private banks who refuse to change with the times.

Urs Brutsch

It is too early for consolidation in Asia – the sector is too young. There may be the odd merger or acquisition, but I believe that this will remain the exception.

I would expect the industry to be in great shape, with more firms, and all of them with more scale. The IAM model is a fairly expensive business model, and it requires a certain scale to be able to be profitable.

> *"Figures aside, there are perhaps more meaningful but intangible benchmarks such as client satisfaction, client stickiness, as well as the quality of revenue growth – challenging though not impossible to measure."*

Eric Goh
Yes, we expect a gradual and constant consolidation to take place which can be a boon for the industry. Profitability and regulatory demands are key considerations that will drive the firms into thinking about their value propositions.

To fully unlock the value propositions of the IAM/MFO model for clients, we believe that IAMs/MFOs need to be scalable in order to be a comprehensive and holistic solutions provider that takes care of a client's entire balance sheet.

Consolidation is almost inevitable in any rapidly growing and evolving industry. With it, clients stand to gain as IAMs/MFOs constantly adapt and re-strategise to redefine their value proposition, bringing greater value and service to clients [and] further enhancing professional standards in this industry.

Driven by Asia's growing wealth and wealth maturity, as well as the value propositions of IAMs/MFOs, this will be an exciting decade of growth for independent investment managers in Asia. Currently, IAMs oversee about 5-6% of Asia's assets under management (AUM), compared with Europe's >30%. As wealth matures in Asia, coupled with strong growth in the region, we expect the number of IAMs to increase and gain a larger share of Asia's AUM.

While the IAM concept is still relatively new in this part of the world, growing awareness and understanding, among both private bankers and clients, of what IAMs can offer – open architecture, client-centric model, independence, etc. – will see this space becoming increasingly important and one of fastest growing segments of the financial industry.

How has the regulatory environment contributed to the growth of your business? How could regulators and independent wealth managers work better to develop the space?

Noor Quek
It has definitely helped us in that we need not sound as if we're bringing in new rules into the system as this is now a prerequisite within the industry. Clients either fall in line or fall out. Banks which have been lax also have to fall in line.

Regulators and independent wealth managers must provide continuous training for staff at ALL levels and share best practice so practitioners have more clarity on what's necessary as there's no one-size-fits-all in this business but there IS a basic standard of due diligence required which must be followed. Client education is also critical and must be consistent.

Urs Brutsch
I don't think that the regulatory environment has anything to do with the growth. The regulations apply to all participants and there is no room for arbitrage. In Singapore, the AIAM (Association of Independent Asset Managers) has been successful in getting engaged by the MAS (Monetary Authority of Singapore) in regular sessions to exchange notes. This has without a doubt helped to make the IAM model more visible and I think it also gave the regulators a certain amount of comfort that the industry as a whole is a responsible partner.

Eric Goh
The regulatory environment has been very supportive of industry growth. As the IAM model continues to rapidly gain traction among clients, custodian banks, bankers and regulators, support from the latter as 'gatekeepers' is clearly one of, if not, the most important part of the equation. The MAS has been supportive of this industry, building a constructive working relationship through constant dialogue, giving EAMs a voice very much equal to that of banks in Singapore.

This benefits not just practitioners in the space but more importantly clients who are the ultimate beneficiaries of regulations that drive best practices, culture and conduct, which in turn drives client confidence.

"The amount of new forms the banks invent, or regular 'repapering' exercises are largely self-inflicted by the banks. I sincerely hope that at some point common sense will find its way back into the banks."

What kind of progress have you seen in terms of private banks enhancing their servicing of IAMs/MFOs? What kinds of pain points need addressing here?

Noor Quek
IAMs/MFOs should never look upon themselves as being intermediaries and expect that the banks will do the bulk of the work. IAMs/MFOs also [should] not be enticed to banks which offer retrocessions – which will be phased out – in order to ensure that clients get the best-in-class solution.

Key pain points: inconsistent standards, lack of clarity of clients' matters due to lack of trust by clients. Direct client contact rather than relying on gatekeepers is essential. Industry participants must replace 'I' and 'my' with 'we' and 'us'.

Urs Brutsch
Not much progress. In fact, banks are making it increasingly difficult. The amount of new forms the banks invent, or regular 'repapering' exercises are largely self-inflicted by the banks. I sincerely hope that at some point common sense will find its way back into the banks.

If a bank wants to considerably increase market share, it will achieve that by offering the IAMs an automated data feed into their PM (portfolio management) system free of charge.

Eric Goh
How well a custodian fares depends on various elements – its digital tools and platform, quality of sales and execution support, product range and innovation, and flexibility in pricing models.

To better serve our clients, support from a custodian bank that fully understands our needs and has the capability to meet these demands is crucial. To their credit, private banks have been swift to set up dedicated desks to service IAMs, recognising the importance of the fast-expanding IAM industry. Regular dialogue is key.

One area where custodians can make a big impact is investing in their IT platforms to ensure execution efficiency, process integrity and quick responses to market trends. Take, for example, real-time online platforms with consolidation and ad-hoc reporting features. Improved execution services like transparent pricing and ease of retrocession calculation are also areas to consider.

At Thirdrock, the choice of custodian is very much led by the client's preferences and individual circumstances, though as advisors, we provide guidance when necessary. We approach it very much from a client's perspective, weighing critical factors such as service levels – whether the bank has a dedicated EAM desk, how swiftly problems or errors are resolved, etc.; product offerings – depending on the client's risk appetite and investment profile; technology platforms, and so on. Together with our clients, we evaluate custodians annually to address issues such as what they are doing to add value to the relationship.

In terms of client onboarding and KYC, how keen are you to see a shared KYC database and, if so, what needs to be done to achieve this?

Noor Quek

Each organisation should be responsible for their KYC responsibilities, but in the interests of the organisation and the industry, basic info not related directly to the net worth can be shared. Strict confidentiality must be maintained by all organisations at all times.

Urs Brutsch

That is a long shot. I am however convinced that in the not too distant future we could see the emergence of a 'portable' KYC, which would allow clients to open relationships with banks easily. If such a standard can be developed, and is of course endorsed and accepted by the regulators, then this would be a great breakthrough. It would raise the level of KYC and at the same time reduce the amount of work required to open new relationships. As we move towards full transparency, this should not meet with resistance from the end client.

What issues are you facing in terms of finding suitable talent for your team? Are private bankers better off joining an existing setup or going it alone in the current environment?

Noor Quek

Talent here within the industry tends to be concentrated and silo [in nature] and very much a to-each-his-own mentality. A consultative team-based approach is still deeply lacking even within the private banks – [which] reflects poor leadership and stewardship. Creativity and broad-based thinking is deeply lacking and younger participants who do try to bring new ideas tend to be overlooked. This must change.

Urs Brutsch

We find it difficult to have senior bankers join us. We have a great platform to offer, but too many RMs don't seem to see the benefits of the IAM model. If they were to put themselves into the shoes of their clients, they would probably be more likely to see the merits. The industry as a whole has enough RMs, I think it is more a problem of quality rather than quantity. I can easily hire underperforming RMs, but that is not a sustainable path.

Whether a banker sets up his own shop or joins an existing firm is a difficult question. I think that the advantages of joining an established IAM outweigh the disadvantages of starting from scratch. To run an IAM means to assume managerial and administrative responsibilities, which often are the exact reasons why a senior RM would consider leaving the bank.

Eric Goh

Plugging the talent gap is a persistent challenge in the industry. Attracting and retaining talent with attractive remuneration, job satisfaction and a conducive learning environment are key, but equally important is the need to empower our client advisors with a broad-based understanding and macro view of trends, the investment landscape and regulatory framework so they can offer more tailored investment options for better investment solutions.

Thirdrock has been quite successful in bringing on board experienced wealth management veterans who have all hit the ground running. Apart from identifying the right talent, the firm plays an important role in hot-housing and developing talented people with the right client-centric philosophy, high ethical standards as well as a constant improvement of their technical competencies and knowledge. And we achieve this with robust internal sharing and external training.

For a private banker to set up their own IAM, there are a few key considerations – the rising costs of regulatory compliance, the level of operations complexity, robustness of the risk management framework and defining their value proposition so as to build a scalable and sustainable business.

Given these barriers to entry, private bankers today may be more inclined towards joining an established platform to benefit from a fully integrated and experienced team to perform the necessary compliance, operations and administrative tasks. They can leverage on the platform's advanced proprietary IT system and preferential terms with a panel of top-tier banks to build their business. This is what Thirdrock has built over the years to bring value to our clients and client advisors.

Are you keen to see your local independent association put in place a mentorship/training programme for younger talent?

Noor Quek

ABSOLUTELY! But it must be relevant, showcasing role models.

Urs Brutsch

Yes, absolutely! I am a big fan of the Swiss model of the apprenticeship, coupled with further studies. This model gives young people a great path into the industry and it allows them to get valuable job experience throughout their studies. I would be happy to participate in the development of such a model. We have been great believers in interns, and will continue to offer internships to local and overseas students.

Eric Goh

Yes, and indeed from every IAM/MFO too. Grooming and nurturing the next generation is critical to the longevity of any industry. This should not just be the responsibility of an external agency but one that every IAM/MFO needs to assume. The younger talents have every opportunity to benefit from the rich experiences, values and knowledge that the veterans can share and impart to upkeep high professional standards in the industry.