



FINDING THE RIGHT FINANCIAL FIT

OUR PANEL GIVES ITS TAKE ON THE EXTENT THE INDUSTRY HAS MOVED IN ADDRESSING THE LACK OF TRUST POST-CRISIS AND GIVES POINTERS ON PICKING ADVISERS

SINGAPORE is acknowledged as a major hub for wealth management. But it has had its share of mis-selling of complex financial products. How far has the industry moved to address the trust deficit post-2008 crisis?

Genevieve Cua: In the aftermath of 2008 there was much disillusionment over mis-selling of products among bankers. How much of that has changed and what do you see as the most beneficial changes?

Anthonia Hui: The 2008/9 crisis revealed the fundamental issue of “conflicts of incentives” inherent in the client-banker/

adviser relationship. As long as such conflicts exist, clients will be plagued by large investment losses from poor investment decisions driven by advisers that prioritise their own financial interests ahead of their clients’.

Sadly, things haven’t changed much. The much maligned “accumulators – I kill you later” products have resurfaced. Regulators have tried to protect clients by requiring more in-depth procedures for advisers. However, some of these have created unintended consequences, resulting in more misleading investment products with higher risks and hidden fees.

This conflict of interest means that many bankers/advisers are continually looking for the next “hot investment” to sell, leading to the current “advice of the



day" to shift from taking too much risk in equities in the years leading up to 2007, to taking too much risk in "high yield and lower grade junk bonds" now, and now finally going back into equities just as they are approaching all-time highs.

What is needed instead is a fundamental move away from product pushing to a more holistic investment strategy. Those of us that have been pushing for greater transparency to ensure client priorities come first appreciate the efforts of regulators. But more can be done to build a structure that gives all investors more confidence in their bankers/advisers.

Mis-selling happens when advisers either don't know their clients well or when they fail to put clients' interests above their own in order to meet sales targets. Regulators try to reduce the probability of mis-selling by adding compliance requirements and hoping that advisers will "do the right thing". Here investors can do more to help themselves.

At AL Wealth, we advise clients to understand what they are getting into; we take our time and sit down with clients to explain how all the different pieces fit together to suit their personal situation. The time taken for this advice does not generate fees, which is why it is generally not done at length. But it is critical to ensuring a long lasting relationship. All investors should ask the same of their advisers. Regulation is a good start, but the best precaution to protect your wealth is your own diligence.

Christopher Tan: Honestly, I feel that there haven't been many changes. In a mystery shopping exercise by MAS last year, they found that financial advice and information provided by representatives to potential clients were "inadequate".

While clients' personal particulars and employment details were gathered, not all were quizzed on their investment experience, financial objectives, risk preferences and financial situation, according to MAS's press statement.

About half of the mystery shoppers were not quizzed about their risk tolerance or financial objectives and 40 per cent were not asked for their investment experience. The survey also found that in 30 per cent of the cases, the products recommended did not match the person's financial objectives or their stated investment horizon.

Despite more compliance controls such as the insistence that advisers give Product Highlight Sheets (PHS) and conduct Customer Knowledge Assessments (CKA), we see that the ethics in giving financial advice haven't really changed.

David Lim: Today, banks are increasingly aligned to the needs of a more demanding client base. As a dedicated private bank... we support the recent industry developments, and believe them to be positive and helpful in raising the overall industry

service standard that benefits clients going forward.

Julius Baer set up our proprietary Advisory Excellence Framework before the global financial crisis. Under this framework, we take into account a client's particular needs, his or her personal and professional background, family situation, and investment risk tolerance and capability. We interpret this information and convert it into an investment portfolio matching each client's risk profile.

We operate on an "open architecture" product platform that provides a truly unrestricted choice of the best services and products. This client-centric business model reinforces our flexibility in sourcing the best products and ensures suitable and consistent high-quality advice to all our clients, a key ingredient for a successful partnership.

Tjun Tang: After the financial crisis, many clients became a lot more wary. In general, clients wanted bankers to explain product features and risks, and there was a lot more wariness around products they did not understand. Hence, we've seen a shift in client behaviour towards more simple, vanilla product offerings. Consequently, revenues generated on assets under management for the private banks have declined in the past four years.

The private banking industry is working on changing the wealth business from a model of independent relationship managers advising clients to a model where there is a more significant institutional relationship between clients and the bank. This may mean clients being served by teams of relationship managers and product specialists, with enhanced wealth advisory processes.

The objective is to place much greater emphasis on the quality of advice being delivered and to enhance the consistency of service delivery by relationship managers and investment advisers. This should be a positive outcome for both the clients and the banks.

Genevieve: How open are private clients to a fee model? Do you see this model taking off in the private client space?

Anthonia: Regulators want to ban commissions because commissions can motivate advisers the wrong way, by recommending investments with the highest fees for the adviser/banker. The fee model helps, but it will take time for it to be accepted mainly because in the past and even now, private banks and brokers often offer their advice free of charge, but earn revenue either via brokerage commissions or in hidden fees inside structured products. Thus, many clients have gotten used to the idea that they never have to pay for advice. The truth is that they are still paying for it, but they don't see it.

Based on our own experience over the last few years, more clients are beginning

to recognise this and are willing to move to a fee model. When set up correctly, a fee model benefits clients because we are better placed to understand complex investment products and can identify hidden fees and other costly inefficiencies that the client may not recognise. The idea of paying a fee for expert advice which can help clients to avoid investing in inappropriate or overpriced products is gaining ground in Asia.

Fees that are tied to the value of the assets under management mean that if the client's portfolio does well, the adviser would deservedly receive higher fees. A poor performance means lower fees. So yes, a fee model such as that used by our industry is aligned with the best interests of clients.

Christopher: I am a fee-only financial adviser so my answer is biased. We definitely feel that going the commissions-free way and charging a fee for advice are the most conflict-free way of giving advice. As clients pay a fee for advice, product commissions are returned to clients. This reduces the motivation to sell products with higher commissions that may not necessarily benefit the clients.

We have been operating for 10 years. Clients are definitely open to it and in fact, they prefer to pay us a fee for advice. I think everyone knows that this is a better way. The question really is whether financial institutions have the conviction to do it. The fee-only way takes a longer time to be profitable, but you hold on to your clients for a longer period of time.

David: Wealth management is a highly personalised service and there is no one single service model that fits all. In the wealth management industry, we have indeed observed that a larger proportion of private clients in Asia, as compared to clients in Europe or the US, are active traders who tend to pay private banks based on the transactions involved in managing their assets.

A few industry players deem the recent developments in Australia and the UK (to ban commissions) to be the next mega trend.

However, what seems to be lost in this debate is the client-centric focus on which wealth management advisory models should ideally be based.

As the leading Swiss pure-play private wealth manager, we care about our clients' portfolio performances and have set in place a transparent mechanism of charging advisory or management fees for selective advisory services including portfolio management and investment advisory mandates.

A focus on maximising client needs and interests will result in clients selecting the most relevant and suitable service model for themselves. The right approach, therefore, is to explain to clients the pros and cons of the service models and let the client decide what best suits his/her needs.

Tjun: The Asian wealth market has traditionally been a highly transactional business where revenues have been generated from brokerage commissions. I don't think we will see a shift overnight to a fee based model such as in Australia and the UK, though there are certainly opportunities to improve the fee/commission mix in Asia where discretionary asset management remains at only 4 per cent of total client assets under management. In Australia and the UK, many changes in the market came about through a high level of regulation, focused very much on the affluent client segments.

In Asia, we have to remember that there are several different client segments, with very different characteristics: affluent (roughly below \$1 million in financial investible assets) where it might be possible to make an Australian or UK model work; high net worth (\$1-30 million or \$1-50 million), where it is likely to be a mix of fees and commissions; and ultra high net worth clients (\$50+ million), where clients might have their own family offices to manage their wealth and where the need from external private wealth managers is either very transactional, or advice-based such as portfolio construction.

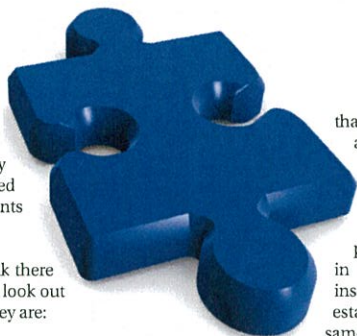
Genevieve: Please share some insights into how you think clients should go about picking their adviser(s).

Anthonia: You may wish to determine your own investment objective, parameters, risk tolerance (financially and emotionally) and time horizon. If you cannot do this yourself, then make sure that the adviser you finally choose is able to do this for and with you.

When choosing an adviser, ask them:

- How they plan to help you define all the above. Avoid advisers who seem only interested in selling you "great products/returns" without first finding out your situation.
- How they are compensated. Is the adviser remunerated by growing the clients' portfolio via long-term organic investment gains (not short-term fashionable trendy investments that promise outsized returns with high risk)? Is there an incentive for the adviser to "over-trade" the portfolio? Do they receive a "kick-back" from referring you certain investment products?
- To detail their past investment track records which highlight not only the investment returns but also the monthly/yearly downside risks, and the overall risk investors take to achieve those returns.
- How long their clients have stayed with them. It takes time to develop trusted and honest relationships. Both client and adviser should stand by each other in good and bad times.

Finally, good advisers should be able to clearly articulate their investment strategy in a simple manner that can be understood by all clients without using complicated financial jargon. Select only the manager



who can share the same value system in how money should be managed to the benefit of clients and their families.

Christopher: I think there are some criteria to look out for in an adviser. They are:

- **Character:** We look for someone with integrity. Practically speaking, this trait is very difficult to identify in the first meeting. It takes time to know a person. But I still put this as an important trait to observe. Over time, if the adviser's honesty is questionable, the client should cease the relationship straightaway.

- **Competence**

- **Education:** I recommend looking for an adviser with at least tertiary education and preferably with a related professional qualification. We are not belittling people with lesser education, but finance is a complex subject that needs someone who is suitably qualified to give advice.

- **Experience:** Look for someone with three to five years of experience. I know that everyone starts somewhere. But it would be good, if this person is new, to be in a company where advice is not just from him but also from the entire team. In this way, the lack of experience of one adviser can be mitigated by the experience of the entire team.

- **Independence:** Look for an adviser where conflict of interest is not there or reduced to a minimum. Clients should ask themselves: "How do I know my adviser will only recommend strategies that benefit me and not him? If he is paid a commission, is there a chance he will be conflicted? If he is paid a fee, can he stretch billable hours so that he can charge me more?"

- **Compatibility:** Look for someone that is suitable for you. If you are married, look for someone who is too. You want an adviser who understands the stage of your life. If you are single, look for someone slightly older than you, so that this person can understand the phase of life that you are at and yet be slightly more mature than you to advise you. If you are a senior, look for someone that you can relate to, with the maturity to understand the stage of your life.

- **Company reputation:** You can google the name of the company. You want to work with a licensed adviser, and this can be checked through the MAS website. You want to see that good things are said about them and their philosophy is aligned with yours.

- **Team support:** We strongly believe

that financial planning and advice cannot be done by one person. It takes a team to give advice. How can a person be an expert in financial planning, insurance, investments, estate planning all at the same time?

Always interview a few advisers before you decide to use him/her.

David: It is important that an adviser understands the needs of the client. Critically, the client must know whether the bank has the suitable platform to meet his/her wealth management needs;

- the right people to deliver on the results; and
- the risk management system to ensure that things are within pre-agreed parameters.

Having established that those elements are present, both the adviser and the client then need to work together to ensure that the level of trust and excellence are maintained throughout the relationship. Wealth management is a long term, on-going process and nothing should be taken for granted.

Tjun: Our client research has highlighted that Asian HNW (high net worth) and UHNW (ultra high net worth) clients have three different types of wallets: a safe wallet, an investment wallet and a speculative wallet. I think the questions clients should ask will depend a lot on which wallet they are selecting for.

Ultimately, the overall questions I would ask would include:

- Does my adviser think and worry about my portfolio as if it were his/her own?
- How is the wealth manager's institution set up to support me?
- How many other clients do you serve?
- How is the adviser managing the risk in my portfolio? How do they manage the short, medium, and long-term outlook?
- How is the adviser's performance measured by the bank and how would I evaluate whether they have been successful?
- What differentiates this adviser from the others that I have met?
- What do you value in a client/adviser relationship?

Genevieve: Please share some major calls you are making this year for clients' portfolios.

Anthonia: Many investors got burned in 2008 and stayed away from equities by moving cash into bonds. Only recently are they starting to come back to equities, which have doubled from the 2009 bottom and are approaching all-time highs. These investors are taking the view that the economic problems of the past five years have almost been fixed.

Our studies of stock markets bull/bear

cycle shows that it is extremely unlikely for a new bull market to start now. We are still in a multi-year sideways market with plenty of volatility.

A good investment strategy needs to take this into account in order to create lasting gains for clients. Investors who are being advised to switch into equities now after missing the last five years are buying High after selling Low, the opposite of what one should do.

Christopher: We are maintaining an overweight to the income theme this year. Even though volatility has come down and the world looks a better place this year than last year, we expect income products to continue to be in focus as many investors are still uncertain about market movements and prefer to receive regular income. We like certain Singapore Reits (yielding about 6-7 per cent) as well as Asian corporate bonds (yielding 4 per cent).

We like US equities this year, as US earnings remain healthy. The housing market has started to recover as well, providing a boost to economic growth. With quantitative easing expected to go on for the foreseeable future, liquidity should push equities higher.

However, we note that the US market has run up significantly over the past few months. Therefore, we would take opportunities of market correction to add positions.

We have been bullish on China for the past few years. High economic growth, growing domestic consumption and strong fiscal position are some of the key reasons that make us positive for the long term. However, we note that the Chinese market has run up strongly in December 2012 and January 2013. Also, government has announced some liquidity tightening measure over the past couple of weeks.

Therefore, we would be cautious for the next few months, as there could be a market correction. However, the correction would provide an opportunity to increase exposure.

David: Julius Baer is positive on global markets in particular equities, low investment grade and high yield corporate debt.

Our strategy remains to focus on dividend-yielding stocks and to look at emerging value in the eurozone, in particular French equities which have lagged significantly behind that of Germany.

We continue to hold onto allocations to Asean equities, in particular Thailand and the Philippines which have risen 14.8 and 16.3 per cent in USD including dividends year-to-date, respectively. We also favour Japan for the positive impact on its stock markets from Bank of Japan's reflationary efforts.

We remain bullish on the US housing market due to the low inventory level. On currencies, we continue to be positive on the yuan and selected Asian currencies. ■

THE BUSINESS TIMES ROUNDTABLE

Genevieve Cua, BT Wealth Editor poses questions to four wealth experts for their views on the evolution of the client-banker/adviser relationship.



Anthonia Hui is a veteran in private banking. Ms Hui co-founded independent financial advisory AL Wealth Partners in Singapore in

2007. The firm holds a capital markets services licence and deals only with accredited investors with a net worth of at least US\$25 million. Her hobbies are reading tax journals, playing golf, eating out and travelling.



Christopher Tan is Chief Executive and Co-founder of Provident Ltd, Singapore's first fee-only financial advisory firm. He is also Asia's

first Money Coach, with the Money Coaching Institute (US). His hobbies include reading good Christian and business books, cycling and playing the guitar.



David Lim is Chief Executive Officer and Head of Private Banking for South-east Asia for Bank Julius Baer in Singapore. He is responsible

for the bank's franchise growth, regulatory and corporate governance in Singapore, and also for business growth in the region. In his spare time he enjoys golf and spending time with his family.



Tjun Tang is Head of Boston Consulting Group Financial Institutions Practice in Asia. He is an expert on corporate

and investment banking, wealth and securities and asset management. He has co-authored many BCG publications including the Annual Global Wealth report. He loves to spend time with his daughters. He also collects wines from around the world.