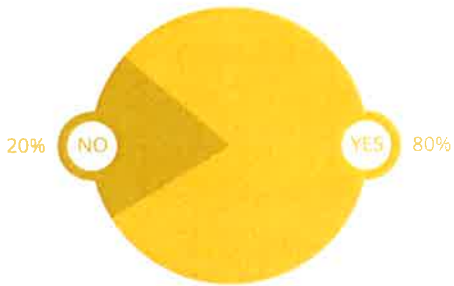
All roads lead to technology

In an industry valued at US$15.5 billion and pegged to double in the next five years, external asset managers (EAMs) are beginning to gain critical mass in Asia. Unsurprisingly, clients are increasingly demanding efficient execution, privacy reassurances and portfolio predictions. As over 80% of EAMs surveyed by this publication indicate, the answer lies in technology.

Technology strategies at EAMs are beginning to mirror those of private banks, albeit on a smaller scale. Consequently, technology expenditure at EAMs have also increased, with the majority of those surveyed seeing a 10-20% rise in their technology budgets year-on-year.

Further, many are also seeing such allocations take a larger slice of the budget pie – 60% of those surveyed set out that an unprecedented 10-20% of its income is now allocated to technology.

ARE EAMs TURNING TO NEW TECHNOLOGIES IN 2015?



Source: Asian Private Banker Tech Survey 2015 (n=10)

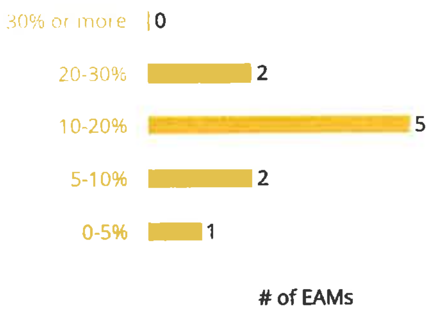
"EAMs with over US$1 billion in AUMs (assets under management) have budgets ranging from US$100,000 to US$200,000 per annum," says Charles Wong, CEO of Privé Financial, the Hong Kong-based software solution provider for EAMs and family offices.

In today's data-rich environment, technology has become integral across all aspects of the firm, adds Melvyn Yeo, executive partner at Singapore-based EAM Thirdrock. This ranges from client acquisition-related activities like risk management to trade execution and ongoing portfolio monitoring.

Earlier this year, Thirdrock decided to license Privé Financial's solution – a front-to-end platform with onboarding and reporting tools, scenario analysis, an integrated CRM portal that connects with private banks.

While EAMs operate from a much smaller base, the expand in wallet spend for technology echoes that of private banks where budgets are north of US$60 million.

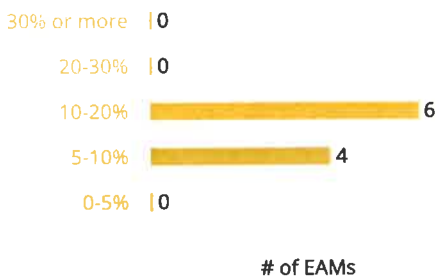
YoY RISE IN TECHNOLOGY BUDGETS



Source: Asian Private Banker Tech Survey 2015 (n=10)

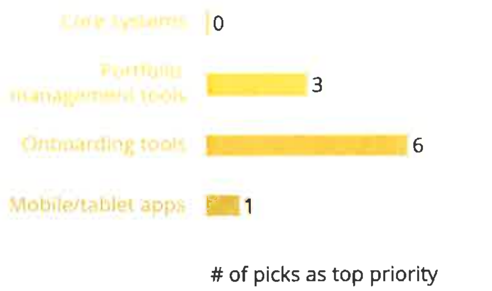
The trend is unrelentless. Francois Monnet, Credit Suisse Private Banking's COO for Asia, has indicated that tech spend will rise by 100% over the next three years; Deutsche Asset & Wealth Management's COO for Asia, Venkatesh Narasiah, forecasts a more moderate increase of 5-10%; while DBS's group head digital bank, Olivier Crespin, affirms that the Singaporean bank will add S$200 million (US$143 million) over the next three years on top of its annual S$600 million budget.

ALLOCATION OF REVENUE TO TECHNOLOGY



Source: Asian Private Banker Tech Survey 2015 (n=10)

AREAS OF TOP PRIORITY FOR ALLOCATION OF TECH BUDGET



Source: Asian Private Banker Tech Survey 2015 (n=10)

BACK OR FRONT OFFICE?

But where do you allocate such budgets? And should they build or buy solutions?

"EAMs are experiencing a trial and error phase – similar to private banks – where they are still debating whether to build or buy technology," says Julian Schillinger, product head at Privé Financial.

The main difference in the decision-making process between EAMs and private banks is that it costs more for EAMs to build their own systems relative to revenues. It would cost at least US$1 million for an EAM or a family office to build its own portal that connects to private banks, maintain it and ensure all the right connectivity points are in place. To outsource the solution would "charge a fraction of that", says Wong.

According to the Asian Private Banker Tech Survey 2015, 20% of polled EAMs are looking at building mobile apps, 40% are looking at portfolio management tools and 60% are focusing on onboarding tools. The reasons for investing in onboarding tools are two fold.

"At this early stage in the EAM industry, technology solutions focus on client facing or client onboarding processes that help us be more productive. Here we can see the ROI," says Peter Lee, CEO of Hong Kong-based EAM Veco Asia.

Secondly, Schillinger notes, client demands are changing as they grow digitally savvy, and consequently require more real-time access to portfolio management analysis.

STUMBLING BLOCKS

But even if money is available, Asia's shallow technology vendor pool means that solution choices are limited.

Lee says: "There are not many localised vendors in the region. This is the biggest problem for us. The vendors that originate outside of Asia do not understand the Asian EAM model and clientele."

As is the case with the entire financial industry, Thirdrock's Yeo adds, EAMs are also victims to changing regulations and as a result, need to adopt technology that supports compliance frameworks and processes with an audit trail that runs across the entire investment cycle.

"This will better prevent issues that might otherwise not be captured, if we did not have the information at hand to analyse," he says.

Further, as Privé's Wong notes, many vendors, surprisingly, do not offer a two-step data encryption security verification process, in spite of sensitive information passing through vendors that partner private banks.

Perhaps the most pressing concern for EAMs, and private banks, is how technology can positively affect bottomlines.

Lee is sceptical given the early stage of the industry: "We need to consider the cost benefit of technology investments. At the moment, if we sign on a vendor for US$5 million but only use 5% of its platform, it does not serve its purpose."

EAMs, he adds, still look at private banks to provide IT support, leveraging its investments first.

Yeo is more optimistic, viewing the investment in IT as a long-term productivity gain: "The enhanced efficiency and productivity throughout the entire wealth management value chain, along with benefits of economies of scale, will ultimately improve the business bottom line."

TRENDS AND TRAJECTORIES

EAMs have been using technology more and more in their distribution of structured products – a direct consequence of recent market volatility that is creating more need for products that offer diversification.

This past summer, EAMs Caidao Wealth and Veco Invest Asia individually partnered Citigroup and structured products technology platform Leonteq to roll out an actively managed, multi-manager FX strategy – one that is usually available to institutional clients. What this meant is that Leonteq wrapped the exposure into an actively managed certificate format that allows for smaller ticket sizes.

More EAMs are expecting similar unions with multi-dealer technology platforms such as the likes of Contineo, AG Delta, FinIQ and IPDS.

Another trend on the horizon is a syncing of technology that more effectively links EAM desks at private banks with the EAMs itself, to improve and speed up execution of client strategies.

"At the moment, the European EAM model is more developed (in this regard) but we are seeing more private banks in Asia adopting this approach," says Wong.

EXTERNAL ASSET MANAGER FACTBOX

HONG KONG

AUM: US$15.5 billion
AUM by 2020: US$32 billion
Number of EAMs: 30
EAM asset base of private banking: 3%
Industry Association: launched in October 2015

SINGAPORE

AUM: US$16.9 billion
AUM by 2020: US$34 billion
Number of EAMs: 80
EAM asset base of private banking: 4%
Industry Association: launched in March 2011

Source: Asian Private Banker, Julius Baer