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What would you do if you inherited a fortune? Private bankers are trying to read the minds of the generation that's taking the reigns of Asian family business empires. They're finding that the wealthy offspring are bigger risk-takers than their parents. Andrew Crooke reports.

INCREASING COMPETITION in Asia's private-banking sector is leading the region's financial institutions to try to seize every advantage they can to meet client needs. One of the latest methods is by getting into their minds.

"Investor psychology plays a big part of an Asian investor's buying decisions," says Lim Leong Guan, managing director and head of wealth management transaction products for UBS Wealth Management in Singapore. "These clients generally want to have a bigger say in their investment decisions." The rationale is that the private banker who understands how and why rich Asians invest their wealth has a head start in today's rapidly changing market.

Indeed, a recent survey conducted jointly by INSEAD professors and Citibank shows how serious the banks are about understanding the motivations of Asian investors, especially the wealthy ones.

The results of the survey—believed to be the first study of its kind in the Asia-Pacific—make interesting reading. In general, they reveal that investors in Hong Kong, Singapore and Taiwan can be overconfident, highly averse to loss and allow fear of regret to impact their investment decisions.

While the 2,600 respondents were from across the income spectrum, Anil Gaba, professor of decision sciences and dean of faculty and research at INSEAD's Asia campus, says that the investment attitudes and behaviour of high net worth individuals (HNWIs) seemed in line with those of the average investor.

Geographic diversity

The report also confirms that there are distinct geographic differences in clients' investment behaviour in Asia, a conclusion with which private bankers are quick to agree.

"Our north Asian clients are generally both cash and asset rich, so they tend to be more dynamic and are quicker to make their own decisions," says Michael Fung, chief executive of JPMorgan Private Bank in Asia. "They do not have to rely on leverage or loans to be able to make their investments."

In contrast, JPMorgan's private clients in Southeast Asia have more assets and less cash. "They channel more of their liquidity into their own businesses and are more conservative," says Fung. But they also seem to be more extreme in their investment behaviour, either playing it safe and investing in very liquid and reliable funds, or taking a lot of risk by trading currencies or equities.

Lim at UBS thinks the geography of behaviour is linked to the entrepreneurial culture in certain countries. "In Hong Kong, Taiwan or Indonesia, for example, these clients have a bigger risk appetite and are more willing to invest their money in newer types of products, including structured products, hedge funds or private equity deals," he says.

In particular, clients of Chinese or Indian origin have, in many cases, migrated from their country of origin. This gives them "an entrepreneurial spirit and a pioneer mentality", says Michel Longhini, chief executive of BNP Paribas Private Bank Asia. "A lot of them have built their own successes over the past 30 years, and they are the first generation that has made a lot of money."

Passing it on

This group of self-made, first-generation entrepreneurs and other business people has made up much of Asia's wealthy set for the past few decades. Due to a combination of unique ethnic, business and family cultures, these investors are already comfortable evaluating the merits of an opportunity in relation to their professional lives, so have tended to take the same hands-on approach to managing their assets. Plus, they do not like to allocate their wealth to outside advisers that they do not know very well.

But as they age, these wealthy Asian

Lim Leong Guan - UBS

patriarchs have to consider how to pass this wealth on and bring their families into the loop. This has led them to begin thinking about setting up family offices for the first time.

"The first generation does not want an individual's psychology and any family in-fighting or emotions to have too much influence over investing decisions," says associate professor Annie Koh, dean of the Office of Executive Education at Singapore Management University (SMU) and associate dean of the University's Lee Kong Chian School of Business. Instead, some patriarchs are choosing to have their assets managed professionally so they can grow as sustainable family wealth in the long term.

"This has become more common in Asia over the past couple of years," explains Koh. "Having a professional manager also helps the family to separate the company-related wealth and the personal-related wealth and treat each differently."

And as the first generation realizes how difficult the complex investing environment makes it to entrust all of the assets to a single vehicle or person, different individuals within the family are being made responsible for various portions of the wealth and different types of investment.

Fung at JPMorgan believes that the region's transition from first to second generation has created a challenge for private bankers to understand how to plan for this stage, while at the same time increasing transparency in family governance. "It is important to bring the awareness of the need to change the family governance structure to the attention of the father, who must agree to a new wealth management approach so his children can be educated about inheritance, managing the business and all associated issues," he says.

Hand in hand with the concept of family offices has been a rising emphasis on trusts, as parents are keen to ensure that the following generation doesn't inherit—and potentially squander—all the wealth at once. "The demand for family and corporate trusts has increased," says Daniel Truchi, chief executive of SG Private Banking (Asia-Pacific). "A trust is an excellent means to ensure the security of assets, confidentiality and smooth transmission of wealth that investors want."

Younger and bolder

But while the old plan for the young, the fact that younger people are becoming wealth creators or wealth inheritors is also creating different investment preferences, says Fung. "Those clients...are less focused on family governance and more on the big-picture issues such as strategic advice for the business," he notes.

And as family estates pass to the next generation, or a younger set of successful businessmen is created, the investment mindset is shifting. This second generation is generally better educated, tends to have studied abroad and closely monitors industry developments and the financial markets. In short, the new generation is more willing to receive advice from industry experts, but they are more demanding about results, too.

"[The second generation] asks more questions, talks to more people and is more receptive to new ideas," says S.F. Wong, regional head of private banking at DBS.

It's a point with which Michael Preiss, director of the Asian Bond Market Forum, agrees. "A wealthy father in Pakistan may only want a monthly report on his wealth status, [but] he will send his son to a US business school, and the son will return wanting to trade options and be involved."

> "The first generation does not want an individual's psychology and any family in-fighting or emotions to have too much influence over investing decisions."

Michel Longhini - BNP Paribas Private Bank

Because Asian clients want their money to work harder for them, they want to focus more on the global markets—particularly the emerging ones—rather than just following the consensus view, adds Preiss. "The demands from the clients mean that wealth advisers now need to be more active in the way they trade and operate, for example, offering 24-hour trading," he says.

Clients are also keen to meet with other, similar HNWIs, so look to their private bankers to facilitate that through networking opportunities such as events and seminars. "This is very different to the traditional secrecy-style approach of private banking in Asia," explains Fung.

Tony Stanton, managing director and investment strategist at Citigroup Private Bank Asia-Pacific & Middle East, predicts privacy issues will become less significant for private-banking clients as a whole in Asia. The next step, he says, perhaps within as little as five years, is the development of multi-family offices where wealthy families join forces to increase their buying power and benefit from economies of scale.

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Managing crises

By gaining more hands-on experience, it appears that private clients in Asia are also becoming more measured in their responses to increasingly frequent global disasters—whether natural, economic or political.

Events such as the terrorist attacks in New York on September 11, 2001, WorldCom's collapse into bankruptcy in 2004 or the Russian debt default in 1998 have shown the resilience of the financial markets, and the reluctance of most investors to react in the short term, says Stanton. "Even in the days following Hurricane Katrina, the vast majority of investors waited to see the situation unfold, rather than react."

Asian HNWIs are also more sophisticated in their approach to event risk. Some clients look to take advantage of volatility in the financial markets by selling stocks when prices start to fall, and then buying them back later at a cheaper price.

Stanton notes that one example was when New York state attorney-general Elliot Spitzer was investigating AIG for corporate malpractice in earlier this year. A lot of private investors saw this as an opportunity to take advantage of the temporary imbalance in the markets, he says.

Investing at home

This apparent willingness to take a punt on the markets, combined with the results of the INSEAD/Citibank survey, point to a probability that the risk appetite of the rich is greater in Asia than in the US or Europe, and that they show more interest in investing outside their own region.

"Compared with the US, a large number of Asian investors view stock markets as a way for them to speculate rather than make long-term investments," says Gaba at INSEAD. "Asian investors sit on more cash than their US counterparts and then treat any stock market investments as speculation."

Stanton at Citigroup makes similar observations: "US or European investors tend to feel the need to buy assets, whereas Asian investors are not driven by a desire to buy assets."

However, many private-banking clients in Asia vary their risk appetite according to whether they are dealing with the part of their wealth they keep onshore in their home country, or with the money they invest overseas.

"Clients are more aggressive, and generally take more risks, with their domestic wealth," says Lim at UBS. "They are more comfortable to invest this part of it in the local equity markets, which they know better; Asian investors are more conservative with the money they have offshore because they regard this as being put aside for the next generation."

Why they buy

Three of the region's leading private bankers reveal what they believe to be the top five influences on investors' buying decisions (in no particular order).

Tony Stanton, Citigroup Private Bank

1. Familiarity with the investment opportunity
2. Alignment of buying interest with other trusted investors
3. Familiarity with the management of the investment opportunity
4. Track record and liquidity of the investment opportunity
5. Fees and expenses associated with the investment opportunitys.

Michel Longhini, BNP Paribas Private Bank

1. Yield/expected return
2. Maturity (adapted to their constraints) of the investment opportunity
3. Liquidity of the investment opportunity
4. Risks associated with the investment opportunity
5. Credibility/solidity of the issuer

SF Wong, DBS Bank

1. Stage of life cycle of the investor
2. Risk tolerance
3. Return expectation of the investment opportunity
4. Level of understanding of a particular product
5. Economic, environment and financial market outlook

Growing demand

Given the growing sophistication of Asian HNWIs and a sharper focus by wealth managers on their clients' investment preferences, the private banks are attempting to offer more psychologically tailored investment options.

Asian private clients at Citigroup, for example, are starting to consider co-investment opportunities. In certain cases, the bank has used cash from its own balance sheet combined with money from either one or several private clients to invest in private equity deals, hedge funds or single real-estate transactions. "Our financial commitment gives the clients added comfort and bonds them to us as their adviser," says Stanton. "We then talk to them about exit strategies and other options going forward."

In August, Citigroup finished raising US$1.6 billion for CVCI, its international private equity investment group, to focus on opportunities in China and India. The bank invested US$500 million from its own balance sheet and was able to raise the rest from its private clients.

Meanwhile, the growing desire of private banks to focus on client profiling, investor psychology and how risk profiles change over time, is being felt in all communities. Koh says SMU is thinking of introducing this topic as an academic course. And Gaba at INSEAD says that, following the results of Citigroup's study, he has been flooded with requests from many private banks and wealth managers to do more research on that subject.

"There will be an increasing focus by private banks and the wealth management industry generally on investor psychology," he says. "This is a must for the banks because rational studies do not predict behavioural results well."

If Gaba is correct, Asia's private banks could find themselves in a unique position—when they boast that they know how their clients think, they may actually mean it. **am**