Empowering the Relationship Manager
Leveraging new technologies to deepen client relationships
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Executive Summary

Asia has seen record-breaking wealth creation over the last decade driven by many of its emerging markets like China, Indonesia, and India.

The region’s growth has seen an increased amount of wealth managers both offshore and onshore as players seek to ride the rising tide of economic prosperity.

Onshore wealth management is growing at a noticeable rate although issues such as regulatory limitations on investment products, high taxes, talent shortage and political instability still drive investors to the region’s wealth hubs, Singapore and Hong Kong.

At the same time, the wealth managers need to keep updating their business models due to global market volatility, prudent regulators, weak risk appetite and increased customer sophistication. These factors drive up the already high cost of Asian wealth management.

In this paper, we look at the latest initiatives to improve the frontline experience among local and international wealth managers in Asia in a bid to address the issues highlighted above.

We look at three core markets in the region; Singapore and Hong Kong for their prominent position in the Asian wealth management landscape, as well as China, as an emerging market.

There are five key trends affecting the frontline experience in Asia’s wealth management industry:

1. International market volatility and the fallout from the global financial crisis (GFC) has increased customer trust in home-grown Asian brands
2. The hands-on investment style of Asian affluent customers demand more of a brokerage model than the traditional financial advice and funds management process of wealth management.
3. High staff turnover at the frontline due to the limited talent pool lead to lost portfolios and customer attrition.
4. The increasingly complex compliance requirements are expected to centre around greater investor protection with stronger regulatory oversight in product development and increased know your customer (KYC) processes.
5. Limited technology at the frontline and back-office contribute to high operational costs. As a high proportion of operating costs are at the frontline, this will most likely be the first area to address in technology investment.

This white paper investigates the key drivers behind these trends and the investment priorities of wealth managers in the region in response to these developments.

This paper was based on 20 interviews with international private banks, domestic universal banks with wealth management business, consulting firms, head hunters and technology providers.
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Introduction

Transparency, fair dealing, and investor protection have become keywords in wealth management today. As a result, improving the frontline experience has moved onto the radar of wealth managers. While wealth management has always put the personal relationship with the customer at the core of their proposition, banks today are under pressure to manage this relationship more efficiently.

Rising cost; an increasing, yet small number of customers; the lack of experienced frontline staff and high relationship manager attrition force banks to rethink their business model in order to stay profitable.

While boutique wealth managers will find their space in the small but lucrative UNHW segment, wealth management in Asia is increasingly becoming a volume game. In emerging markets like China, India, and Indonesia, where the number of millionaires is growing fast and the wealth management industry is still young, wealth management often takes the shape of red-carpet retail banking.

For a variety of reasons, Asian customers tend to be product-focused and less keen on discretionary wealth management. Since a large source of Asian wealth is entrepreneurial, Asian HNWs are hands-on when it comes to investing and want to remain in control. Wealth management therefore resembles product brokerage.

International banks have tried to shift Asian customers towards a discretionary portfolio management approach for the longest time. But today with customer’s incurring losses from the financial crisis, professional portfolio management may have a stronger case. Nonetheless, managed portfolios only account for 10% of the total assets under management (AUM) even in mature markets like Singapore and Hong Kong.

Robert Cormie, head of Asia Pacific region, Canadian Imperial Bank of Commerce (CIBC) says: “Technology, data & analytics and sophisticated portfolio management tools help us to promote a discretionary portfolio management approach. Today we can show our customers, this is how their portfolio performed under the product-centric advisory model and this is where it could be today, if we would have managed their funds. Nobody wants to have an underperforming portfolio. Today we see an increase in discretionary portfolio management. The regulators also like it, as they are interested in more long term investment.”
Challenges in delivering a customer centric frontline experience

While mature markets like Hong Kong and Singapore and emerging markets like China differ largely, many of the challenges wealth managers are facing today, such as high cost and increasing regulation are universal.

Banks in the emerging markets tend to mitigate high cost with high volumes while international wealth managers see efficient service personalisation based on automation and process re-engineering as the panacea.

The survey respondents highlighted three key challenges:

- High relationship manager attrition and lack of talent
- Increasingly comprehensive and tedious regulation
- High labour and operating cost

High relationship manager attrition and lack of talent

Given the lack of experienced frontline personnel in Asia’s wealth management industry, ‘poaching’ is a popular yet challenging industry practice. The bank suffers from a loss of investment in training and business as RMs often take 10% - 15% of their portfolio along.

Some banks try to escape the negative effects of ‘poaching’ by reducing the exposure of any individual staff to a client thus making it easier to replace RMs. In the front-end, many banks move towards a team approach increasing customer touch points beyond the RM and introduce product specialists and other RMs to clients.

Wealth managers are also warming up to using technology for contact management, CRM systems, data& analytics, project planning, documentation standardisation, etc. Customer data will thus sit with the bank and not just with the RM as has been largely the case with traditional wealth management.

These technologies have the double benefit for the banks that as it frees up RMs from time-consuming administrative tasks and increase institutionalisation of the customer information thus making it easier to replace RMs if necessary.
Challenges in delivering a customer centric frontline experience

■ Regulation a real strain on the business

The repercussions of the global financial crisis hit the wealth management industry today in various ways. Closer regulatory control of sales, risk and products, the risk of regulatory intervention, the pace at which regulation is changing and intensifying and the implied cost are putting a real strain on the wealth business today.

Differences in the regulatory style of Hong Kong and Singapore influence the future development of the wealth industry in the two countries. Hong Kong’s regulators have opted for a highly rules-based and prescriptive approach turning KYC into tedious process for both banks and customers. Singapore’s MAS on the other hand follows a more principle based approach, giving banks some leeway on how to manage compliance as long as basic rules are followed and the customer is protected.

“The MAS is less prescriptive than other regulators. It makes sure that banks comply with the KYC standards regarding anti-money laundering and risk profiling. It’s then up to the banks to make sure all standards are met and for each to build the infrastructure around it. We take this very seriously and monitor this on multiple levels - all the way up to the Group CEO”, says James Phoen, head of sales and distribution at UOB.

The more prescriptive regulation in Hong Kong may give Singapore a competitive edge hints one of our respondents: “In its current set up, Singapore’s regulation is more favourable to the banks and customers. I expect HKMA to either react or Singapore’s role as a leading wealth management centre in Asia to expand further.”

But the rules-based regulation can also be an advantage says Robert Cormie from CIBC: “The rules-based approach makes it easier for us to automate the sales process. You just have to follow the tick list and the system makes sure you are compliant.”

Regulatory quality in China has come a long way, but two key challenges remain. First, the fragmented regulatory landscape complicates compliance, particularly if all regulators are not on the same page. Second, although the regulatory frameworks have reached international standards, compliance has not given lax controls and monitoring.
High labour and operating cost

With cost-to-income ratios of over 70% on average among wealth managers in Singapore and Hong Kong, wealth management in Asia is a costly affair. Given the small customer numbers, banks used to be less technology driven and involved more manual processes. Investment in technology often does not offer a feasible return on investment. As such many of the established wealth managers are sitting on old and limited technology, making it difficult to scale up business and to improve efficiency.

Staff expenses remain the largest cost factor, but operational costs are a growing pain caused by more comprehensive and complicated processes due to new regulation. Hong Kong and Singapore banks increasingly build on technology and business process re-engineering to automate and streamline processes.

Chinese banks do not yet face the same cost pressures, as labour is still relatively affordable. Chinese banks have built their wealth management proposition on top of their retail banking proposition using a retail core banking system instead of a specialised wealth management system. Products that go beyond the capabilities of the retail system are run by other divisions such as corporate banking, cards, or treasury. Risk management is also handled by respective divisions. Despite the lack of integration and specialisation none of our respondents saw a necessity for major investments in technology.
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Priority on frontline investment

Many of the international banks see technology as the key enabler to deliver premium services to the customer.

“Surely technology is a key enabler for us. But it has to fit into the overall service delivery. Technology will not convince a customer to select and trust a bank, but it serves an important role to help us understand the customer better, to be transparent in our communication and to empower our relationship managers in the frontline”, says Andrew Chan, director private banking of Bank of Montreal (BMO) in Hong Kong.

We expect to see greater focus on investment in the front-end as that will be where the customer-facing and cost-saving impact is the greatest. As banks look to relieve their RM to increase efficiency and automate the customer onboarding and contact management process, banks are looking at five core areas to improve the frontline experience in wealth management.

Contact and project management

Contact management tools free up relationship managers from the daily trivia of managing their appointments and facilitate a continuous flow of communication from the bank to the client. This includes tracking of client interaction, to-do task management, recency and project management tools.

These tools not only have a positive effect on RM efficiency, but they also help banks to mitigate the risk of RM attrition by making it easier to replace RMs.

Some banks automate information dissemination of market information, relevant news, customer education and product information to the customers.

DBS’ group head of wealth management Tan Su Shan also sees high potential in client education online. “Our CIO created an integrated platform to provide clients with news and insights via push-mail, email, online, webcast, phone, etc. We put all relevant information together in a daily covering FX, interest rates, equity research from Vickers, fixed income research, strategy pieces, economics, etc. We segment the content according to customer needs and risk profiles and target them accordingly.”

Automation of the onboarding process

Automation helps to offset the rising cost resulting from more prescriptive regulation of the sales process, KYC requirements and risk profiling of customers. Technology automates labour intense processes by following rules and check lists, thereby minimising compliance risk, labour cost and human errors. Straight through processing, a term which has been around in retail banking for years already, slowly finds its way into the wealth management space.
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With data & analytics becoming more common in wealth management, a well designed onboarding process needs to feed the system with customer information to empower improved risk analytics, customer needs analysis and risk profiling, as well as integrated account/ portfolio management.

While international banks focus on automation, Chinese banks are revamping processes to increase efficiency and improve their value proposition to customers.

Liu Jian Jun, general manager private banking in China Merchants Bank says: “We provide our RMs with a structured, four-step sales process: In the first step staff conducts a comprehensive KYC process going beyond regulatory requirements to also collect information on existing assets, risk preferences, and demographics of the customer. In the second step a customised investment plan is created determining asset allocation. In the third step this investment plan is executed. In the fourth step the plan is reviewed after three months and refined if necessary.

Mobile and Internet necessary for new generation

We identified a shift in the channel strategy of some wealth managers, who started to build an internet and mobile banking capability. This was formerly unthinkable and even today our respondents are ambivalent over this point. Some see it as non-viable as it defies the relationship aspect, while others see potential for account viewing rather than a full-fledged transactional capability.

Some wealth managers in Hong Kong have started applying for internet banking licenses observes Emily Lam from PricewaterhouseCoopers in Hong Kong, but she clarifies: “Generally, industry people do not expect mobile and internet banking to be popular in the private banking sector. What counts is the relationship.”

There is little doubt that the new generation of HNWs is more tech-savvy and wants to be more actively involved in managing their investments directly, anytime and anywhere – without the need to call a RM. This applies particularly to tactical, low-value investments in fast changing markets, such as FX and equities. Strategic investments are likely to remain the domain of RMs.

“For simple transactions or routine enquiries, we find that customers prefer the internet but for more difficult questions or advice, they want to talk to their private banker. Increasingly, the trend is pointing towards more activities to be conducted online in the future, even for the high net worth segment”, says Wilson Aw, head of UOB Private Banking.

The move towards the alternative channels is driven by universal banks which already have the infrastructure in place from their retail operations. Usually universal banks operate on different core banking systems for retail and wealth management. Therefore it is common to run the transactional services for wealth management customers through the retail systems. Full-fledged Western wealth managers on the other hand shy away from the high investment to build these capabilities.
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Priority on frontline investment

- Reporting and documentation

Improved data management, analytical capabilities, and data extraction tools support reporting and documentation and make it much easier for RMs to prepare and convince in the client discussion.

“Having real time information of a customer’s portfolio at hand during the discussion with instant access brokers and traders and real time market prices gives banks a competitive edge”, says the head of private banking of a Northern American bank in Hong Kong.

Easy access to customer information and tools standardising data export and automating graph creation, increase RM’s productivity and reduce time spent on collecting information from various systems and sources.

Improved data analytics tools like scenario analysis and stress testing of portfolios increase risk management capabilities as well as the professional perception of RMs by the customer.

- Portable frontline applications

Frontline gadgets like tablets also spill over from retail banking. Technology-centric banks like Citibank and ABN Amro are introducing tablets and laptops in the client discussion. However this practice is still limited and most RMs rather bring along printed presentations, brochures, and other paper-based materials.

These devices enable real time activity even from the client’s home providing real time access to market information, prices, as well as additional product information. Visualisation of complicated products, video conferencing with product specialists, and third party information material and market views by independent experts can furthermore help to educate customers.

Confidentiality and security is a challenge although paper documents carry their own set of security risks especially as Asian banks grow their business across borders.
Conclusion

The high cost-to-serve, growing cost of compliance and rising staff costs make it a challenge for banks to keep the bottom line intact. It does not come as a surprise that process efficiency ideas from retail banking are spilling over into the wealth management space.

Leveraging technology and business process management to improve efficiency in the frontline is a growing trend for international banks.

Although technology can be a considerable investment, increased pressures on cost, compliance and customer sophistication will drive more and more banks to invest in systems that can improve efficiency.