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Asian private banks look to build out platforms

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AsianInvestor and BNY Mellon gathered wealth management heads from Southeast Asian firms to discuss the challenges they face in developing their regional offerings and discretionary businesses.

Q Chris, can you explain what issues and trends you want to cover today?

A **Chris Faddy:** We have been engaging with many private banks across North and South Asia, and what we see is a major shift occurring in Asia's private banking industry.

A new generation of wealthy investors are demanding discretionary service that is transparent, customised and offers choice. And as a result, private banks wanting to leap ahead of competition are seeking to enhance their discretionary portfolio management services. We've been very encouraged by what the regional players – who may be less established in the wealth space – are undertaking.

We see a real inflection point – and it's reflective of what's happening with the wealth of the investors themselves; the maturation and inter-generational passing on and managing of wealth.

What the local banks are doing to capture that is probably the most interesting area in terms of product development. If you look at what some of the banks are doing to segment their clients now, that's sending us a strong message – that the opportunities are increasing for local onshore private banks, and that those banks are doing something about that.

We'd like to know what you are doing on this front, and how you think local banks can capture high-net-worth clients and what advantages and disadvantages you have in that space.

Q Thanks Chris. Perhaps the private bankers can briefly outline their offshore/onshore setup, such as it is now?

Participants (from left)

Lawrence Lua
Head of South and Southeast Asia, DBS Private Bank

Carolyn Leng
Head of private banking, CIMB

Kee Kin-Onn
Head of private banking, AmInvestmentBank

Alvin Lee
Managing director of wealth management, Maybank

AJ Harper
President and chief executive officer of managed investments for Asia Pacific, BNY Mellon

Chris Faddy
Head of distribution of managed investments for Asia-Pacific, BNY Mellon

Moderator

Joe Marsh
Magazine editor, *AsianInvestor*

A Kee Kin-Onn: AmInvestment Bank is primarily a Malaysian bank – most of our business is onshore. Currently when we have offshore business, we do it through referrals.

Alvin Lee: I manage Maybank's private wealth business out of Singapore. The current key markets for us are Malaysia and Singapore, but the group also has operations in all 10 Asean countries and other key markets like Hong Kong, Shanghai, Beijing, the Middle East, New York and London.

Although Malaysia has had an onshore private banking operation for several years now, to my mind the bank has made the right decision to base the regional centre of excellence for private banking in Singapore, given the infrastructure, access to talent and the concerted effort by the Monetary Authority of Singapore to make it a key financial hub in Asia.

Carolyn Leng: At CIMB, we take quite a similar view to Maybank. Our group CEO made the decision to make Singapore the regional hub for CIMB Private Banking about three years ago, because a lot more can be achieved out of Singapore, though Malaysia is by far the larger contributor. We have a presence in Indonesia and Thailand as well.

Lawrence Lua: DBS made a conscious effort to go into wealth management in a serious way a few years ago, so we are a relatively new kid on the block in this area even though the bank has a history of more than 130 years.

I look after the private banking business for South and Southeast Asia, including Japan. My responsibility includes providing management oversight for the affluent segment which covers clients with S$1.5 million to S$5 million in AUM.

We have private banking operations in Singapore and Hong Kong, and the question has been asked whether we should have private banking operations in other locations. But there are a lot of cross-border issues and constraints going into these countries.

Lee: What about your SocGen purchase [DBS's acquisition of Société Générale's Asian private banking business] – where do they sit?

Lua: SocGen has a fair bit of business in Hong Kong, which we will work hard to integrate into our North Asia business. The rest of the SocGen staff will be integrated into our Singapore operation.

***Chris Faddy** Opportunities are increasing for local onshore private banks*

AJ Harper: Just to make a comment about what BNY Mellon is doing: we're not at this roundtable as a private bank or an investment manager or a custodian.

Our business model is designed around enabling wealth management for private banks such as yours who take a progressive view that money management should be diversified and externalised to entities independent of the wealth manager.

We've built out Spectrum, our separately managed account [SMA] platform to offer clients a choice of strategies from a number of leading global investment advisers. It also enables wealth managers to let investors see all the holdings in an investment strategy and control the composition.

We believe this is a major breakthrough for Asian wealth management because it allows private banks like yours to offer individual investors the type of service and strategies that have been exclusive to institutional investors.

Q Perhaps our bankers can talk about how they are developing their offering offshore? Kin-Onn, you're at the earliest stage here – how far have you got on this?

A Kee: The issue with cross-border is of course there are regulatory issues, and that may be the reason why some of the foreign banks are reviewing their options and letting the onshore banks take a bigger role. The recent issues for Credit Suisse in the US have woken people up to some of the issues.

When we look at going offshore, we want to make sure everything is in place before we do so. We are constantly working with regulators to make sure that is the case.

Lee: At Maybank, we always had the client base and the products in various silos. So the relaunch of private banking is aimed at bringing everything under one roof, and that happened late last year. The central impetus to this

'It is challenging and costly to build and retain asset management talent'

Carolyn Leng, CIMB

'Now Asian banks may not have the same level of regulation as those in Europe, but that's temporary'

Alvin Lee, Maybank

initiative is how we can serve our existing clients better.

Q What challenges do you face in achieving this?

A **Lee:** There are two main challenges. One is external – which includes regulations and competition. The other is internal challenges, which will be present in any bank, whether it's infrastructure or processes. As far as external challenges are concerned, it's really a level playing field. Now Asian banks may not have the same level of regulation as those in Europe, but that's temporary – it's going to tighten up here too.

We see some European banks reducing their footprint in Asia in terms of private banking and we have Asian powerhouses coming up. I think the gap between European and Asian banks is closing, so some [Asian banks] are in a position to acquire.

Q How do you convince clients to look at your firm as a wealth manager rather than simply a retail or investment bank?

A **Leng:** It's very difficult to convince clients of this. There are multiple challenges. One is about shifting away from transaction services, and this means that your RMs [relationship managers] need to be equipped with advisory skills. That's something we embarked on three or four years ago.

The first thing is that, to build a scalable business, your profitability needs to increase. You need to make sure you have the right advisory level in terms of asset allocation. You also need to allow RMs to build relationships with clients, and that's through the discretionary business. You need to be sure that every RM knows what the client's end objective is.

Last year for the first time our annuity income contributed 45% to our private bank's total revenue, and our transaction business dropped significantly. In previous years, our annuity income contributed 15-20% of total revenue.

So that [rise] was a big success, because we continuously harp on that: if an RM is going to see a client, they'd better have a proposal, a solution – and know why they are allocating that money, and whether [the proposal] is executable. It's not just about product.

The challenges private banks face, onshore or offshore for that matter, are size and sustainability. If you don't have the size, you're not going to survive.

Q There's also the challenge of going up against the global firms if you're expanding into Singapore. How are you doing that, and are you mainly targeting offshore Malaysian money?

A **Leng:** We used to only target onshore money going to Singapore; today we want to stop the onshore money from going to Singapore in the first place. Over the years we have evolved the business so that clients can draw down credit in different currencies, they can borrow Singapore dollar, US dollar etcetera. But challenging the likes of UBS is not something we would be able to look at – [CIMB and UBS] are two different platforms altogether.

Lua: If you ask whether we aspire to take over the major global banks' clients, today we're happy to admit that we're 'small' in comparison to them, but we are winning many of their deals. But that doesn't mean we want to onboard everyone they have.

Harper: Carolyn talked about 45% 'annuitisation' in your revenue stream, which I think suggests a shift towards an ongoing discretionary type relationship. European or US banks are on this mark in terms of their discretionary penetration. However, the industry number in Asia is close to 6% – it's remarkably low. I would argue that you as regional players are better placed to change that than they are. What do you think about that – this global versus local question?

Kee: With open architecture, keeping in mind the regulatory issues, you can more or less get almost anything out there. So the issue is making sure that internally you can develop the platform to execute these products.

But I think an even bigger challenge in terms of local versus global is brand, as the globals have been around a lot longer. The other thing of course is that the big guys can spread their costs better on the custody side and the IT side.

Increasingly, though, even the big globals recognise that they cannot offer everything, so they have started offering EAM [external asset manager] desks. The fact that some people are leaving the big banks to set these up suggests that product is not the main hurdle to overcome.

The thing to focus on is the branding side and working with someone that allows you to do your business in a cost-effective way in terms of IT and custody.

Faddy: My perception is that the Asian banks came out of the crisis in a way that allowed them to improve their relative brand standing. For example, look at CIMB now and the presence they have in various parts of Asia – if you go back 10 years, it was unthinkable. My view is that brand is very important, and you all seem to have done well.

Q Can I get ask whether you use external asset managers, and if so why and how?

A Leng: We would not use EAM platforms for discretionary services, but to access their structured products, their internal or own-brand products. So you might use BNP Paribas for their strength in structuring certain products.

When choosing between using an asset manager and the discretionary services [of a bank], asset managers tend to be a lot better in terms of performance. So I still go back to the traditional model – a platform that has multiple asset managers I can tap into. Even if I can be a client of a global private bank on their EAM platform, they will not be able to tailor or do everything I want them to.

Harper: EAMs are very closed and in-house.

Lee: With regard to AJ's question about local versus global, in a way the regional banks have the benefit of being smaller and later in the game. We don't have the institutional pressure to use internal capabilities over best-of-breed solutions available in the market; we have the opportunity to source capabilities externally.

If you look at private banking as a standalone profit centre, the pressure will always be to push product. But if you look at it as part of the entire universal bank, there are a lot of upstream and downstream benefits.

Around this table, most of our big private banking clients will also have corporate accounts with us, and if you don't have this capability, you lose them as a private banking client.

Q AJ, what issues come up first and foremost with clients when they look at your platform?

A Harper: Institutional access. Today if you have $10 million to allocate and you want to have transparency with that, you're not going to get it; you're going to get an institutional share class. That comes in mutual fund form, which from my conversations I hear is not enough.

Accessibility to sophisticated strategies and discretionary wealth management services is an area where BNY Mellon is looking to innovate. This innovation enables wealth managers to offer clients multi-manager and multi-currency portfolios with the benefits of customisation and transparency that come with an SMA – for a $1 million investment. We believe this level of accessibility will be particularly attractive to Asia's growing body of affluent investors and families.

I'd like to ask the group: what assets are people looking to externalise?

Lee: To me it's less the underlying asset classes we need to externalise; it's really the execution capability and the platform. If a client is really into trading, they can access any exchange globally on a multitude of trading portals.

Instead, it's a question of time. These clients with $30 million sitting in the bank will not likely have the time to look at their portfolio closely enough, which translates to their need to outsource that management to professionals.

Q Is discretionary portfolio management [DPM] starting to happen more in Asia?

A Lua: Yes, it's starting to happen. But our clients' DNA is very different from that of Western banks'. In Asia, a

'Our discretionary management and funds business has grown more than threefold in the past three years'

Lawrence Lua, DBS Private Bank

'With $10 million to allocate, you won't get transparency; you're going to get an institutional share class'

AJ Harper, BNY Mellon

lot of the tycoons still want to 'touch' their investments.

But increasingly you can see a shift in their lifestyles – they want to enjoy the fruits of their labour, so they are using DPM. Our DPM has become pretty significant – our DPM and funds business has grown more than threefold in the past three years.

Another issue is that when you speak to clients, they think only the Swiss banks can do DPM. But things are changing.

Lee: I can relate to what Lawrence is saying. In Europe, old money is a lot about wealth preservation. In Asia, it's more about emerging wealth. It's common to hear clients say that if they invest their money in their business, they can get 30% return. Consequently, if banks are offering returns of 5%, it will be a hard sell. Having said that, there's definitely a trend towards DPM.

Lua: Do you need a separate licence to do DPM [in Malaysia]?

Kee and Leng: Yes.

Harper: What do you think about using external money managers versus your own DPM – is it a part of the DPM unit or do they sit side by side?

Lua: Side by side. In fact, I'm a big fan of third-party funds. Because with third parties, by definition, you can go for best in class. With DPM, you're a bit beholden to your managers. If you have good talent and performance, clients stay with you, then it's a good story to tell. But I know many institutions have suffered because some people leave, someone steps in and then there's a disconnect for a short while – and sometimes it can be a very long while.

Faddy: The risk is they connect the advice to the performance of the manager, so the whole offering is impacted.

Leng: We don't have a DPM offering because we don't have an asset management licence. We're purely an advisory distribution channel across Malaysia and Singapore. It's very costly to try to build an asset management and investment team because it's challenging to retain these talents.

Another challenge when you hire someone from an asset management background is that he/she may get frustrated as they do not have direct funds to manage. Instead, they are more dependent on the RMs. Third-party management is cheaper in a way and more quickly scalable.

Kee: We do use third party, but we focus on DPM for things that third parties don't offer. You can create a

Carolyn Leng, CIMB *External asset manager platforms cannot do everything you want them to* discretionary portfolio using an external manager, but you know that sometimes the guy that's running it may not be the best guy – because the best guys run the big funds. So it's best just to go with the fund sometimes.

Another issue is monitoring. With DPM, you have to give a certain level of trust to the person. On daily monitoring, you probably need someone else to do it for you, because doing that monitoring on your own can be quite time-intensive.

Lee: It sounds like the banks here prefer the third-party route. But even when we go third party, we still need to have capabilities to assess the partners that we're working with. So we can't run away from the fact that we still own the responsibilities.

The solution to that is to work with very reputable providers with good track record over time. It's not about signing the distribution agreement and forgetting about it. There has to be a constant review of the performance of the partners, the terms, the people, the managers and the process.

[*General agreement*]

Q Presumably access to different managers is also important? BNY Mellon's Spectrum platform has around 10 managers now; presumably you're looking to expand that number?

A **Faddy:** Indeed. We have partnered 10 prominent advisers so far to offer 20 investment strategies. We will continue to expand our offerings as our aim is to provide a diverse range of Asian, global and thematic investment portfolios suitable for Asian investors.

Everyone's looking to engage with third-party managers – the difficulty is if you don't have size, certain fund managers won't deal with you. So there's a role for intermediation by a firm that's already struck those relationships with the large managers.

One thing I'm interested in is that while we talk about them running global or foreign portfolios, is there a role for third parties managing local assets?

Kee: Malaysian clients can buy Malaysian bonds and stocks directly, hence they may do so rather than using DPM or third-party managers. When they are less familiar with investments, they will look at DPM.

Lua: It depends on the mandate again. We are quite agnostic as to whether we use DPM for local or global. I think the starting point is whether the client has the preference to use DPM. The rest is kind of secondary. But yes if the individual knows his market and has the time, he tends to dabble in it himself.

Faddy: This is a good question for you Alvin. You're beginning this product-building journey – where do you start?

Lee: It's a matter of prioritisation. You have to have generic wealth management products or you can't even go to market. Then you start looking at the discretionary solutions, cross-border financing and so on.

In terms of product, we do have to have a wide enough suite of products rather than to be fairly narrow. However, that doesn't mean we have to focus on all 200 ideas. We have to have five ideas for the next three months and then be spot-on with those.

Q Carolyn, do you have any views on differentiation?

A **Leng:** When I talk to a multi-million-dollar client, they often say 'what can I do with CIMB, you're onshore, right?' I say: 'I'm not here to compete with UBS, but I know you're an owner of this listed entity, I can unlock your liquidity and I can give you better service because I understand your business, and I can price your assets accordingly.

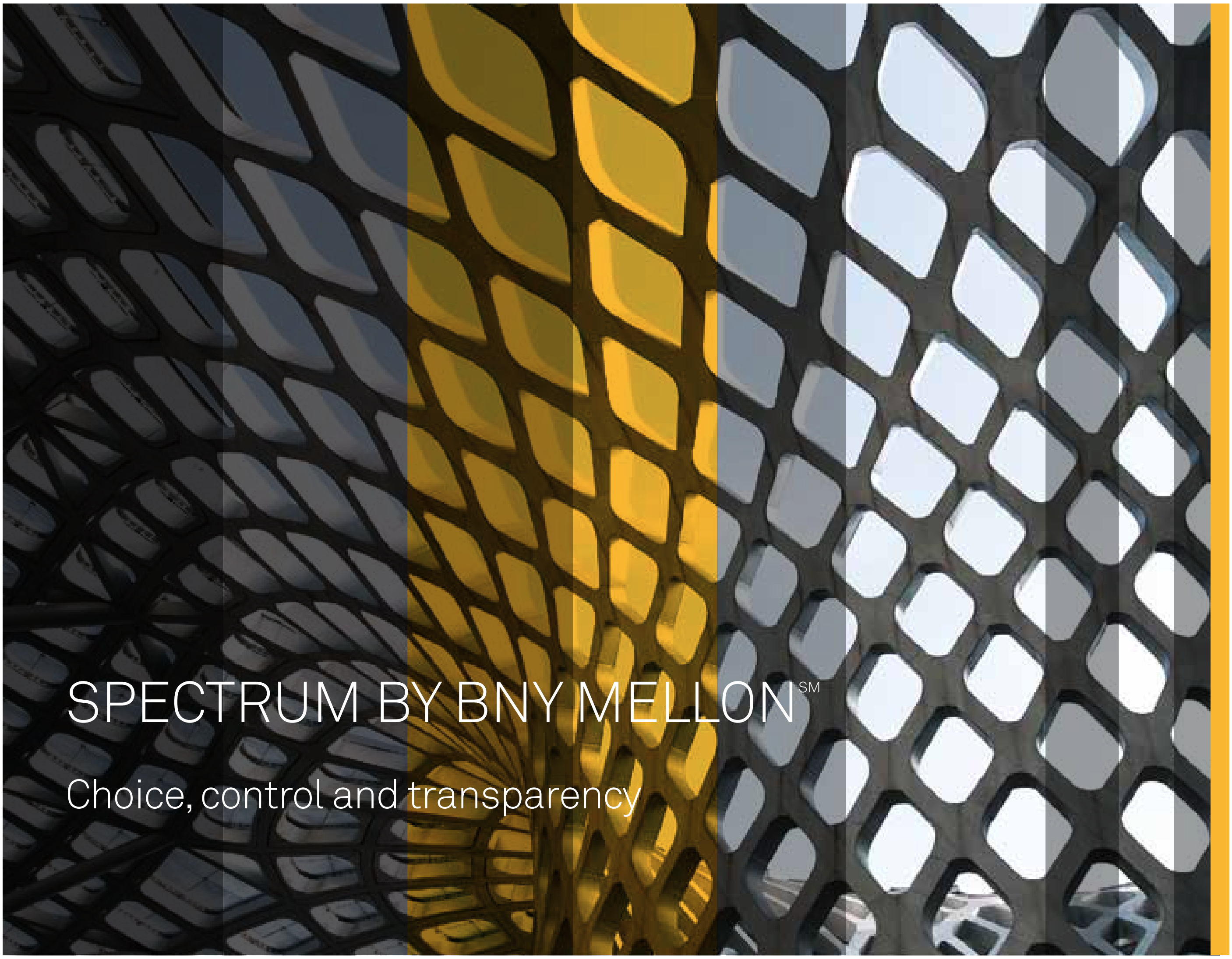
Faddy: Their concept of local risk is different from yours.

Leng: Yes, very different. And saying this got him interested in why he should have an account with a local bank.

And while I can't send a client's son to Switzerland on a placement with a bank, I can put him with an investment team for six months and teach him hands-on how to manage his own portfolio. Sometimes you can't compete on some of the offerings, but there are things you can do well. ■

'We use third party, but we focus on discretionary management for things that third parties don't offer'

Kee Kin-Onn, AmInvestmentBank



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