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Wealth management

Dr Francis Koh, Deputy Dean of the business school at Singapore Management University, talks about the Asian banking industry and what universities are offering

Since the 2008 global financial crisis, many high net worth clients of private banks have recovered their losses and re-gained their confidence in financial markets. In parallel, private banks in Asia have been expanding aggressively, hiring more staff to serve as Relationship Managers (RMs), Investment Specialists and Portfolio Managers. The Merrill Lynch Cap Gemini World Wealth Report 2010 estimated that Asia's wealth has increased from US$8.4 trillion in 2006 to about US$9.7 trillion in 2009 and will exceed US$10 trillion at the end of 2010.

Historically, commercial banks focus on collecting deposits and giving out loans. Private banking is the last frontier and a smaller proportion of total revenue. Due to the recent surge of wealth in Asia, many commercial banks are expanding private banking services, not realising that this is a long-term business, resource-intensive and requires sizeable investments for client acquisition and retention.

Traditionally, Swiss private banks focus on very high net worth clients: those with investible funds of more than US$10 million, and ultra-high net worth clients with more than US$30 million. The largest part of the market, however, is in the middle segment of the wealth pyramid: people with between US$500,000 and US$10 million.

Statistics show that many Asian clients have a much higher proportion of their assets in cash and real estate compared with their European and American counterparts. There is therefore an untapped source of investible funds which private banks can potentially convert into financial assets for their clients.

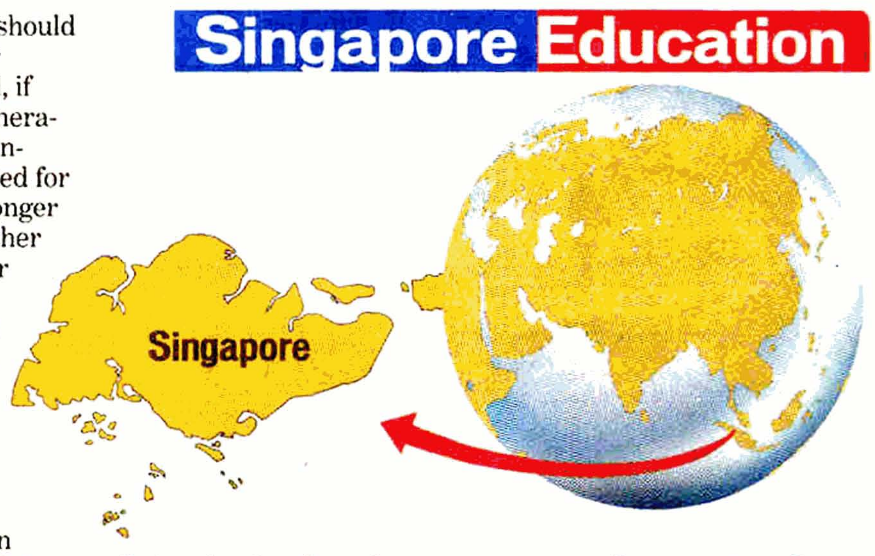
Banks need to have appropriate compensation models in place. Private banking is a long-term business and wealth managers should focus on acquiring clients and retaining them over time. Incentives should be aligned with this. RMs should focus on servicing their clients for the long haul, if possible beyond one generation. Hence, wealth managers should be rewarded for serving clients over a longer investment horizon, rather than by transaction. For example, banks should consider compensation models adopted by private equity fund managers, where there is a vesting period before bonuses are collected. Deferred bonuses and long term compensation schemes encourage RMs to think long term and be rewarded for loyalty to their clients and the bank. Banks benefit as they are able to better retain the RMs and their clients.

Competent wealth managers need a solid foundation in client relationship management and portfolio management, combined with adequate knowledge of finance, economics and accounting in order to help clients make better decisions. Therefore, effective training and development are needed.

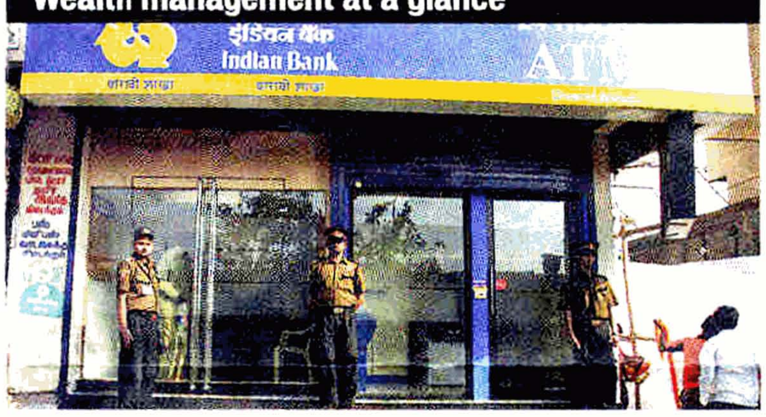
At the Singapore Management University (SMU), the undergraduate Bachelor of Business Management course allows students to major in finance and go on to specialise in wealth management. Undergraduates read courses on portfolio management, hedge funds, fixed income, equities, trusts, personal finance, law and an overview of wealth management and client relationship management.

At the postgraduate level, there is a Master of Science in wealth management. This programme is a collaboration with the Wealth Management Institute, the Swiss Finance Institute and Yale University. Participants are trained through seminars, assignments, projects, field trips, industry talks and case studies. They spend one week at the Swiss Finance Institute in Switzerland and another week at Yale University in the United States. Participants get to interact with wealth management professionals from three continents: Asia, Europe and the United States. The programme is recognised as a partner of the Chartered Financial Analysts (CFA) Institute.

Not putting resources into training wealth managers will cause the industry to suffer a severe shortage of talent and eventually, encounter client dissatisfaction and departure. When there is a churn of RMs, clients become unhappy and dissatisfied. They are likely to shift their funds elsewhere. It is imperative that banks, which are developing private banking services, devote more resources on training and development to groom competent and trusted advisers who are client-centric.



Wealth management at a glance



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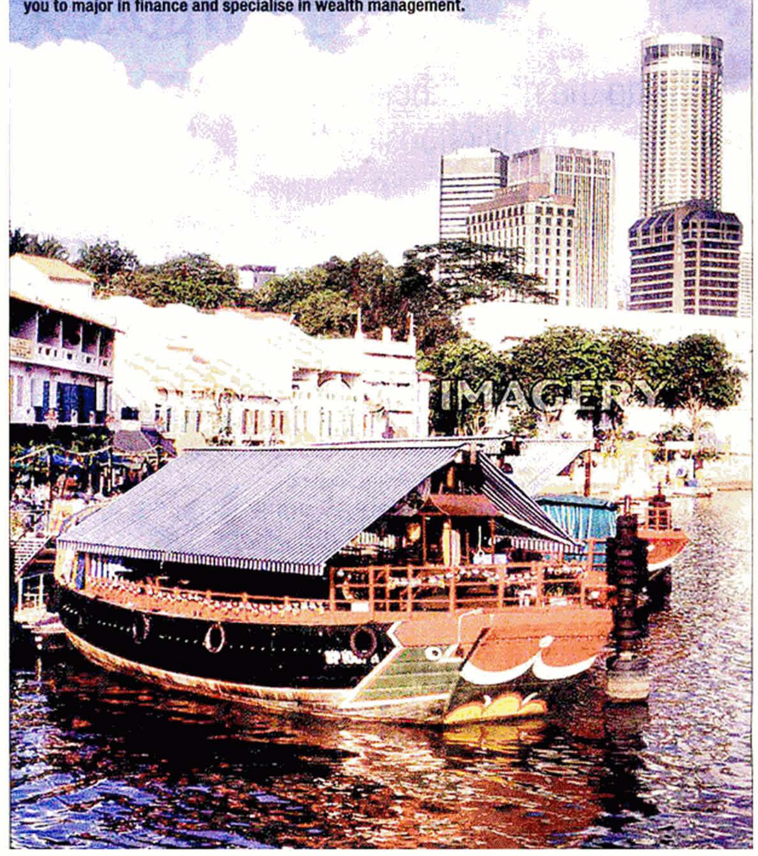

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