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Spotlight:
WEALTH MANAGEMENT FIRMS IN ASIA-PACIFIC FACE UNIQUE CHALLENGES IN ADAPTING THEIR STRATEGIES TO MEET NEW CLIENT DEMANDS

Asia-Pacific HNWIs, like their counterparts globally, have been forever changed by the effects of the global financial crisis. But as wealth management firms try to adapt their strategies to meet the new needs of HNW clients, they face issues of investor diversity, industry maturity, market evolution and regulation that are unique to the region, and which make it challenging to implement strategic change.

NEW TRAITS EMERGE IN ASIA-PACIFIC HNWIs POST-CRISIS

The recent global financial crisis marked the sudden end of a long bull market in Asia-Pacific. This was a stunning development for the region's HNWIs, who had come to expect significant returns on almost any investment strategy. Moreover, few had fully realized the extent to which the fate of Asia-Pacific's markets was connected to other regions of the world.

In the aftermath of the crisis, Asia-Pacific HNWIs were forced to reevaluate their investment goals, strategies, asset allocations and risk profiles. And much like investors around the world, Asia-Pacific HNWIs have developed a heightened sensitivity to risk, are generally more cautious about investing, are keen to achieve more balanced asset allocations in their portfolios and are more engaged in their relationships with wealth management firms and advisors.

In fact, while many of Asia-Pacific's stock markets rebounded sharply in 2009, Asia-Pacific HNWIs generally did not rush headlong into the recovery. Rather, post-crisis, Asia-Pacific HNWIs are:

- **More sensitive to the threat of losses than the hope of returns.** While stock markets across Asia-Pacific surged in recovery, many HNWIs did not plunge back into the markets as they might have pre-crisis when returns seemed almost guaranteed. This caution illustrates the new awareness among Asia-Pacific HNWIs that any upward market trend can be fleeting given the staggering losses many markets suffered during the crisis, and short-term strategies in pursuit of returns might not be the best track, given some clients' longer-term financial goals. This more discerning and goal-based approach to investing marks a distinct shift in psyche among Asia-Pacific HNWIs compared with before the crisis.
- **More aware of their true risk appetite.** Risk awareness was less pronounced during the bull market, when Asia-Pacific HNWIs may have taken risks that exceeded their actual risk appetite but seldom questioned those investment decisions as portfolios generally generated good returns anyway.
- **More engaged in interactions with advisors and wealth management firms.** Before the crisis, firms and advisors were able to satisfy clients with a relatively limited selection of products—generally those produced in-house. Now, Asia-Pacific HNW clients want a wider choice of products, yet more customization, as well as more due diligence. They are taking longer to commit, prolonging the investment cycle.
- **More focused on balanced asset allocation.** When markets were continually rising, the main focus of Asia-Pacific HNW investors was on pursuing returns, rather than achieving balanced asset allocations or liquidity in portfolios. But those who were highly leveraged lost the most wealth during the crisis, and realized their portfolios lacked adequate liquidity. Now, wealth management firms are helping HNWIs to reevaluate how to achieve more balance in their asset allocations so as to meet longer-term objectives, such as funding their retirement or other financial goals, such as capital preservation vs. creation.

The post-crisis attitudes of Asia-Pacific HNWIs reflect their fundamental need to better understand what they are investing in, where it's held and how it is valued, as well as their desire for value-added advice and investment choices that are consistent with their risk profiles and investment goals. For wealth management firms, these needs translate into new demands in three critical areas:

- **Transparency and Simplicity.** Many HNW clients felt blindsided by crisis-related losses because they had not fully understood the products, valuations, risks,

performance, and fee structures in which they were involved. Now, they expect fuller product disclosure statements, so they know exactly what they are investing in, and they expect better and more frequent reporting of portfolio activity and performance.

- **Value of Advice.** As HNW clients consider their investment choices in more detail, they increasingly expect specialized and objective investment advice and want to be sure the proposed investment strategies align with their financial goals and risk profile.
- **Portfolio and Risk Management.** After the losses of the crisis, Asia-Pacific HNWIs are especially keen to understand where the risks lie in their portfolios and to achieve more balanced asset allocations. As a result, they want more evidence (e.g., risk-scenario analysis) to guide their investment decisions.

Notably, Asia-Pacific HNWIs' expectations are very similar to those of their HNW counterparts worldwide, but their demands create special and challenging implications for wealth management firms in Asia-Pacific. As firms seek to adapt their strategies to serve HNWIs more effectively, new client demands are especially exerting intense pressure on **product and service offerings** and **client servicing models**. In the process, the critical shortage of wealth management **talent** in the region is becoming very evident.

Asia-Pacific Wealth Management Firms Are Tackling Challenges in Products and Services, Client Servicing Models and Talent

Wealth management offerings are constantly evolving, but there was little reason for Asia-Pacific firms to change radically during the extended bull market, when investment returns could be found fairly easily, and HNW clients were widely accepting of the product choices proposed by firms—even though offerings relied heavily on in-house products.

Post-crisis, however, Asia-Pacific wealth management firms will need to work hard to satisfy the new and evolving needs of their HNW clients. In seeking to deliver a proposition that meets HNWIs' elevated standards, firms will need to reevaluate the products and services they offer, and the way in which they interact with and service clients—as well as the operational support needed to deliver on that proposition. This task is not easy in a region where markets are highly diverse, and strategy execution can vary widely between sub-regions and even types of firms within sub-regions.

Products and Services

Meeting Asia-Pacific HNWIs' demands for an expanded or specialized product offering may sound easy enough, but shifting product and service offerings defy the status quo among many wealth management firms. Regional Firms in particular have continued to rely on proprietary products long after Firms in more developed markets have embraced open architectures and high-end services to deliver to niche segments or broaden their offerings.

Some Asia-Pacific firms were not motivated to veer far from proprietary products in the past, because they could protect margins and fees (which are higher on in-house products) without displeasing HNW clients. In fact, clients were generally happy with their returns in the region's boom years and were largely indifferent to competing products. Now, however, Asia-Pacific firms could lose HNW clients if they cannot provide them with access to a more comprehensive and relevant offering that truly aligns with their individual risk and asset allocation priorities—regardless of whether the products are sourced from in-house or from third parties.

Other firms, recognizing that reality, are already gravitating toward open architectures and product partnerships to widen their product offerings and/or supplement expertise. But while these approaches are proven in developed markets, there are significant repercussions in Asia-Pacific where business models, people, organizations, processes and technology have long been aligned behind the proprietary-product approach. Some Global Firms in the region have already started leveraging a "guided" open architecture, in which products are preselected from the "open market" and templated to fit various risk scenarios, much like model portfolios. This is designed to take the guesswork out of the equation for less experienced advisors. However, given the financial crisis, these same firms recognize they need to adopt a more holistic and tailored approach to deliver what clients are now demanding.

As a result, adopting an open architecture, for instance, has various consequences that present numerous challenges to Asia-Pacific firms, including:

- **Client reporting and due diligence.** If one firm offers another's products, it will need to meet reporting and compliance standards around those third-party products as well as its own. For a firm reliant on proprietary products, this will mean changing processes and protocols to capture additional legal disclaimers and disclosures, valuations and performance tracking, etc.

They will also need to be able to show reporting on potential volatility attributed to those products on client statements and records.

- **Advice on third-party products.** Firms will need to train advisors to be proficient in discussing product specifics and risks, including ways in which in-house and third-party products compare and contrast in meeting a client's financial goals and risk appetite.
- **Risk modeling.** To properly manage risk and balance asset allocations, firms will need to be able to value third-party products accurately, track their performance and properly understand the correlations to in-house and other third-party products in a client's portfolio. This will require new models and new capabilities.
- **Other operational issues.** Platforms will need to be integrated to ensure seamless access to third parties and their products, as well as the information (e.g., disclosures) around the products.

Even if firms can overcome the challenges of implementing open architectures and partnerships, these strategies cannot overcome all the challenges of designing comprehensive product and service offerings in Asia-Pacific. After all, different markets are at different stages in their development, and regulation may limit key products and services in a given firm's offering.

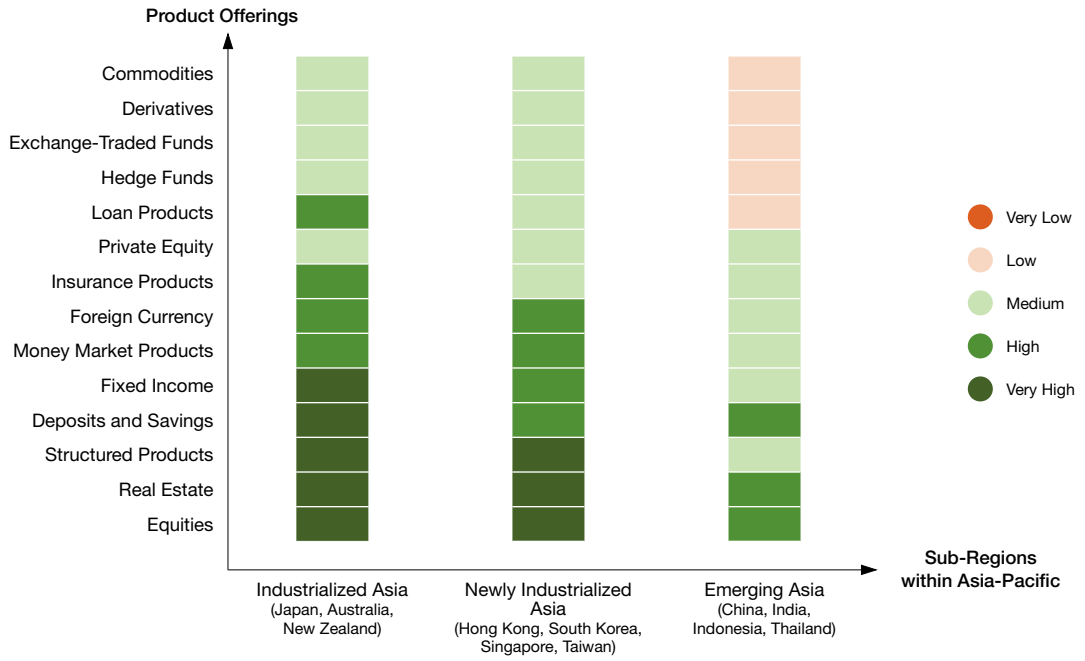
For example, the product range (see Figure 11) is manifold in Industrialized Asia (Japan, Australia, New Zealand), but medium to low, depending on the product, in the markets of Newly Industrialized Asia (Singapore, Hong Kong, South Korea and Taiwan) and Emerging Asia (China, India, Indonesia and Thailand).

This creates challenges for firms when their HNW clients have sophisticated product needs, but offerings are limited by the maturity of a country's financial system or by product-specific regulation. In Japan, for example, HNWIs show considerable interest in succession planning, but regulation prohibits trust services that might be commonly found in North America or Europe. Thus, firms need to work within the regulatory framework to find alternatives for clients.

In countries like India, REITs, fixed-income instruments and commodities markets are still underdeveloped. Additionally, the activities of certain wealth management firms (e.g., foreign vs. regional vs. local) may also be limited by regulation.

Nevertheless, it is clear that to meet the post-crisis needs of Asia-Pacific HNWIs—and to cater effectively to HNWIs as the region's markets mature and the level of affluence rises—wealth management firms need to position themselves now to grow successfully. To operationalize their strategies for expanding and

FIGURE 11. Maturity of Wealth Management Product Offerings in Various Sub-Regions within Asia-Pacific



Source: Capgemini analysis, 2010

customizing products, services and related advice, many firms are focusing on necessary and related changes in their client servicing model.

Client Servicing Models

Product and service strategies have consequences for other aspects of wealth management operations. As firms move to open architectures, for example, not all their people may be knowledgeable enough to address client concerns about product choice and suitability. To operationalize product and service strategies, some firms are therefore moving to client servicing models that pool their specialists (e.g., product, risk, sector/industry experts) centrally.

The specialist pool can support advisors in their interactions with HNW clients when advisors might otherwise be ill-equipped to help clients understand the array of products, or explain how the product choices align with a client's portfolio strategies and financial goals.

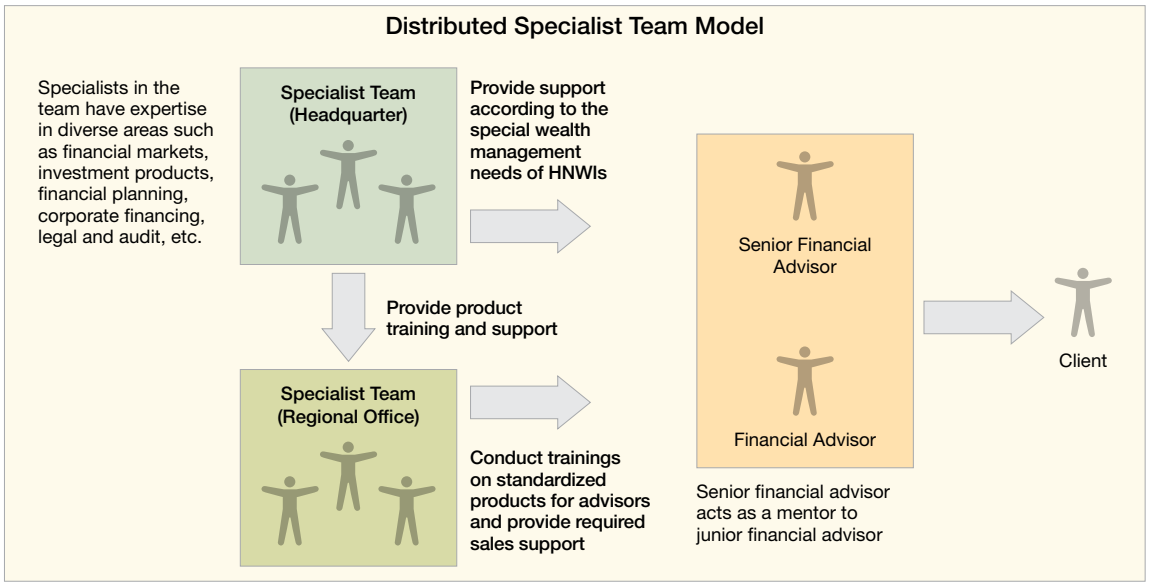
Post-crisis, team-based advisory models are gaining prominence over individual advisory models, because they deliver benefits that align well with the changing needs of Asia-Pacific HNWIs, especially:

- **Asset Allocation and Risk Management Expertise.** Investment and Portfolio Specialists can help HNWIs to achieve more balanced portfolio allocations in line with their investment goals and risk appetites. They can also make sure to provide clients with adequate detail on specifics such as liquidity, lock-up periods, returns, etc., and offer in-depth research on the risk particulars of both in-house and third-party products, scenario analysis and product volatility.
- **Specialized, Consistent, Value-Added Advice.** The specialists are domain experts and the model enables the Firm to deliver consistent advice even if the client-facing advisor changes. The model also provides for a dedicated advisor to maintain the client relationship, with help from the specialists as needed. The model allows HNWIs to interact with specialists and discuss investment choices more thoroughly, demonstrating the value of advice.

Firms can also adapt these team models according to the size of their talent pool, the firm's size, geographic reach, target segment, etc. For example, some firms use the core-team specialists only for specific client needs that cannot be met by the front-line advisor alone. By bringing in a specialist on an ad hoc basis, advisors can provide clients with access to a team of experts and specialists that are directly relevant to their needs at a given time.

Global banks might use another adaptation that makes available a team of specialists at the head office and at the regional level (see Figure 12). This provides an even wider set of specialties to the HNW client (e.g., experts across more markets, industry sectors and investment

FIGURE 12. Core Team Model, Adapted to Suit Firms with a Large Geographic Footprint



Source: Capgemini analysis, 2010

products, and in more areas, such as corporate financing, legal and audit). A variation of that model provides senior advisors as mentors to less-experienced team members, encouraging knowledge transfer.

Notably, though, these client servicing models have inherent challenges. For one, specialists often prefer to be out in the field, and don't necessarily want to be "pooled" behind the scenes. There are also compensation issues to tackle, because only the relationship manager has direct access to the client, but client profitability is clearly the result of the pool's efforts.

Moreover, firms using a specialist-pool model still need to ensure they deliver against other priorities for Asia-Pacific HNWIs, including **transparency**. HNW clients increasingly expect transparency from firms as well as the products offered, risk attributes, details on fee structures, firm disclosures, etc. So firms will need to train their client servicing organization to understand and communicate about products, risks and fee structures, and deliver appropriate and frequent updates on portfolio status and performance.

In fact, the team models require a critical mass of specialists to even function, let alone be effective. Not all firms in Asia-Pacific have (or can acquire) enough talent to organize themselves in this way—or in general to meet the more exacting post-crisis standards of HNW clients.

Talent Management

Adapting to new HNW needs is actually creating intense pressure on the "people" strategy at Asia-Pacific wealth management firms. Post-crisis, for example, advisors must understand asset allocation and risk management principles, provide due diligence on products and explain competitors' offerings. But expertise is in short supply in Asia-Pacific, where many advisors are relatively young and inexperienced.

Data[72] show that nearly 60% of advisors in Asia-Pacific excluding Japan are no more than 40 years old. By contrast, 85% of advisors in North America and 50% in Europe are over age 40. Moreover, the average advisor in Asia-Pacific excluding Japan has just 9.3 years of experience and has been at his/her wealth management firm for less than six years. This compares with an average in North America of 23.8 years of experience and 20 years of tenure.

Not surprisingly, then, the most urgent need of Asia-Pacific wealth management firms today is to train and develop front-line advisors to meet new client expectations. Specifically, industry executives believe the areas in which advisors most need additional training and support are advisory skills, domain knowledge and product knowledge (see Figure 13).

Indeed, firms are already investing significantly in training their advisors, because they see advisor competency as a differentiator in today's markets. Firms are employing mentoring systems to share knowledge and partnering experienced advisors with more junior staff. Budgets are increasing to ensure advisors are properly qualified and can demonstrate the competencies now expected by HNW clients, including specialist knowledge of products (including those from a third party), risk management and other specifics of investing strategies (e.g., behavioral finance). Graduate training and/or internship programs are being designed internally or in alliance with local universities to tap into a wider base of future talent.

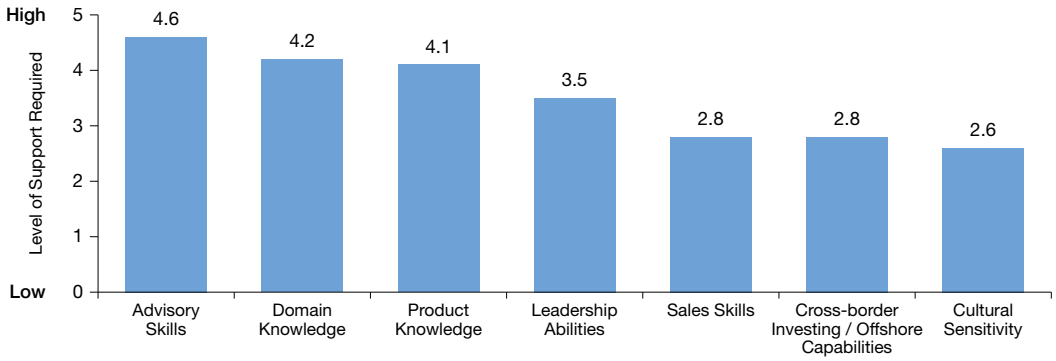
But to fill the talent pipeline, firms are also looking at hiring internally from different functions within the wider organization, and not just hiring from competitors—the strategy on which most firms still rely. And in the highly competitive market, firms also need a proactive strategy for retaining talent. Advisor retention is easier for a firm perceived to have a good brand name. Advisors are also more likely to stay at a firm that supports them with a wide range of product offerings for clients, and provides them with a defined career path and opportunities for development. Nonetheless, compensation and other remuneration remain important criteria, although organizational culture (such as work/life balance) is also a factor.[73]

Devising strategies such as these to acquire, develop and retain advisor talent for the longer term will be the key to successful growth for wealth management firms in Asia-Pacific, as talent is already scarce and demand is expected to keep growing. And critically, any broader attempt to improve operations, including product and service offerings and client servicing models, will be threatened if the requisite skills and competencies are lacking.

[72] Capgemini/Merrill Lynch Financial Advisor Survey, 2010

[73] Capgemini Executive Interviews, July 2010

FIGURE 13. Areas Where Financial Advisors in Asia-Pacific Require Additional Training and Support



Source: Capgemini Executive Interviews, July 2010

Conclusion: Firms Will Need to Manage Holistically the Operational Impacts of Their New Client-Driven Strategies

After the financial crisis, Asia-Pacific HNWIs have reevaluated their approach and priorities around investing—much like their global counterparts. But despite financial-market recovery and a positive economic outlook for the region, Asia-Pacific HNWIs remain cautious, and want to be given a choice of suitable products and services that properly align to their true risk profiles and help achieve a more balanced asset allocation across their portfolio.

These demands are evident among the newly wealthy and HNWIs of long standing, and are expected to be part of the fabric of wealth management services as the region's HNWI ranks grow in coming years. Wealth management firms therefore need to decide now how to position themselves to keep delivering a proposition in which Asia-Pacific HNWIs see value.

For firms, this means identifying and confirming the HNW segments they plan to serve, and operationalizing their chosen client strategies while navigating the operational and regulatory hurdles, shrinking margins and talent shortage that accompany the industry in Asia-Pacific.

The path each firm takes will naturally depend on its identity (size, geographic footprint, target segments, etc.) but to operationalize their new client-driven strategies, wealth management firms will need to reevaluate business models, capabilities, processes and technology.

For most, this will mean:

- **Business models** will need to change, as firms decide whether and how to leverage third-party expertise and offerings, and how to manage associated margin pressure.
- **People** capabilities will need to be developed, creating stronger advisor competencies, especially in the areas of advisory skills and product and domain knowledge. Firms can no longer rely on poaching talent from competitors, and will need long-term strategies for acquiring, developing and retaining talent. They will also need to decide which organizational models best leverage their specialists and encourage knowledge sharing and transfer.
- **Processes** will need to be adapted to back up the necessary changes in product and service offerings and client servicing models. Expanded portfolio reporting, risk analysis, comprehensive investment advice and asset allocations will need to accommodate third-party products as the trend toward open architecture continues.
- **Operations and Technology** will similarly need to adapt to front-office changes around client servicing models. Platforms will also need to be integrated.

Post-crisis, the wealth management industry in Asia-Pacific is clearly under pressure as HNW clients become more demanding and exacting. Nevertheless, firms can position themselves to capture the longer-term opportunities in this expanding market if they embrace product and service diversity, innovate client servicing models and build capabilities. However, these initiatives are inextricably linked—with a move in one sphere creating repercussions for others. The key will be taking a holistic approach to managing these moving parts.

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