PERSPECTIVE

# Wealth Management
# Boom Time in 2008

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## Exciting Times

Global stock markets have rebounded sharply and posted hefty gains during the last four years, after bottoming out in 2003. Property and commodity sectors have done exceptionally well. Buoyed by rising global wealth, private banks and wealth managers globally are upbeat about the prospects for this sector. Notwithstanding the US sub-prime meltdown in 2007 and its attendant impact on the US and world economy, the core drivers for wealth creation including increasing integration of world economies, use of technology, changing demographics, creative finance, supportive governments, rule of law and immigration and trade are likely to ensure that wealth and correspondingly the wealth management business continues to grow at above average rates during the foreseeable feature.

## All it Entails

Wealth management can be broadly defined as financial services provided to wealthy clients, mainly individuals and their families. Private banking forms an important, more exclusive, subset of wealth management. Unlike private banking which has its origins in the seventeenth century, wealth management has come into its own only in the last 20 years or so. It developed in response to the arrival of the mass affluence phenomena, a desire among some clients to be more actively involved in the management of their money; more sophisticated client needs throughout the wealth spectrum and also a willingness on the part of some financial services players, such as retail banks and brokerages, to extend their offerings to meet the new demand. Wealth management, in that sense, can be considered a bridge between mass-market retail financial services on one hand and private banking on the other.

Asset management services are at the heart of wealth management. But wealth management is more than just asset management. It focuses on both sides of the client's balance sheet. Wealth management has a greater emphasis on financial advice and is concerned with gathering, maintaining, preserving, enhancing and transferring wealth.

Wealth management includes the following types of products and services:

- Core banking products, such as current accounts, time deposits and liquidity management.
- Brokerage
- Asset management in its broadest sense: discretionary and advisory, financial and non-financial assets (such as real estate, commodities, wine and art), conventional, structured and alternative investments.
- Lending products, such as margin lending, credit cards and mortgages.
- Insurance and protection products, such as property and health insurance and pensions.
- Advice in all shapes and forms: asset allocation, wealth structuring, tax and trusts and various forms of planning (financial, inheritance, pensions, and philanthropic).
- A wide range of concierge services, including art storage, real estate location, and hotel, restaurant & theatre booking.

Wealth management targets clients with free investible assets upwards of US$100,000, but typically starting from US$ 250,000.

Wealth managers distinguish themselves from retail financial services by the uniqueness of their client relationships – relationships that are broad, in that they encompass all areas of a client’s financial life, and deep with respect to the advisor’s intimate knowledge of the client’s values and priorities. In turn, this breadth and depth of relationship enables the wealth manager to develop and implement highly tailored solutions that address all aspects of a client’s financial well-being.

## 2008 - The Way Forward

Some of the current trends impacting the wealth management industry are:

### Wealth Managers Seek Increased Share of Wallet

Unlike mass-retail financial services where a person deals with a large number of service providers, clients tend to entrust their wealth with no more than 2-4 wealth managers. This still means that very few wealth managers can claim to have at least 50 to 60 per cent of a client’s wealth. This is changing. Wealth managers are seeking an increased share of wallet. First, this is an excellent source of new assets, revenue and increased profitability, with low acquisition costs. Second, a greater share of wallet makes it more difficult for the client to leave. This has negligible impact on the wealth manager's scarcest resource - the Relationship Manager.

### Increasing Breadth of Offerings

Breadth of offerings is likely to be a potent differentiator for wealth managers going forward. As the range of products on offer for wealthy customers is quite large, wealth managers are moving into a hybrid producer-plus-distributor model. Wealth managers realize that it is not possible for them to produce each and every product. At the same time, they require a bouquet of products to acquire and retain clients. Alternative investments are seen as key with structured products, property, private equity and hedge funds all rated highly within the range of required offerings. To this end many are seen working on striking alliances with manufacturers of these products.

### Increased Investment in IT

Historically wealth managers have not paid sufficient attention to systems as their counterparts in retail financial services; but that is changing. This is due to additional requirements imposed by rapid and unprecedented growth, increasing client expectations on business responsiveness and quality, as well as increasing regulatory and fiscal changes. In this context, robust IT systems are seen as a key enabler for growth. To this end, wealth managers are reviewing operational processes, seeking core banking systems supporting wealth management products, improving aggregated reporting, adopting e-banking platforms to help clients service themselves and providing remote access technology to their Relationship Managers. Adopting core banking systems with investment products and e-banking support is likely to gather momentum in the immediate future.

### High growth accompanied by pressure on margins

Growth is booming in the Asia Pacific, especially in India, where growth upwards of 50% YoY is expected over the next five years. However there will continue to be pressure on business margins due to c hanging client demographics, the entry of new product providers with different pricing strategies and wider use of technology. Wealth management will, however, continue to generate excess margins compared to retail mass market.

Structurally higher margins will continue because clients demand complex and sophisticated products. In contrast, non-structural margins come about because of imperfections in the market and, eventually, these margins will be eliminated by regulation, technology or competitive pressure. Clients are increasingly reluctant to pay for ad valorem charges and prefer paying separately for the advice – which incidentally is not related to the assets under management. Although the wealthy are prepared to pay premium prices for established exclusive and luxury products, they are increasingly reluctant to pay a premium for products or services that are simply re-branded mass market products, available at a lower cost elsewhere.

### War for Talent

The current Relationship Manager (RM) model is under severe strain and needs re-engineering. Asia Pacific already has the lowest ratio of RMs to clients compared to the Americas and EMEA, and with anticipated growth rates this is expected to further deteriorate. Wealth managers have to bring forth new strategies to increase the supply of available RMs and improve training for existing ones. Though poaching RMs from competition is likely to remain an attractive strategy, wealth managers are likely to look at training employees from other areas and at fresh graduates with wealth management qualifications to ensure an adequate supply of RMs. In addition, relationship manager training is likely to focus on areas such as third party and own products, AML and KYC policies, taxation and legislation update and financial markets updates.

### Branding

Branding has always been important in attracting and retaining clients, now likely to get more attention going forward. In branding, the important features to be addressed are familiarity, positioning, differentiation and emotional attachment.

### Changing profile of wealth management customers

The composition of the wealth management clientele is changing rapidly. The number of "traditional" HNW individuals continues to fall and this is being replaced by individuals with far greater financial knowledge and confidence, prepared to devote more time to financial matters. 'Traditional' clients are content to let their portfolio be managed by a wealth manager on a discretionary basis. 'Self directed' individuals, on the other hand, are confident of their own financial skills and are often reluctant to pay for advice. They tend to be very interested in the performance of their investments and use journals, newspapers and the Internet as sources of financial information.

### Changing profile of wealth management service providers

Wealth managers typically come from retail banks wishing to expand into the investment space on one hand with brokerages, and trying to move into the 'trusted advisor' space at the other end. Technology is bringing about far reaching impact on how competition plays out in this space. It is making it easier for new entrants to enter and for existing players to expand their offerings quickly. Worldwide wealth management offerings are provided by specialized private banks, retail banks, brokerages, investment managers and specialized personal financial advisors (PFA). In India this service is currently being offered by leading private banks, foreign banks and brokerages.

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