



Emerging Attitudes: The Relationship
and Regulatory Drivers within Wealth
Management
A Regulation Asia & M&G Roundtable

Emerging Attitudes: The Relationship and Regulatory Drivers within Wealth Management

Part 1: The Perils of Trying to Regulate Risk out of Private Banking

The impact of today's regulatory environment is an ongoing challenge for private bankers and their clients. Here is how bankers are coping and adapting.

M&G Investments recently hosted a roundtable with leading private bankers in Hong Kong and Regulation Asia to discuss how the rapidly-changing regulatory environment is impacting their relationship with HNWI's. Under Chatham House Rules, to encourage a free discussion, the bankers frankly reviewed their concerns and observations.

In particular, they discussed how regulations are creating serious, ongoing challenges to communicating and educating clients about investment issues. Ultimately, this affects how their clients learn and make investment decisions.

Regulations are making marketing to and advising clients more difficult than ever. But, private bankers and wealth managers are persevering in their efforts to deliver the best possible service and results in the currently uncertain post-financial crisis and quantitative easing environment.

"Regulators need to be careful not to over regulate. A capitalist system is based upon people being able to take risks and being responsible for their own decision-making process," said one of the bankers.

Over regulation will be bad for the wealth management industry as it creates a, "huge amount of cost, making it difficult for competitors to come into the market, which reduces the opportunity for the consumer to choose. Regulators need to open up an opportunity for individuals to take responsibility for both good and bad investments."

One of the attendees warned that current levels of regulation are here to stay and bankers must learn to successfully operate in such an environment. There is a clear contrast between US and other regulators. "In the US, the regulatory starting point is disclosure – you can't protect individuals from their own decisions. In other jurisdictions such as the UK, investor protection rather than disclosure is the priority. This is a very different approach."

One banker described his frustration with the regulators in Hong Kong. "Their idea of suitability does not take into account the holistic investment scenario demanded by clients."

The goals remain the same

Amid a changing regulatory framework and demanding Asian clients, private bankers and HNWI's must work together to achieve both financial and lifestyle objectives.

One of the biggest challenges in emerging markets is HNWI's expectation that their financial returns match their business performance. However, after the global financial crisis clients are more aware of portfolio risk management. One banker asked, "So realistically, is it the job of the private banker to handle rainy day money?"

“...selling product isn't addressing customer needs.”

Another participant admitted that, "Over time there is a lot of commonality around expectations and suitability. However, the industry hasn't got it right in the past – selling product isn't addressing customer needs."



“HNWIs exhibit and demand a high level of sophistication from private banks. We ask a lot of questions about their comfort levels or change the way their risk is profiled. Throughout the client lifecycle the regulatory burden is a challenge nonetheless.”

He described what the resulting investment outcome is based on, “Our own research on wealthy clients shows that they tend to be concentrated within certain asset classes. There’s no discussion about what is being achieved; instead the focus is on the risk and return profile. And regulatory implications will become more of an issue.”

The biggest frustration with regulators is a failure to distinguish among different types of clients who exhibit unique risk appetites and goals. “Regulators are treating everyone the same way. New rules are coming out that still fail to directly address this issue. Box ticking to meet all objectives can’t work. Regulations are too prescriptive and patronising in how they deal with clients.”



Part 2: How Greater Computing Power is Changing Investors

Widespread technology is powering a revolution in financial services. This is forcing clients and wealth managers to redefine their relationships.

Mobile technology platforms, the wide availability of cloud data and evolving regulations have allowed unprecedented access to financial information by all types of clients. The phenomena called the “socialization of finance,” where social media sites and blogs perpetuate an almost infinite range of opinions, is a serious, ongoing challenge to private bankers and wealth managers who are trying to communicate and educate clients about investment. Ultimately, this conflict affects how clients’ shape their own ideas and make investment decisions.

“Face-to-face meetings are still valued and required,” said one banker. “The hard part of the process is not gathering the information, it’s screening it. This is a hazard that we need to protect clients from. They mustn’t take everything as gospel. Advisors need to help their clients filter information.”



Technology is a way to execute and supply information. But it threatens disintermediation for asset managers just as it does for the private banks. Clients who are empowered to seek their own facts can potentially end up only believing in those that conveniently suit their viewpoint.

Another banker asserted, “Most of the business in Asia is transactional not fee based. They’ll pay if they like something we’re selling them. Private banks act with a fiduciary focus when in fact they are brokers. Regulators need to carefully differentiate the lines between these two camps. Customers should be able to make their own mind up as long as the roles are clear.”

One banker said a profound change is occurring in the second generation of wealth where the overseas educated children of people who have created fortunes are assuming a more westernized view of how investment is conducted. “This can create friction in families, but it also allows for changes in the business and banking relationships. The new challenge is communicating relevant and engaging content for second generation.”

An executive with a foreign bank thought the current wave of financial technology was more important for transaction-based areas rather than advisors of HNWIs or UHNWIs. “The retail sector is the big opportunity for the digital environment. SAXO Bank and Charles Schwab are good examples of innovators directly addressing this segment. It is surprising that there is

a lack of these kinds of platforms in Asia. Replicating these models could take out a huge chunk of the consumer banking market.”

Millennials are also redefining the banking relationship. However, for traditional asset managers to competitively communicate online with this demographic their content has to be entertaining without being exaggerated, which creates regulatory challenges. Investors are proactively reaching out to the internet for financial advice and new services.

The return of the broker

A European banker observed, “You can see the re-emergence of the brokerage model. Actually, it’s a more honest way of conducting private banking. It has become purely transactional. More brokerages will become popular investment platforms. And being new they can fully exploit all the advantages of technology without legacy problems. Their platforms are easily enhanced and modified so they can provide clients with a holistic and customized experience. This is the new challenge for financial institutions.”

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In Asia, there is less willingness to pay for investment advice than in other parts of the world. One private banker said, “It is better today than ten years ago, but it has significant implications for private banks such as needing to replace the lost revenue and re-engineer the relationship.”

Debate over the value of holistic versus transactional service never ceases in Asia. “The paradox is that clients would be prepared to pay if bankers can provide a higher return than the clients’ doing it themselves. And then they are only prepared to pay after the returns have been recorded.”

One private banker said his organization analyzed the actual portfolio returns of their HNWI and UHNW clients across the region over the last ten years based on those clients’ own decisions rather than the bank’s advice. He remarked that they were not impressive.

He likened the positive bias of their investment successes to someone who only boasts about their wins at Hong Kong’s Happy Valley race track while dismissing the losses. But he added that today, more productive discussions are taking place and clients are seeking more investment education.

A Chinese banker pointed out, “Clients’ first investment is usually property – it never seems to go wrong. Advising them to invest in international equities is the challenge. Two-thirds

of bankers saying that same thing doesn’t give clients much value. That’s why they are using private banking as a platform for transactions.”

Another banker offered a realistic view of the future. “Ten-year returns don’t exist – everything starts from 1st January, 2009. Transparency is increasing through technology and investors are thinking about ETFs and reducing their overseas investment exposure. All they need is a FTSE tracker and transparency of the internet is going to break all of this down. Sales teams aren’t selling ETFs as there are no retrocessions (commissions).”

Wide availability has democratized technology more than ever before. And this has led to serious challenges in the communication, advisory and execution of investment management and private banking services.

This article was based on an M&G and Regulation Asia roundtable hosted on 19th October 2015 in Hong Kong.

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