# GLOBAL PRIVATE BANKER

Q3 2020

**US-CHINA RELATIONS** AND THE IMPACT ON **WEALTH MANAGEMENT**

WHY **HONG KONG SECURITY** RAISES **FINANCIAL CONCERNS**

**TECHNOLOGY VS HUMAN TOUCH: WHICH WAY TO GO**

HOW **ESG** BECAME A **KEY DIFFERENTIATOR**

INSIGHTS FROM **BNP PARIBAS, JP MORGAN,** AND MORE

## THE RISING TENSION AND THE IMPACT ON WEALTH

Q3 2020

# Editor's Letter

GLOBAL PRIVATE BANKER

**PUBLISHED BY**

**The Digital Banker and Global Private Banker**
(A brand of Coeus Intelligence Pte. Ltd.)

**Singapore Office**
101B Telok Ayer Street #03-02
Singapore 068574
: +65 6719 8054
: info@thedigitalbankeronline.com

**London (UK) Office**
71-75 Shelton Street. Covent Garden
London WC2H 9JQ

Dear Readers,

It is my pleasure to bring you the latest issue of Global Private Banker.

Against the backdrop of, probably, the most contentious elections in US history, is the rising tension between two great powers – the United States and China. Whoever emerges victorious in the US presidential elections will become the chief architect and implementer of the US foreign policy and with that, issues around trade, climate change, artificial intelligence and global democracy will come to fore. China is a key stakeholder in all these issues too. And if any progress will have to be made for the benefit of the global population, it is essential for these two superpowers to come to terms.

For the private banking industry, a closer collaboration between nations is always an ideal scenario. However, whether that will happen soon or in some distant future is anyone's guess. For now, the focus should certainly be on the bright spots. For instance, sustainability is on the rise and funds within the environmental, social and governance (ESG) principles are performing better, even during the pandemic. Moreover, digitisation in wealth management is on the uptick even as client engagement call for more human touch. You can read more about these including our Special Report on the needs and preferences of Asia's next generation of wealth holders in this latest issue of the magazine.

Lastly, we would like to extend our heartfelt thanks to the moderators, speakers, panellists and everyone who took part in the inaugural Global Retail Banking Innovation Virtual Summit. Your time and tremendous support have made this event a resounding success. We look forward to more collaborations with you very soon.

Sincerely,

**Nirav Patel**
MD, Asia Pacific

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# US-China Relations and the Impact on Wealth Management

**On 3 November 2020, the United States electorate will head to the polls to decide who will lead the world's most powerful nation in the next four years. As Donald Trump and Joe Biden battle it out to be the chief architect and implementer of US foreign policy, one issue looms large, and unsurprisingly, a crucial talking point in the election: China.**

Of particular interest by economists, as well as wealth managers around the world, are the issues concerning trade and investment.

In 2018, China saw a huge increase in tariff on imports to the US. This is a calculated effort from the Trump administration to force Beijing to reduce subsidies on manufacturing companies based in China and curb their difficult demands on US companies.

In January 2020, the two countries came to an agreement by signing a trade deal which knocked back some of the tariff rates but failed to address the major issues. This was after an entire year of back and forth on tariff which considerably slowed and depreciated the economy on a global scale.

Nonetheless, Beijing has promised to increase import of US goods worth 200 billion dollars in the space of twenty-four months.

In the meantime, the US government is pushing to have American companies cease manufacturing and sourcing of materials from China.

## US Companies' Reaction to Trade Issues

These new restrictions have predictably caused US companies untold tension and pessimism. Every day, the chances of the trade tensions reducing or ending grows slimmer because neither Beijing nor Washington are showing signs of relenting. None of the companies are looking forward to the threat of moving their companies over to the States.

The American Chamber of Commerce based in Shanghai conducted a survey and released the results of their findings. Ninety-two percent of the respondents agreed that they would rather keep their companies in China despite the persistent fracture in the US-China relations.

The survey revealed that over a quarter of these firms are aware that the dispute between China and US may last indefinitely. A year ago, only 17% agreed to that possibility. In 2019, 13% of the companies believed that the issues would be settled with three to five years, a number that has since increased to a fifth of the respondents.

However, about 14% agree that the issues will be over in about twelve months.

In a quote, AmCham Shanghai stated that, "What is likely underpinning this sense of negativity is concern about broader US-China relations." An opinion that outlined the responses from over three hundred and forty companies.

The said survey was conducted from June to July when the conditions seemed to have worsened even after a trade agreement by both countries.

About 1400 companies in China participate in the yearly survey conducted by the American Chamber of Commerce in Shanghai, an NPO (Non-Profit Organization) that strives to bridge the thorny trade gap between the US and China.

> **Currently, relations between China and the US have continued to sink to a historic low as they continue to disagree and punish each other from issues ranging from the Coronavirus pandemic to technological control.**

Currently, relations between China and the US have continued to sink to a historic low as they continue to disagree and punish each other from issues ranging from the Coronavirus pandemic to technological control.

Donald Trump severed the special trading relationship in July between US and Hong Kong. That privilege had formerly exempted Hong Kong from some tariffs. In addition, both countries made moves to shut down their consulates in Chengdu and Houston.

By August 2019, Washington issued a sanction to Chinese government officials citing that they undermined Hong Kong's autonomy, with Carrie Lam - the leader - inclusive.

When suspicions rose that TikTok and WeChat could be used to spy on the US government, Donald Trump issued threats to ban the popular apps from the US.

While 32% of the respondents agree that the bad relationship between the two countries is sourly affecting their ability to keep their staff, they know that leaving China is completely out of the question. Even with Trump's order to leave the country in 2019, and in recent weeks, played around with the idea of "decoupling" the world's largest economies.

These companies state that China still provides several benefits. For instance, some firms are focused on tapping into the large number of middle-class citizens. While many others rely heavily on China for manufacturing. According to 2020

AmCham survey, the number of companies that said China aided the growth of their profit margin increased from 9.4% to 32%.

In agreement to the above data, the President of AmCham in Shanghai, Ker Gibbs, said, "US businesses in China would like to see the two countries resolve their outstanding issues quickly and reduce tensions." Gibbs stated, "A workable cooperative framework for the next decade would be a good place to focus discussions."

## Wide Ranging Issues – At Risk of Boiling Over

In July this year, the Chinese consulate in Houston had been ordered to close its doors by the US government. This development is just one out of the many conflicts plaguing these two economic giants. Nothing like this has been seen in decades between China and the United States.

There are wide-ranging issues between Washington and Beijing that threaten to boil over if not managed properly. The most notable ones are as follows:

**COVID -19**

In some of the interviews granted by Donald Trump, he was heard several times referring to the coronavirus as 'Chinese Virus'. His reasons lay with his staunch belief that the Chinese government failed to give accurate reports concerning the extent of the damage caused by the disease. He believes that their government simply ignored its duty to report to WHO since the first case of the virus was documented on Wuhan in 2019.

However, China insists that it has been nothing but transparent since the onset of the pandemic. Following Trump's accusations, the World Health Organization has denied its involvement in supporting the disinformation by the Chinese. In response to this, the United States President Donald Trump

formally started the withdrawal process from WHO, making good on his threats to deprive the UN body of its top funding source over its dismal handling of the pandemic.

**HONG KONG**

Tensions have clocked to a new height between the US and China. Recently, protests arose as a result of Beijing's imposition of a new security legislation over the previous colony of Britain, which returned to China in 1997.

In response to this imposition, Donald Trump has signed a sanction effectively severing preferential economic treatment for Hong Kong. This move will allow him to place visa restrictions and sanctions over financial institutions and Chinese officials who'd been involved in enacting the new security law.

Predictably, China threatens to counter with a retaliatory move of their own in no distant time.

**SOUTH CHINA SEA**

Until 2020, the Chinese has always laid claim to ninety percent of the South Sea. Meanwhile, Malaysia, Brunei, Vietnam, Taiwan and the Philippines has actively contested this claim.

Currently, the United States has hardened its stance in the matter, tilting towards the other Asian countries. The US believes that China has plans to build a Maritime Empire in the energy rich sea.

On July 13, 2020, Mike Pompeo, the US secretary of state, issued a statement that accused Beijing of a bully-based campaign and its claim, unlawful.

**HUAWEI**

The tech company based in China has been added to the US 'Entity list' In 2019, the US suspected the company of violating their sanction on Iran and can spy on customers through their devices. This security concern led Washington to add Huawei to its 'Entity list'

However, Huawei has vehemently denied every one of the allegations and accused Washington of frustrating its growth because no American company can compete with their prices and tech savvy.

Washington has gone ahead to push other countries to drop Huawei, posing the same violations as their reason.

> **The United States President Donald Trump formally started the withdrawal process from WHO, making good on his threats to deprive the UN body of its top funding source over its dismal handling of the pandemic.**

The friction between the two has caused a serious decline in their access of Chips and other important parts from their US suppliers.

**NORTH KOREA**

According to the US, China has breached their sanctions on North Korea. Though Beijing has denied the allegations, tensions continue to rise.

The common goal of both countries is for North Korea to give up its nuclear weapons program and as such, should work together. Yet, that is far from happening. The Chinese government has agreed to lift some of its sanctions over North Korea but the United States does not agree.

Kim Jong Un, the leader of North Korea has met with Donald Trump thrice in an effort to ease the US sanctions but failed to agree every time. While US requires them to give up the nuclear weapons in Pyongyang, North Korea wants all the sanctions, lifted.

Nevertheless, the number-two diplomat, Stephen Beigun remains optimistic. In an interview, he opined that the two countries might still work together in spite of the dispute because of the greater good of ceasing the development of nuclear weapons by North Korea.

**UIGHURS**

The Uighurs are a minority Muslim group that reside in the western Xinjiang region.

The Chinese government set up complexes in that remote Xinjiang called Vocational training centers. They have been condemned for trying to stamp out what they term as extremism and have the Uighurs acquire new skills within the complexes.

Following the discovery of the violation of Uighur's human rights, the US has placed sanctions on all the Chinese institutions, officials and companies.

## The Long Term View

The relationship between the US and China is reaching a dangerous point. The already fragile relationship is on the brink of total collapse and we could only hope that in the coming days, the relationship could improve for the better. People from all over the world are pinning their hopes that the coming 2020 US presidential elections will provide a pathway for calmer, more collaborative partnership between the two great powers.

As a famous world leader once quipped: "The forces that divide us are not as strong as those that unite us."

**People from all over the world are pinning their hopes that the coming 2020 US presidential elections will provide a pathway for calmer, more collaborative partnership between the two great powers.**

# Why Hong Kong Security Raises Financial Concerns

**The security structure and operation in Hong Kong is governed by the Hong Kong National Security legislation and designated as the Law of the People's Republic of China on Safeguarding National Security in the Special Administrative Region of Hong Kong.**

Over the years, Hong Kong has grown to become one of the most important commercial hubs in the world. But recently, Beijing passed a new national security law for Hong Kong. Stakeholders believe that this law is a threat to the economic buoyancy of the territory, as it will impede on the important structures that has helped Hong Kong develop into its current position in the international scene.

The new law places a ban on any attempt at secession, treason or sedition against China, and stipulates penalties as grievous as life imprisonment for offenders.

With the growing uncertainty about its future, China is doing all it can to strengthen Hong Kong as its financial hub, and making it a more attractive investment gateway for

*Image: Chokniti Khongchum / Shutterstock.com*

foreign investors, despite the concerns being expressed by international experts concerning the new security law.

## China Wants Hong Kong to Stay as a Financial Hub

For the past three years, the Central Bank of China has made available a Bond Connect scheme which allows foreign investors to tap into the onshore interbank market by buying bonds from Banks and other financial institutions in Hong Kong.

As at the end of June, foreigners had already bought about nine percent of government bonds in China, and this figure is about to get a boost, as the People's Bank of China (PBOC) is currently making plans to improve the programme and make it easier for other investors.

To further ease the process, China introduced a "wealth management connect" programme, which is geared at creating avenues for foreign wealth managers in Hong Kong to sell financial products in Shenzhen, the Greater Bay Area, and eight other cities in the Pearl River Delta. This programme, when implemented, hopes to strengthen the role of Hong Kong as the investment hub of China.

Senior Chinese leaders have in recent times, voiced their support for these efforts. President Xi Jinping's economic adviser Vice-Premier Liu He, in a statement, assured that China will continue to put its full weight behind Hong Kong, to actualise its goal of achieving financial excellence in the global economic scene. Some western nations have, however, expressed concerns over the possible effects of the new security law, stating that the laws are high-handed and don't leave much room for the city's freedom.

In an effort to make China reconsider its stance on the new law, the US Congress has resolved, through a legislation, to sanction banks in the United States that will be transacting business with Chinese officials who have a hand in the new law. On the other hand, New Zealand, Germany, Japan, Australia, Britain and twenty-two other countries have written to the Chinese government to reconsider the new national security law.

Although trading activities in the city have depreciated over the years, Hong Kong still remains one of the most important cities in China, as it is the destination of foreign investments in the country. Hence, the government's resolve to have a strict control over the cross-border financial activities in the city.

The Stock Connect Scheme, which presents foreigners the opportunity to purchase stocks via Hong Kong financial institutions, according to South China Morning Post, has

> **With the growing uncertainty about its future, China is doing all it can to strengthen Hong Kong as its financial hub, and making it a more attractive investment gateway for foreign investors, despite the concerns being expressed international experts concerning the new security law.**

*Image: nyker / Shutterstock.com*

gained wide acceptance, to the extent that it raked in as much as sixty percent of foreign purchase of mainland stocks.

Global portfolio investors have also, through the Bond and Stock Connect Programmes, increased their investment in China, the same way investors in the Hong Kong industrial sector threw in funds for a long-term investment in Chinese mainland factories.

Since it was launched in 2014, the Stock Connect channel has garnered a net purchase of almost 1.11 trillion yuan (157 billion dollars) into the Chinese stock market, with June 2020 alone accounting for up to 40.3 billion yuan. Also, over 70 percent of the total transactions made in yuan happens in Hong Kong, thereby making the city the primary offshore market for the Chinese currency.

Government-owned companies and banks in Hong Kong have made massive initial public offerings in support of the economic reforms going on in the country. And as Washington continues to shine their investigative torchlight on Chinese listings in the US stock exchanges, China's hi-tech firms

> **Washington vehemently rejects this new national security law and describes it as a breach on the "one country, two systems" commitment, which China has with the United States.**

continue to flock Hong Kong as a way to raise funds and investments.

These strides notwithstanding, Hong Kong's flourishing influence as the foreign investment fortress of China risk becoming a thing of the past if the rift between the Chinese and US governments continues.

## US Response to China's actions in Hong Kong

In an effort to show their displeasure at China's action in Hong Kong, the US State Department recently threatened to sanction any international financial institution that does business with the people involved in the Hong Kong crackdown.

The US State department listed Carrie Lam, Hong Kong's chief executive, alongside nine other persons, as the culprits. And in the next two months, it would sanction any financial institution that will do business with these ten people.

Washington vehemently rejects this new national security law and describes it as a breach on the "one country, two systems" commitment, which China has with the United States.

Reacting to the sanctions, China accused the United States of meddling into its internal affairs. This heated diplomatic scuffle worsens the already fragile economic ties between China and the United States, which has suffered its hardest blows for many decades in recent times, especially as the November 3rd US presidential elections draw nearer.

Back in August, the US government sanctioned Lam, police chiefs and other top government officials for their roles in cracking down on Hong Kong's pro-democracy movement and denying people of their freedom.

According to legal experts, however, the Hong Kong Autonomy Act will impact significantly on financial institutions in the city. They speculate that the act will make it possible for the US sanctions to be extended to non-US banks that transacts business with Carrie Lam and other listed offenders.

Hence, any financial institution across the world, including Singapore, Australia, the UK, etc., that is found transacting business with the people undermining the autonomy of Hong Kong, could face grievous sanctions from the US.

Legal experts are currently examining article 29 of the National Security Law, which seems to outlaw any act of imposing sanction, blockade or hostile activities. They currently seek clarity if this article makes it illegal for the United States to impose such sanctions.

Experts say that the National Security Law is too vague and as such, it is not easy to say what effect it would have on financial institutions that obey the US sanctions.

If in the end, it becomes clear that the National Security Law makes it illegal for financial institutions to comply with US sanctions, then many international banks will have a hard time operating in both countries.

"Experts say that the National Security Law is too vague and as such, it is not easy to say what effect it would have on financial institutions that obey the US sanctions."

# Decoding the Needs and Preferences of Asia's Next Generation of Wealth Holders

**Before the outbreak reaches pandemic level early this year, Asia has been one of the most robust regions when it comes to wealth creation. From China to India to Singapore, Indonesia and beyond, the number of wealthy individuals in Asia, and the corresponding sizes of their wealth, is nothing less than astonishing. As soon as the pandemic hit, almost everything ground to a halt. Expansion plans were put on hold, internationalisation strategies were redrawn, and Asia's wealthy families had to recalibrate their long- and short-term plans.**

In a recent report entitled Banking, Entrepreneurialism, and the Next Generation of Wealth Holders 2020 by BNP Paribas Wealth Management in Asia in collaboration with Campden Research, relevant data points were gathered to understand the key drivers and motivating factors at play with the ultra-high net worth Next Generation (NextGen) in Asia. One of

the most important insights that has been gleaned in this comprehensive study is that the NextGen Ultra-Rich are an emerging generation of Entrepreneurs with great clarity of purpose and direction.

In recent years, families have had to start considering whether the next generation will get involved in family businesses – and, if so, how and to what extent – and how prepared the NextGen is to lead family wealth management.

In this context, there are two broad areas that call for examination: the degree of harmony that will likely be seen between the generations as they work more closely together, and how family engagement with financial service providers will likely evolve," the report says.

Indeed, the theme about harmony is an important one to tackle and issues around succession planning takes a primal importance. But of particular interest also is how the NextGen will engage with banks and financial institutions as their needs, educational and professional experience are quite different from their parents'. It is foreseeable that relationship-based banking that their parents have been used to will be replaced by transaction-oriented banking. Moreover, demand for greater digital services and access to more granular reporting would be required.

## Next Generation Wealth Management

In uncovering insights from ultra-high net worth NextGen, over 100 individuals were surveyed and 10 were interviewed. This remarkably diverse group of NextGen, whose average age is 38 years, has an average family net wealth standing at US$640 million.

They are highly educated and come with a considerable amount of prior work experience; majority of them are already successful business owners in their own right with diversified interests in Finance & Technology. They are native to Asia but can best be considered as global citizens of the world.

A particularly striking theme that continues to emerge in the research is that while many of the NextGen have significant experience, they still value learning from their parents and on the job. "There is a palpable admiration amongst the NextGen for their parents' operational know-how and business achievements, and a clear desire for and awareness of the complementarity of the knowledge / skills between the generations," the report reveals.

**In recent years, families have had to start considering whether the next generation will get involved in family businesses – and, if so, how and to what extent – and how prepared the NextGen is to lead family wealth management.**

Some of the most notable findings of the report are the following:

**NextGen believe technical and operational skills hold strategic importance**

NextGen have a strong entrepreneurial drive and decisions are made with direct application in mind. Among the NextGen surveyed, 48% are educated beyond Bachelor's level and a third, in finance-related subjects. Some 48% have also obtained work experience in finance. Against this backdrop, many of them see a job in finance as a stepping-stone to launch to a stronger entrepreneurial venture. What appears to be a natural progression for them is to join the family business to work under the tutelage of the previous generation wealth creators. Given the technical skills that the NextGen possess, matched with the operational skillset that they will obtain running the family business, a potent advantage can clearly be established.

**NextGen are usually involved in both the family business and wealth management**

NextGen value the hardwork and expertise of their parents in

running the business, hence, they are very open to learning from them. Among the respondents who were surveyed, 45% are involved in both their family business and investing their family wealth while 14% are involved only with the business. On the other hand, those that are involved only with investing stands at 31%.

A noticeable difference between sons and daughters of wealth holders is that sons are more likely to be involved with both the family business and investing the family wealth (50% versus 33%). A similar pattern has been observed for firstborn NextGen as against subsequently born (51% versus 33%) and the under 40 compared to the 40+ (52% versus 38%).

**NextGen prefer evolution, not revolution**

It is also particularly telling that for NextGen, the knowledge of financial markets between generations are seen as different and complementary. They don't necessarily believe that one generation knows 'more' or 'less' compared to the other. As such, there is more harmony instead of tension between generations as the NextGen display an evident admiration for their parents' business accomplishments. Moving forward, given NextGen's educational and professional experience, and the relatively early stage at which families in Asia-Pacific stand in terms of wealth management, there is a palpable drive to push for greater professionalism. It is also predicted that investment focus will shift from public markets to private markets.

Of particular interest also is that the NextGen are likely to come with more technical expertise in finance and technology, a more global outlook and wider networks in the start-up community. Giving a more well-rounded view, the NextGen participants in the study also shared their

views on the relative shortcomings of the older generation in financial matters, which is mainly around implementing a governance framework. This is followed by an observation that the older generation did not adequately diversify. For a third of the participants, they noted that their family would have benefited from professionalising financial management and further diversification.

**NextGen see the value of digitalisation but human interaction in banking is still needed**

It is clear that human interaction still holds great importance among the NextGen. Only a small fraction prefers digital over direct human interaction with bankers to the extent that they are satisfied with never physically going to a bank or meeting with a banker (5%). A vast majority of them said that while digital is preferred, some direct interaction is still wanted (72%). A smaller percentage (23%) indicated a preference for traditional, direct approaches to banking. Diving deeper into the data, it was also revealed that 9% of participants under the age of 40 were content with

> **A particularly striking theme that continues to emerge in the research is that, while many of the NextGen have significant experience, they still value learning from their parents and on the job.**

eliminating direct human interaction with bankers totally but none of the 40+ participants agreed with this. One NextGen interviewee shared this view: "Some things cannot be fulfilled digitally, including discussions about strategy and solutions. We will still require human interaction. Digital is more relevant to execution, trading."

**NextGen are interested in a range of banking services**

It is easy to assume that because the NextGen's educational background and technical expertise is more advanced, that there will be a very low interest in a range of banking services. The study revealed that this is not exactly the case as many of them indicated an interest in a range of banking services although, their opinions on which services they are willing to pay are quite varied.

About 81% of the NextGen said that they are interested in banks anticipating the need for and providing relevant forecasts. For example, some advice on foreign exchange markets that will affect the family's business and investments. Roughly the same proportion (80%) said that they are interested in being viewed as an institutional client and being offered the associated services, including alerts and quarterly reporting. However, on both services, only 42% of those interested are willing to pay.

The biggest gap between interest and willingness to pay corresponds to the provision of more frequent granular reporting – in which 78% expressed interest, but only 25% of which expressed willingness to pay. On the other hand,

68% expressed interest in banks integrating technology into investment management – e.g., algorithmic trading – and 45% of them expressed willingness to pay.

**NextGen see a shift in focus from public to private markets with banks playing a role**

Looking into the horizon, it is apparent that the next generation of wealth holders is moving away from public markets. In terms of investment focus, the study highlights a growing interest amongst the NextGen in private equity and venture capital, and in direct investments, in particular.

The participants were asked about the role of banks in generating private market deal flow and, for the great majority, banks play some role (82%). This includes 52 people who said that banks play a limited role – i.e., that banks are and will remain one of many providers, but that the family still prefers third-party / sector specialist sources; 24 people who said that banks play an important role – i.e., because families find it hard to identify and structure deals themselves. Finally, it includes 6 people who said that banks play an imperative role – i.e., reflecting the bank's fiduciary duty and the alignment of interests.

> **Some things cannot be fulfilled digitally, including discussions about strategy and solutions. We will still require human interaction. Digital is more relevant to execution, trading.**

## The Next Chapter

The next chapter of wealth management in Asia will be an evolution of how wealth is created in the previous generation. The next generation ultra-high net worth individuals must be meaningfully involved in ventures they are taking part in. Armed with technical knowledge of finance, expertise in family business activities, and global networks on the one hand, and an entrepreneurial drive and eagerness to pick up operational know-how, on the other, the NextGen can prove to be an invaluable asset for family businesses and family offices.

As such, it also goes without saying that banks must step up and ensure greater internal stability. The NextGen places greater emphasis on long-term relationship with the banks however, such relationships must go beyond a traditional banking social event calendar and move into a more professional aspect of banking relations. These include overall bank stability, including financial, structural, and operational stability. The NextGen want less movement of personnel within and between banks, including relationship managers and senior management, and consolidation of roles, so that clients interact with fewer bankers.

In addition, what's clear from the study is that banks need to provide a holistic service offering technical expertise, consultation and tailored services. The NextGen want their point of contact to draw on and coordinate between different bank departments and regional offices. Ultimately, banks must greatly improve their capabilities. As one of the NextGen interviewee aptly puts it, "Banks have to take more time to understand their clients in terms of what their motivations and long-term visions are. The ones who do this will actually be supporting the business and will see more success."

**The NextGen places greater emphasis on long-term relationship with the banks however, such relationships must go beyond a traditional banking social event calendar and move into a more professional aspect of banking relations.**

To download a full copy of **Banking, Entrepreneurialism, and the Next Generation of Wealth Holders 2020 by BNP Paribas Wealth Management**, pls visit **https://bnpp.lk/nextgen**

*Image: rblfmr / Shutterstock.com*

# Pushing Water Uphill in Asia

## SDG6: Clean Water and Sanitation for All

**By Arnaud Tellier, CEO Asia Pacific, BNP Paribas Wealth Management**

**A United Nations (UN) goal of providing clean water and sanitation for all by 2030 is proving to be challenging in Asia. What does this mean for the region and what is being done to ensure this most basic of human rights?**

The World Health Organization (WHO) offered some simple advice as Covid-19 began to spread: Wash your hands. Hand hygiene was one of the most effective ways to limit the spread of pathogens and prevent infections, it said, including the new virus.

Being able to wash hands is taken for granted by many. For others, it's not so easy. The United Nations estimates that

two in five healthcare facilities globally lack clean water and soap. Nearly two billion people only have access to water that is fecally contaminated and almost a billion more lack access to basic sanitation such as toilets.

## Clean water for all

Access to clean water and sanitation is widely seen as a basic human right. It has the power to alleviate poverty and hunger, improve health, reduce inequality of wealth and gender and improve standards of education. It offers people greater dignity in their daily lives: the World Health Organization (WHO) estimates that some 673 million people still practice open defecation.[i]

On a broad economic level, the World Bank estimates that poor sanitation resulted in a loss of about US$223 billion of global GDP in 2015. Asia and the Pacific suffered the most, with losses of about 1.1 per cent of GDP overall, and some nations losing more than 5 per cent.

While poor sanitation has significant negative impacts, it also provides an economic opportunity: the WHO estimates that for every dollar invested in water and sanitation, the return is four dollars through saved medical costs and increased productivity.[ii]

## Most goals rely on SDG6

While the 17 Sustainable Development Goals (SDGs) goals are measured individually, none of them can be achieved in isolation and almost all rely in some part on the delivery of SDG6: "Ensuring sustainable access to clean water and sanitation for all."

SDGs 1 to 3 (no poverty, zero hunger, good health and well-being) are clearly dependent on clean water and sanitation. There are less obvious links with Goals 4 and 5 (quality education and gender equality), but it is impossible to build decent schools without good sanitation and – in many of the world's poorest nations – it is women who take responsibility for collecting and providing water for the

family, keeping them out of schools and further increasing gender inequalities. The goals associated with climate change, energy and the environment are also connected with progress towards SDG6.

## Bigger cities, bigger problems

A 2019 United Nations report on the SDGs presents a bleak picture for Asia. The region is failing to make progress on almost two-thirds of the SDG targets and none of the 17 goals look likely to be achieved.[iii] Of particular concern was a lack of progress in reducing inequality, protecting oceans and taking action on climate change. In many countries, especially in South Asia, lack of access to clean water and sanitation is contributing to targets being missed, with the situation stagnating or getting worse in developing nations.

Much of the problem in Asia stems from rapid and unplanned urbanisation. More than 60% of urban households live without piped water supply, with the problem being most acute in Manila, Jakarta, Dhaka and New Delhi.

## Asia: green shoots

Overall, though, Asian countries have made good progress in improving access to safe drinking water and sanitation over the past decade.

Only one per cent of the population now uses surface water for drinking purposes and around 92 per cent now have access to basic drinking water. Between 2000 and 2017, the SDG regions of Central and Southern Asia and Eastern and South-Eastern Asia increased the provision of basic sanitation by 36 per cent and 24 per cent respectively.

There has also been a dramatic decline in open defecation in Asia since 2000, with more than half of the population of Cambodia, nearly half of the population of India and a third of the population of Nepal and Laos stopping this practice.[iv]

In spite of these encouraging indicators, progress towards SDG6 remains uneven within the region. According to the United Nations, relatively wealthy North and North-East Asia has almost achieved the 2030 target already, with North and Central Asia not far behind, but populous South-East Asia and South and South-West Asia were behind schedule in 2019.[v]

**Asia's Water Challenge**

- 369 million people without access to basic sanitation
- 165 million people lacking access to basic drinking water
- Around 30 per cent of the region's population is already facing water scarcity
- Climate change and rising demand expected to increase water scarcity
- By the 2050s, Asia is expected to have greater demand for water than the rest of the world combined

**Sources:**
UNICEF Water, Sanitation and Hygiene (WASH) Annual Results Report 2019
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## Delivering the promise

Recognising the challenges that remain, the United Nations recently launched a Global Acceleration Framework titled "Delivering the promise: Safe water and sanitation for all by 2030."

The framework puts in place five "accelerators" designed to dramatically improve the international community's support for SDG6. These include optimising the use of financial resources; improving the quality of data; improving capacity by increasing job creation in the water sector and the retention of a skilled workforce; developing and implementing new technologies; and improving governance through better cross-sector and international collaboration.

## New initiatives

Various countries have proved that dramatic improvements in the provision water and sanitation can be achieved in just a few years, and that some solutions are inexpensive, effective and can be deployed quickly.

UNICEF has lauded government initiatives including China's Toilet Revolution, Indonesia's Sanitation Campaign, Myanmar's Clean Villages initiatives and the Philippines' Sanitation Master Plan for generating "huge traction in terms of drawing political attention for accelerating progress in sanitation and ending open defecation."[vi]

New technology is helping, too. In Vietnam, dirty water from a canal in the Mekong River is treated at a plant using a chemical-free process developed by Akvotek, an Australian company. The energy-efficient system provides at least 400 homes and 2,000 people in the southern city of Ben Tre with safe drinking water today, and is expected to do so for many years to come.[vii]

Big companies are also looking to SDG goals for guidance in forming their sustainability strategies. Among many others, Dutch brewing company Heineken has made commitments to reduce its use of water. In Indonesia, it has established a cross-sector alliance with UN agencies and partnered with an NGO to replant trees and restore land that is critical to the water supply and flood resilience of 30 million people.[viii]

Delivering on SDG6 will not be easy for Asia. But there is hope that, with the UN accelerator framework in place and the region's governments, businesses and communities increasingly focused on sustainability, the chances of delivering clean water and sanitation for all are increasing.

**Notes:**

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# How ESG Investing Became a Key Differentiator During the Pandemic

**For the first time on record, assets under management in funds within the environmental, social and governance (ESG) principles, have risen beyond $1 trillion, according to latest report from Morningstar. This surge follows an inflow of $71.1 billion, which hit the sector between April and June 2020, as investors' interest in sustainable investment funds continued to pique following the Covid-19 pandemic.**

In a research recently published at UBS, analysts said that governments all over the world have made legislations and investments towards the development of green projects, especially as the coronavirus wrecked its havoc. They said that this government commitment towards green recovery provides strong encouragement to eco-friendly companies to perform better in the nearest future.

Morningstar researchers, recently published a report that highlights three factors that has contributed to the increased inflow into ESG funds in the second quarter of 2020.

The report said that the outbreak of the Covid-19 pandemic alerted stakeholders on the need to build resilient and sustainable business models.

Also, the widening range of products in the green universe, especially in recent months, served as a profit indicator pointing investors towards the ESG investment funds.

The report also noted that by the end of the second quarter, 2,703 funds in Europe used the ESG criteria as an important criterion in their security-selection process. As at the end of March, only 2,584 funds used these criteria.

Also, during the second quarter, asset managers managed to convert 40 traditional funds into sustainable funds – and renamed thirty of them to fit into the green agenda.

## Why ESG Investing is on the rise

Even before the outbreak of the pandemic, ESG investment has been an important topic of conversation among investors.

A recent analysis showed that while almost every other asset price was pummelled in February and March - during the peak of the coronavirus pandemic - ESG investments resisted the bearish market.

Many people falsely believe that although it is advisable to invest in companies with sustainable business practices, such investments have low returns. This school of thought is wrong. Actually, in recent times, portfolio managers who are involved in the management of sustainability investment have excelled and raked in more profit than their peers who are not into sustainability investment. On a broader view, companies that adhere to ESG principles have, overtime, outperformed their contemporaries in other metrics.

Before the pandemic, companies with good ESG rating were already raking in amazing financial results that piqued the interest of investors, and this made share prices in such companies soar. Conversely, as the market pull-back caused asset prices to plummet, ESG stocks have maintained good value, and proven to be a wise choice for long-term investment.

## ESG core principles are here to stay

The pandemic has taught businesses critical lessons. It has shown that varied factors could affect investments, those in the ESG rubric inclusive. Businesses have learned the need for health and safety, biodiversity, human capital development and supply chain management. As the pandemic served as a leveller for all races, it highlighted the disadvantage of ill practices of lack of diversity and inclusion in the corporate world. This especially affects mainstream organisations, which have, over the years, embraced "stakeholder capitalism."

> **"For the first time on record, assets under management in funds within the environmental, social and governance (ESG) principles, have risen beyond $1 trillion."**

For value-based investors, sustainable investing has grown beyond its primary roots. Many investors, while considering the ethical issues surrounding ESG, opine that it will massively affect financial results. Other factors include workforce relationship, the double-edged effects of climate change, financial check and balances, corporate management, the company's competitive positioning, and ability to make wise decisions.

Although many investment fads have trended and waned over the years, sustainable business practices are here for the long haul. It is therefore advisable to embrace these principles in order to withstand whatever challenges the global economy may face soon.

Experts always advise investors to thoroughly review their investment portfolio and check if they are in line with quantitative ESG metrics, and if they're actualising their set goals.

Investment managers and index providers consider ESG as an evolving field. It is, therefore, challenging to adhere to the regulations. It is also challenging to reflect the changing preference of investors on ESG matters. For instance, the exclusion of weapons and firearms. It is, therefore, imperative to standardise ESG corporate disclosures, as a way of improving data collection at company level, to guide future decisions. There is also a need for thorough ESG research and creation of wise investment approach to counter charges of "greenwashing."

As the pandemic has turned ESG investing into the new normal, it is obvious that the importance of sustainability investing will be on the rise. In the foreseeable future, expect a more widespread acceptance ESG principles.

> **Although many investment fads have trended over the years without standing the test of time, sustainable business practices are here for the long haul.**

# Strategies that inspire action

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*Image: MOZCO Mateusz Szymanski / Shutterstock.com*

# J.P. Morgan Private Bank: The Unique Value of Advice-based Services Model

**This year's Most Influential Female Leader in Asia at the Global Private Banking Innovation Awards is Kam Shing Kwang, Chief Executive Officer of J.P. Morgan Asia Private Bank. In this fascinating interview, Kam Shing shared her most remarkable career achievements thus far, the technologies transforming JP Morgan and the new investment trends that have emerged in the aftermath of the pandemic. Here are the excerpts of our interview.**

## GPB: A sincere congratulations on being named Most Influential Female Leader in Asia at this year's Global Private Banking Innovation Awards. What is your most memorable achievement in your career thus far?

**KS:** Thanks for the honour. I am very humbled by the award, this is obviously due to the work from my entire team, who

> **In this current environment, technology facilitates our ability to work anywhere, anytime. It is absolutely remarkable.**

have worked very hard over the past few years. As for my achievements, it's less about the actual achievements, and more about the journey of working hard and getting something done - this to me is the most memorable and the most rewarding. If there is one particular turning point I can think of, it would be at a very significant stage of my career. When I first joined JP Morgan, I was a portfolio manager focusing on investments for clients. I thought that was going to be my career path, but this job took me from being a portfolio manager to running the investment team and then in 2004, this led me to Singapore to run the investment team for Southeast Asia. Shortly after that, the head of the Singapore office had to relocate, and the opportunities opened up for me to become the head of Singapore office. This was in 2005, and was a very significant milestone and also a turning point in my career, as it opened up all the opportunities for me to broaden my scope beyond investments into business development and strategising for the markets across the region. That was a very significant moment in my career in JP Morgan.

## GPB: You seem to be somewhat of a tech enthusiast, which must certainly be helpful given the $11 billion a year JPM spends on technology. Can you talk a bit about specific technologies that are transforming your business and why?

**KS:** In this current environment, technology facilitates our ability to work anywhere, anytime. It is absolutely remarkable.

Kam Shing Kwang, Chief Executive Officer

Mobile devices and different kinds of hardware allow us to access information wherever we are. But, I think it only just dawned on me during this pandemic where, at any one time, we have 97% of JP Morgan staff working from home. So, we're talking about over two hundred thousand employees completely working from home and processing transactions seamlessly and effectively. This has all been made possible by cloud technology, etc, and I think that is one of the most amazing things I've seen.

## GPB: How has JPM countered the adverse economic impacts of COVID-19, and what advice would you give to businesses navigating these unpredictable waters?

**KS:** It's very heartening to hear from our employees and also from our clients. Clearly, our technology and platform have been critical in helping us serve our clients seamlessly and allowing our colleagues to work effectively. The commitment and devotion are simply unparalleled during this period. One thing that has been extremely helpful and will continue to

be particularly important in what we do for our people and our clients is the effort everyone is putting in. So, having empathy is very important for our employees. To think about how they are being impacted by the pandemic, they need to feel safe and secure – this is one of our top priorities. If we prioritise this, we will get there and will allow the entire workforce to work from home. We put ourselves in our client's shoes and understand what they need. They need information and require us to truly understand what their needs are. Our ability to listen, and understand this, already goes a very long way. We have a series of digital engagements and as a result, the digital adoption rate has increased a lot and we are now servicing our clients this way.

## GPB: What new investment trends would you say have emerged as result of this pandemic?

**KS:** We see a significant disparity between the winners and the losers during this time. To define that, customers that are able to respond quickly during this period of time have fared well. Technology and healthcare are two sectors that have performed really well. And we've been recommending these sectors for a while. More broadly, what we're sharing with our clients is that innovation is really important. And honestly, the technology that facilitates that. Innovation in this area should

**Technology and healthcare are two sectors that have performed really well. And we've been recommending these sectors for a while. More broadly, what we're sharing with our clients is that innovation is really important. And honestly, the technology that facilitates that.**

*Image: ZDL / Shutterstock.com*

look at the way you process and service your clients and any business that is always responsive to new environments will eventually win.

So, we look for companies that have these attributes. We have a strategy about innovation, and it has been doing very well for the majority of our customers in the tech sector. Of course, this goes beyond technology.

## GPB: How has business been since the launch of JPMs Trust Company in Singapore?

**KS:** It has gone well; everything is on track. Especially on the new business side of things. We have started better than we expected, which is great. We've been setting up new trusts for many company founders – seeing their companies to IPO. They want to start structuring and planning, so we have set up a significant number of such trusts for founders ahead of their IPOs.

## GPB: Which products or services help differentiate your firm and what is truly unique to JPM's Private Wealth offering?

**KS:** Obviously, it's easy to talk about product. I'd like to talk about all the products we have – from investment to wealth advisory to credit, and all products that other parts of the bank offer. However, I think the most important thing at the end of the day is advice. And that advice has to be personalised depending on the client needs. I talk about being empathetic. If you have empathy, you can see from the clients' standpoint on what their needs are. You can give them the right advice

and that hopefully comes with the right solutions. So, I'd say, advice is what differentiates JP Morgan and the way we ensure that we give our clients the best advice. Obviously, having the right advisors who are given the right amount of tools is just as crucial too. Most importantly, our global consensus and the innovation mindset will mean that all the advice we give is always timely and holistic.

## GPB: What do you think the Private Bank of the future will look like?

I think there are two parts to this, and I've probably touched upon both parts. People are going to value advice more and more. What we have seen, especially in Asia, is that certainly, products do play an important role. In the past, clients look at what products you can offer to determine whether you are the right provider. Increasingly, clients are going to see that product can be modified so what differentiates, really, is advice. So, in the future I think clients will want to pay for advice rather than just products. Also, we can see products are being commoditised and being manufactured more efficiently. The force of competitive pressure will drive down prices. So, I think the advice-based services model will be far more valuable.

The other thing is getting digital. Having the most efficient digital platform will be crucial in giving solutions and advice.

> **"In the future I think clients will want to pay for advice rather than just products. The force of competitive pressure will drive down prices. So, I think the advice-based services model will be far more valuable."**

# Taipei Fubon Bank's Futuristic Wealth Management - 'Smart Investments'

**Banks & Financial institutions are increasingly deploying new technology to succeed in the age of technology. However, Taipei Fubon Bank's vision is to use digital technology to make its clients succeed. It has an intense focus on keeping Customers-First and ensuring that technology is used to deliver more effective, easier-to-use and faster financial services & solutions to customers. Taipei Fubon Bank President - Roman Cheng - never gets tired of pointing-out that it is not about technology, it is about creating strong UVPs and delivering great customer experiences.**

This approach has led to many innovative products in recent years that have been recognised not only for the latest technology but, more importantly, for popularity with customers and resulting high usage rates. One of these innovative products is Taipei Fubon bank's recent flagship offering for Wealth Management customers – 'Smart Investment'.

> **"'Smart Investment' is a digital application that even assists customers without any investment background to start their financial management journey."**

Smart Investment platform helps customers make better financial choices by enabling them with financial data & digital technology. Customers can use the 'Smart Investment' platform to create financial plans suited to their individual needs as well as help them decide how to maximise portfolio returns by using low interest loan to invest in higher yield investments. This innovative offering is already in use by about 18K WM customers – an impressive achievement for a new product in a highly competitive Taiwan market.

Taipei Fubon Bank has been leading the new trends in Wealth management & Private banking in the last few years; and has received several recognitions for its customer focus and use of technology. Global Private Banking Innovation Awards 2020 (GPB Awards) by The Digital Banker recently recognised Taipei Fubon Bank with three major awards- the Best Private Bank, and the best private bank in AI & Big Data respectively. Moreover, Taipei Fubon bank was adjudged 'Highly Acclaimed' in two more categories- Best Private Bank for Client Experience and Outstanding Technology Implementation (Back End).

> **Taipei Fubon Bank is known for its tenacity in providing exceptional service to its customers. Using its core strength in technology to boost its business and serve its customers in a manner that provides great value, they have proven once again that they are second to none.**
>
> **- Nirav Patel, Managing Director at The Digital Banker**

The Global Private Banking Innovation Awards 2020 (GPB 2020) organised by The Digital Banker are highly regarded and valued in wealth management industry. GPB Awards are judged by private wealth industry leaders and are aimed to identify and recognise the world's best in class Private Banks, Family Offices and Wealth Managers that demonstrate elite levels of performance & creativity across Fixed Income, ESG, Structured Investments, Family Office Services, Discretionary Services, FX & Cash Management, Funds, UHNW, Islamic Finance and more. This year's panel of judges include subject-matter experts known for their integrity and unbiased adjudication from companies such as Forrester, Protiviti and EY.

## Power of AI/ ML for WM customers - 'Smart Investment'

Smart Investment platform is based on two major technologies. Firstly the algorithms to generate & evaluate multiple scenarios and arrive at best choices for each individual customer. The second is an automated platform using artificial neural network to detect customer repayment information & deliver timely alerts to customers. 'Smart Investment' is a simple-to use but powerful platform that is able to assist all customers including those without any investment background to start on their financial management journey.

This app, the first of its kind in Taiwan, gives customers automated advice on multiple aspects of financial management. The goal is to provide relevant information to help clients in making sound financial decisions. 'Smart Investment' integrates to mobile and online banking channels and constantly reviews customers' data such as loan amount, interest payments, remaining instalments, etc. Smart Investment is then able to recommend the best options available for each customer. In addition, the alert system built into the Smart Investment platform gives Taipei Fubon Bank the ability to detect important issues that need urgent attention.

Taipei Fubon Bank's nearly 18,000 customers with AUM of USD 1bn are already making better financial planning decisions through this 'Smart Investment' app. These usage numbers continue to grow with more & more customers adopting the smarter way to investing!

## Prosperity Across Generations

In 2018 Taipei Fubon Bank launched the Exclusive Banking Group – a new client-centric service model catering to top-tier clients. Based on results of customer research & insights from HNW Private Banking customers, a unique brand was created – "Prosperity Across Generations".

Taipei Fubon Bank believes that HNW clients need the same level of service & products as corporate clients and aims at serving HNW individuals as "corporates". Increasingly Bank's high net worth clients, just like corporates, face complex challenges for asset and wealth management. Simple services like family asset management are necessary but no longer sufficient for the needs of these HNW clients.

Taipei Fubon Bank assists high net worth clients using a comprehensive service approach that includes both the "upstream" and the "downstream" opportunities to offer a complete investment ecosystem to its customers.

In another first for any bank in Taiwan, Taipei Fubon Bank collaborates with Lombard Odier, a 224-year-old Swiss private bank, to provide the world's best private banking services to its customers. With client-centric focus, investment in technology and expertise of its well-trained bankers, Taipei Fubon Bank has rapidly developed itself into a world-class provider of private banking services exclusive clients in Taiwan.

> **Prosperity Across Generations requires wealth management with relevant information, timeliness and global perspectives for our clients. Taipei Fubon Bank is focused on providing these to its customers so that they can focus on their own businesses and families.**

# Blending Technology with Human Touch in Wealth Management

**Technological advances and digital innovation in wealth management has greatly influenced client engagement, and tilted client preference from traditional channels to smart mobile apps. There has also been an increased preference for digital and voice-enabled assistants in recent times.**

Client needs have moved from basic transactional activities to the technologies that can listen, learn, process complex language, receive financial advice and manage wealth. Wealth management firms are now tasked with the challenge of integrating high-touch advisory services with these new high-tech solutions to offer clients personalised and efficient service in line with their demands.

These technological advances are happening at a higher speed than most wealth management firms and their clients predicted, so there is a need for swift adaptation.

## Adapting to Digital Changes

Many wealth management companies – and their clients – did not anticipate the speed with which the digital evolution is happening.

Client needs have also evolved from expecting basic services to demanding apps that can perform various wealth management functions such as receiving financial advice and rebalancing portfolio. With these new technologies, the world is gradually moving from website, which was the main digital channel of the first generation, to mobile.

As many mobile technologies flood the digital space, wealth management providers who want to standout, must quickly evolve with time by offering their clients digital and voice-enabled assistants which are the new normal.

These voice-enabled assistants, also known as chatbots, are built with natural language and machine learning capabilities. They provide more personalised experience for users, such as answering questions, placing orders, monitoring transactions, and performing screening functions such as connecting users to human advisors. They also help advisors sort clients according to their needs, thereby easing their daily activities.

To remain relevant, incumbent wealth managers have to realise that business interaction is gradually moving from conference rooms to living rooms, so they have to find ways to adapt to these trends. Firms also have to be on the lookout for what clients' needs will be in the nearest future, even as they prioritise the new digital advances of the present day. This may involve investing in resources that will help facilitate the move from website to voice-enabled tools or other advances in the nearest future.

## Integrating high-tech and "high-touch"

While trying to stay in tune with digital advancements, wealth managers also need to find ways to integrate human interaction with these automated solutions. High-touch human engagement is essential especially during unstable markets when clients need an expert to calm their nerves and assure them that things will be fine.

Human interaction is mostly important for clients with conservative risk attitudes or dire financial situations. These kinds of clients would prefer having a face-to-face conversation with wealth managers and financial advisers than relying on purely digital interactions.

> **"Wealth management firms are now tasked with the challenge of integrating high-touch advisory services with new high-tech solutions."**

For an efficient high-touch service, firms have to adopt technologies that will improve communication between their employees and clients. They also must do away with some unnecessary, outdated and repetitive tasks so that their financial advisors could have more time to interact with clients.

These new trends are beneficial to wealth managers as they provide them with easier and innovative ways of relating with their clients. Natural language processing and artificial intelligence, which are the main technologies driving these new set of interactions, will provide leeway for wealth management firms to integrate high tech with high touch.

## Clients want more clarity and simplicity

Due to lack of clarity and awareness about wealth management fees, many people do not have a good understanding of the value of wealth management.

It is necessary for wealth management companies to offer clients more than just impressive performance. World-class wealth management firms provide clients with goals-based financial coaching and overall excellent experience by tracking the progress of clients' investments and clearly showing how their service have yielded positive outcome for the client.

Furthermore, helping clients with estate planning and budgeting provides more value which may not be obtainable on automated platforms.
Clients need to have a clear understanding of complicated fees and fragmented products involved in advisory services such as wealth management. It is therefore necessary for wealth management firms to clearly communicate the fees attached to each of their services, as well as the benefits and regulatory rules of operation.

Firms can use videos and app notifications to help clients get a better understanding of advisor compensation, fee structures and incentives. All these measures will ensure transparency and will help strengthen clients' trust on the wealth management firm.

> **To remain relevant, incumbent wealth managers have to realise that business interaction is gradually moving from conference rooms to living rooms.**

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