The ASIAMONEY Private Wealth Management Roundtable

The rise in the number of Asia’s wealthy has caught the attention of all international private banks. The sum of money being put to work is growing at a rate that puts the rest of the world to shame. But there are limited numbers of experienced bank personnel available, and convincing new millionaires that they should be saving as well as investing is not always easy. ASIAMONEY sits down with five private banking experts to discuss the opportunities and challenges facing this thriving industry.

ASIAMONEY (AM): How rapidly have your organizations expanded in terms of assets and resources?

JEAN-CLAUDE ERNE (JCE) - PICTET ASIA: In terms of growth it’s been steady for the past four or five years and we anticipate that this trend will continue. We have experienced growth between 20% and 30% AUM (assets under management). Now the challenge is to find talented people to keep up with that growth.

ANNIE KON (AK) - SINGAPORE MANAGEMENT UNIVERSITY: Is it even?

JCE: Yes, in general it has been fairly even. In south-east Asia, we’ve seen nice growth in Indonesia and Thailand; in north Asia, Hong Kong and Taiwan remain most important for us.

TAN SU SHAN (TSS) - CITIGROUP PRIVATE BANK: AUM growth is probably double-digit depending, like Jean Claude said, on the region. There’s been strong wealth creation in south-east Asia due to a variety of factors. A big jump of cross-border, intra-regional trade, relaxation of capital markets, rising domestic-led demand are factors that have led to the rise of a young, wealthy entrepreneurial class which had hitherto never existed. And the burgeoning capital markets has led to a lot of listing of companies’ capital which has led to a lot more wealth and a lot more capital for business growth, and business growth equals wealth creation. So I think the capital markets, deregulation and a strong entrepreneurial spirit has led to the boom in the wealth management industry.

AM: Citigroup has a very broad presence in Asia. Have you concentrated on any markets at all?

TSS: We’ve always been strong in the offshore side but we’ve decided that to be a really strong franchise, you have to go onshore. Onshore is absolutely where most of the wealth creation is going to come from and we want to be early to the wealth process. If you’re their partner when they begin to generate their business wealth you’ll hopefully be their partner for life.

So the onshore focus right now is the big countries: China, India and Korea.

RENATO DE GUZMAN (RDG) - ING PRIVATE BANK: In terms of our business, [we have registered] 27% in terms of compounded annual growth rate in assets for the last five years. And we still see a lot of potential to continue the growth. We see the economies in Asia are all growing...most of the attractive places in GDP growth are in Asia, particularly China and India. We’ve a good footprint in India. We’re the only foreign bank with a retail operation, we have 440 branches through ING Vysya and that will give us a very good infrastructure in terms of developing the onshore market and cross-selling to the offshore market. Also in China we have 20% of Bank of Beijing, which has 140 branches in the Beijing area, and it’s in the process of setting up its own private banking operation. We’re assisting them to set this up, with a view of onshore/offshore cross-selling.

ROBERT CHIU (RC) - EFG: EFG came to Asia in 2005, so the growth rate mathematically has been phenomenal. It’s seen 177% revenue growth and 70% AUM growth. But on a normalized annual basis our experience is like our colleagues of 30-40% AUM growth. According to the Merrill Lynch Cap Gemini wealth management study, the combined wealth of Asia Pacific high net worth individuals (HNWI) is US$7.6 trillion, and a number of market studies show the entire private bank market share combined has US$460 billion in client assets. That’s less than 7% of the market. That’s an indication of why the growth is phenomenal.

AM: A lot of newly wealthy people in Asia are not investing in private banks but in their companies. So can such growth in assets be maintained?

TSS: You’re right that more people are putting more of their money to work through their businesses, especially the younger entrepreneurial ones. And looking at the different stages of one’s
life, of course you won’t have much liquid assets when younger. That’s why I believe that to play a role in private wealth management you have to be a) holistic and b) part of the wealth creation process and at least understand the wealth creation process so you can add value when you see the clients. So we’ve taken the approach of client segmentation, understanding certain clients better than others, and understanding the clients well in real estate, financial sponsors, manufacturing, so that when things do go wrong, we can buffer the downside.

JX: The private banking business is cyclical and dependent on stock market evolution. We don’t want to “hire and fire” but to hire people who can continue to advise the clients under all types of circumstances, especially when the markets are tough, and make them understand the benefits of a long-term strategy.

RC: It’s more of a function of the rapid growth of individual wealth versus the ability of the private banking industry to catch up. Right now, if you believe the statistics we have 7% market penetration; that kind of growth is probably a function of the infrastructure and ability to hire more people and the market is huge out there. I think in a mature market, penetration would be a lot higher. Switzerland has 650 years of private banking history while Asia real wealth management started in the late 1970s. So in terms of relative maturity the private banking industry here is in a relatively embryonic stage.

AM: How has ING been expanding?

RC: In terms of ambition we have higher growth targets next year. The think about is self-referencing wealth management. Already countries have quite sophisticated wealth management knowledge, whereas other countries like offshore India and China are still getting exposed to wealth management techniques and concepts. And there’s a lot of wealth creation so there’s a big growth to be played within these countries. Also most of these countries are beginning to globalize and open up their domestic market into a more flexible exchange rate because of the surplus situations within these countries and that will offer a lot of opportunities.

AM: Asia, you help to train the people that others need. Has there been over-exuberance in hiring?

AM: I think that the growth is real. The recurring theme that has come across is that the wealth has been created and needs to be managed and a lot of entrepreneurs are putting money back into Asia, not just their businesses but growing stories. Many new entrepreneurs are quite savvy, we’ve seen quite a few but the ones who are young want nice divisions between the family and business. So it’s not one size fits all. The training opportunities are enormous but what we are seeing in the wealth management programme we run is that there are a lot of people who are not in the business who are trying to get a foot in.

AM: Doesn’t the rapid bank expansion mean we’ll inevitably see a dilution of talent?

TS: I don’t think private banking is a young person’s job. It’s an older person’s job, [for] someone who’s seen a couple of downturns, at least one big downturn [who is] able to look beyond the boom times as they are now. I’ve hired people who aren’t private bankers but they are thought leaders, they know financial instru-
ments, private equity or corporate banking and have seen a few downturns.

RC: It's not just knowledge or training. Private banking is very unique in that you cannot just have product knowledge and become a successful banker. You have to have the pre-requisite and that is client relationships. If you have no client relationships nobody will hire you.

JCE: When it comes to the question of whether there was a dilution in the quality of the people hired, I think that the answer is clearly yes. The latest trend now is to recruit people who are not from the finance and banking industries, from the hotel industry, for example. These people are well educated but after 10 to 15 minutes of discussion with a client it just isn't sustainable. So I think that the overall quality is coming down.

TSS: That's shocking.

RC: There's been a lot of misplaced hiring, trying to cover the market as quickly as possible which hurts the image of the industry. A lot of clients I see are quite tired of being called by several private bankers from the same banks. They're also very young in terms of providing advice and pushing products. Everyone you hire has to achieve certain amounts of revenue targets early, to prove themselves, and the investors and clients will suffer. You really need to look at different areas in terms of building your front office. We've seen good examples of corporate bankers who have good basic skills even if they take longer to train. And of course there are good cross-overs with investment banking.

RCB: And if you have a domestic platform you can bring them offshore. Like in India we have a strong domestic platform and onshore private bankers can go offshore.

AM: Do you think there'll be any major private banking scandals due to the rapid growth of the industry?

RC: My historical perspective is that in the seventies and eighties there were several but the banks have wised up since. And the regulators in particular have focused on every bank having significant compliance capabilities. So my sense is that nowadays all the banks have the risks under control, but that does not preclude anything happening.

AK: It's a good point and it's why I think Su Shan is stressing seniority and having the nose to sniff things out. And that doesn't come from formal training, it comes from experience.

AM: Citigroup is a good example because it was taken out of Japan. Has it learned from that?

TSS: Boy has it learned. Citigroup has now got a highly superior level of compliance and risk controls and supervision. After the Japan incident, we were subjected to every single compliance and risk control text that exists - internally and externally. We passed them all. CPB, like every top-notch private bank, has all the control processes in place. We've got KYC (know your customer), AML (anti-money laundering) and transaction monitoring. We tend to institutionalize the relationship, so it's not just a bilateral relationship between the RM (relationship manager) and the client, but also with the various product specialists, the structuring guys and management. So there are various different layers of supervision over the relationship.

AM: How does Pictet, which is very small here, ensure it keeps to a high standard?

JCE: We have very high standards of due diligence: various controls, very experienced people to perform them and very experienced relationship managers who have close contact with their clients – the only way to fully understand their background and the source of their funds. We have had a limited number of very high net worth individual clients for a long period of time.
They may have been able to go with them since they were entrepreneurs to a later stage and we know them well.

**AM:** I understand that wages and compensation packages for private bankers are rising fast.

**RC:** My sense is that there is a market pay. And I think among the candidates there is a good sense that if they are given a package, they’ll deliver. Our way of recruiting them is to be very straightforward with remuneration. We have a very clear step on what is the basic salary, what is the bonus scheme etc. And people who do decide to join will probably consider their level of performance and whether they can sustain their kind of pay. So there’s a limiting factor.

**AM:** Does that limit the banks and level of people you can approach?

**RC:** It does, yes. But we have seen the economic cycles and we don’t propose to go out of our way to go above the market pay and get ourselves into the situation where the business is not profitable. And once there is economic downturn you have to reduce the headcount, which we don’t want to do.

**JCE:** It’s true that the wages have been going up sharply, there’s a market price and if you want to hire talents you have to pay the price of the market. But we’re reluctant to go above the market price as we’re careful about people who ask extremely high wages and claim that they can bring in a lot of business. They may do so but they may do so by taking risks, such as approaching prospects that we would not normally consider, and potentially damaging our image and our line of business. So there is a price for everything but we don’t want to participate in this crazy pricing increase.

**AM:** Can I get a consensus on how much wages have risen in the past year?

**RC:** 30%.

**JCE:** 20 to 30%.

**RDG:** about 20%.

**AM:** Will it continue?

**RDG:** It’s limited to the number of clients the new bankers can manage and the amount of assets they can handle. But you hire people and pay them more because they can become team leaders and replicate themselves five times. If they have leadership skills and their upside is very high and if they can build a team, then wage increases might still be reasonable.

**JCE:** The market needs to stabilize; it’s been growing too fast. There is need for some consolidation.

**AM:** Are you talking about private banks merging, or just consolidating what assets they’ve gained?

**JCE:** Both. It will be both.

**RC:** It’s a natural process. As people get higher packages they want to be more aggressive in terms of selling products and to justify their higher salaries, and so that will create more risks to the clients as well as the selling team, so there will be a natural slowdown.

**JCE:** There will be a snowball effect.

**RC:** We saw this in 1994-95 when no bank could hire anyone because the wages had gotten so far. And soon after there were massive layoffs, because people were aggressively selling products and got into trouble.

**TSS:** It was like the Internet bubble with tech bankers.

**AM:** How does the issue of the generational handover of wealth affect your hiring strategy?

**TSS:** That’s a great point. I’ve just had a management conference last week where we talked about these issues with a lot of clients. Asian families are now going to the second, some to the third generation and what was most important to the patriarchs or matriarchs was the business continuity, as much as the actual asset management side. For the first generation it was forward. But by the second or third generation they are all cousins, and they are facing key issues such as should you keep the business intact, or split it up. I think Asian families are grappling with and looking at Europe and the US, which have gone through many generations of wealth creation, for what to do. So I have teams of specialists who are very good with the first generation, some who are better with the second generation and a few who are good with the third.

**JCE:** This is a very important question as we’re dealing with a lot of HNWIs who actually have run the business for one to three generations through Asia. Given Pictet’s profile, with the eighth generation of partners in the bank, we feel we’ve very good ground to develop the relationship with those people and share experiences and perspective without adopting a specific hiring strategy.

**RDG:** Right now Asia is still a very first generational market which is good because they understand how to take risk and create wealth. But there’s always the difficulty of bringing the
second generation and getting them involved in wealth planning.

**AM: What investment products have been popular recently?**

**TSS:** They’re quite bullish and buying straight equity. Go straight long bonds. The interest rate products have come to play as people feel rates have peaked and that now is a good time to lock a fairly decent rate.

**JCE:** I have a slightly different perspective. We tend with clients to focus on asset allocation and discuss what should be areas to invest in and the product comes at the end of the chain. We’re not product focused but strategy oriented.

**ROD:** When you approach banking clients they go for absolute returns and if you want to develop a strategy focusing on absolute return you need dynamic asset allocation and structured notes, [to know] how to hedge the portfolios and take limited risk.

**TSS:** We’ve focused on the liquid asset part of a client’s worth, but there are buckets of other wealth in the whole net worth that the private bankers have to consider. An HNW will be worth his assets, and his liabilities, and his business worth and real estate. You have to work out if real estate prices are going up, and if so where you change your asset allocation. If interest rates go up then properties are rising in value – rising interest rates mean inflation – but how do you also hedge your [capital] erosion as your liabilities go up? So we have to do that too.

**AM:** There are lots of people who attend courses and focus only on asset allocation. They keep thinking of the liquid assets part; there’s a concentration on teaching it as if it’s just CFA [Chartered Financial Analyst exam] material.

**TSS:** But a successful private banker has to look at liquid assets and all non-correlated assets and liabilities and then offer the right overall solution. Whether it’s structured product or hedge fund, you’ve got to look at the whole picture and not just the assets part.

**AM: Do you have any predictions or ideas where clients will focus in the future?**

**JCE:** They’ll focus on equities for the next three months and continue to invest in hedge funds. It’s harder to predict beyond three months. Our clients have been investing in hedge funds for the last 23 years now and this is an asset class that we recommend to every investor.

**TSS:** The themes are clearly environmental and possibly alternative energy. Commodities was the theme earlier this year, it’s petered out and might come back in. Co-investing in special situations, being part of a buyout situation or private equity is interesting to clients and something we offer. There is some concern about hedge funds but as more endowments and family offices are going the alternative route, high net worth individuals will naturally follow. Hedge funds are here to stay for a long time, although there’s a particular space within the alternatives that I like, which is M&A Arbitrage. We put money into M&A arbs and event-driven funds which have worked out and there is much more private equity M&A activity and LBOs (leveraged buyouts) happening. And I can’t stress enough how much Asians love real estate. It’s always a large and relevant part of our portfolio and it’s something that investors have to understand and service.

**RC:** We’ve been promoting commodities since 2002 and still feel there are opportunities in commodities in specific products for the foreseeable future. Hedge funds are still our plate and in terms of the environmental funds a couple of the water funds.

**AM: In terms of investment advice, does open architecture really exist?**

**TSS:** We don’t own Citigroup Asset Management anymore, so there is no conflict. We have gone completely open architecture, although we do still have money in the game in property or private equity but we’re the lead investor and clients are welcome to participate, but otherwise every hedge fund and traditional fund is third party.

**AM:** But do you embrace the idea of creating your own structured products, for example?

**TSS:** No, we outsource that too. There could be Merrill Lynch, ING, Morgan Stanley and Credit Suisse. We give our own traders first right of refusal. If they can’t beat the street price we go to someone else. And I think that works because espe-
cially in structured products the pricing is objective. Different traders have different views and strengths and different hedge fund managers have different talents. We don’t ever want to be in a situation where we feel like we have to support someone who works for another team. We’d rather just give it to the best.

RD: We’ve been open architecture since day one. But we just hired someone from a very large private bank – I must say it’s not Citi – and this person said that they do have an open architecture but it’s very difficult to sell someone else’s product. They give lip service that they do sell someone else’s product, but to try and actually do it they had to go through quite a number of hurdles.

AK: Renato, is there ever internal pressure to favour ING products?

RD: Not at all. Sometimes ING comes up with better products, but they have to compete with everyone else. ING is the biggest real estate manager globally so they have a real edge on a global basis.

AK: But regarding this open architecture, what I’m hearing is that the banks are open architecture but only for the liquid assets.

TSS: It’s not just liquid assets but also real estate assets, hard assets. And a lot of investment banks do not offer loans. Big centre banks like Citigroup and HSBC will offer both loans and asset management. Then you’ve got the boutique banks that do something really well whether it be hedge funds trusts or whatever, and then there are the brokerages whose RMs are paid on commission and they’re very good at certain things, like capital market transactions.

AK: If a big bank like Citigroup helps a client with his loans and bonds and equity, there must be a temptation to leverage the relationship with him to get a lot of his private banking business.

TSS: If it enhances the relationship and increases share of mind and wallet, why not? If you can capture 70% of a client’s assets and liabilities that’s great, but the loan market is very transparent and if you don’t beat the bank down the road then you’re not going to get it, whether or not you have a good relationship. But you’re right – if an investment bank has done an IPO, the private bankers would be in there seeing if they can pull the business. I don’t think there’s anything wrong with it. In fact if the internal parts of a firm can work together to provide an investment and hedging solution it’s a win-win.

JOE: Some clients do prefer to separate completely their business and private banking needs to isolate potential conflicts of interest.
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AK: Jean Claude is right, some Asian clients wouldn't mind two or three relationships and they identify the banks for their local businesses sometimes.

AM: Annie, from your perspective is open architecture embraced by the banks?

AK: It's good because it's investor education. The banks are happy to see if you're not pushing your own products because it's good for you. You actually look for the best combination for your clients. Information is good.

AM: I've been told that while major players are too big to fail and boutique houses will do well due to good personal relationships, mid-sized and some domestic operations will struggle and consolidation could occur.

RC: I think in Asia consolidation has run its course. Every bank is trying to expand, but the big eight or nine private banks will continue to do well because of good infrastructure. There's a group of mid-sized banks that will need to differentiate themselves away from the big banks. The boutique will continue to do well in its own way because of relationships and differentiation or positioning. But a smart global manager or director coming into a mid-sized bank should say 'why are we in this business?' We're not a key player. We should either pull out or go aggressively into it.

BDG: I think that barriers to entry into Asian private banking are quite high now.

AM: But with banks like Standard Chartered still entering it's not prohibitive.

BDG: I can't comment on competitors but I think there's a few foreign banks that tend to be aggressive in hiring strategy and that will have a high degree of failure. The cost of getting people will be expensive, the cost of putting up a platform is expensive. The cost of getting scale is much higher. For new entrants you'd better do your math correctly and differentiate yourself well.

AM: But we're starting to see that a bank doesn't need to build a presence regionally, they could concentrate on India or China for example.

BDG: That's the second point. The room at the top is a growing pie and it's growing at the top. There's no dominant player among the players here to make others go up in the rankings.

Again if you look at China it's a very open market, as is India. It requires a lot of good strategy.

AM: Citigroup is certainly on the forefront now. Do you feel you could ever slip up?

RDG: In Japan, it is an example.

TS: It's good to be big but it's also tough to be big. There are different countries and different cultures but at the end of the day the credit rating of the bank is important. You're putting your money there, that's the underlying fundamentals of creating a banking relationship. The client has to feel that the bank will stay beyond his generation.

AM: Is the key challenge for all private banks the China-India solution?

RC: I would agree that China-India is the key challenge mainly because of scale. We've been in all the major private wealth centres but we're not yet well positioned in Asia. In Hong Kong there are seven million people with 77,000 HNWIs. Think how many in a country of 1.3 billion.

BDG: I agree that it's key to our expansion plan. You can see in terms of growth in assets, and it's reflected in the way these two countries have been growing. So they're important in terms of future growth. We're half-way there in terms of ability to be a strong player in the Indian market. China is an interesting problem, there's quite an issue that there aren't any private banks in China and they've not had this tradition of private bankers.

JCE: We have no presence in India or China and in the short-term perspective we've not got plans to set up in those countries. But we've seen a lot of Indian clients coming to Singapore and to Europe, in high-level service private banking, so there is room to grow with HNW Indians and it will be the same for China in a later stage.

TS: We've just opened a Shanghai office of the private bank. And we're onshore in Asia. As a firm we believe that China and India will be the biggest wealth management centres [in ex-Japan Asia] in the next 10 years. The statistics are mind-boggling – there are 320,000 US dollar millionaires in China and 83,000 in India. Every day there are 50 millionaires created in China and 40 created in India. So the opportunities for us here in Singapore are tremendous as this wealth increasingly becomes pan-Asian. As a Singapore private banking hub we can only benefit.