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Investors seek more transparency in account management

By FINTAN NG

TRUST and confidence. Risk management and corporate governance. Competence. These words resonate with more urgency now, particularly in the advanced financial markets in the post-Lehman Brothers, post-Bernard Madoff and post-Allen Stanford world.

These were the key areas identified in a speech by Monetary Authority of Singapore (MAS) executive director for financial centre development, Ng Nam Sin, at the Shorex Wealth Management Forum earlier in the year.

He said investors were demanding even more transparency in account management and adopting a more holistic view on their wealth protection needs.

In Malaysia, where investors largely escaped the financial troubles of the past one year, Bank Negara governor Tan Sri Dr Zeti Akhtar Aziz tells *StarBizWeek* in an interview that the central bank is carefully monitoring financial institutions that originated or distributed these products.

"We're keeping a close watch on governance and risk management practices and that the boards (of these financial institutions) are fully aware of the risks associated with these products and are able to manage it," she says.

Zeti adds that the central bank will look into the financial institutions' risk management and activities to see if they commensurated with the kind of developments that had taken place in their systems.

Strengthening systems

Local banks have also beefed up their check-and-balance system, with AmBank (M) Bhd recently upgrading its AmUtopia system to provide its personal bankers with more information in monitoring the customers' investments.

AmBank wealth management head Joshua Lim says as far as product disclosure is concerned, the bank strictly follows Bank Negara's requirements under the product transparency and disclosure guidelines.

AmBank's total assets under management as at July 31, including unit trust funds and separately managed funds, stood at RM17.1bil.

"Over the past several years, our retail wealth management team has implemented many initiatives to ensure that the main focus of our business is the needs of our customers first rather than the features of the product," Lim adds.

He says the key to best practices and processes are the personnel, investment philosophy, disclosure procedures and investment objectives.

According to Lim, the bank in recent years has mostly developed capital-protected products with a mix of higher-risk products from time to time.

"Our clients have also gone through much when the market was down badly, but now is an opportunity for longer-term investors to accumulate," he points out.

Wave of regulatory changes

Malaysia is still a comparatively small market but he sees the wealth management space growing in tandem with economic growth.

"With the recent liberalisation measures, we believe the quality and depth of products will improve. This will certainly benefit our customers as will the approach by banks to continuously improve the skills of their people, the products they offer and the systems available for both customers and staff," Lim adds.

However, while the global financial crisis' impact on Asia has not been as visible as it is in the developed economies – there being no massive foreclosures on homes or bank bankruptcies in Asia – some investors, notably those in Hong Kong and Singapore, have been hit by the sales of structured products, particularly from Lehman Brothers.

Besides the Lehman mini bonds, Singaporean investors also lost money on Merrill Lynch's "jubilee notes", DBS Bank's "high notes" and Morgan Stanley's "pinnacle notes".

Accordingly, financial market regulators in Hong Kong and Singapore have responded by requiring financial institutions that distribute structured products as well as other investment instruments to tighten the internal processes and controls on the sale and marketing of such products.

The Hong Kong Monetary Authority (HKMA) signalled a new wave of regulatory changes in March by issuing a circular on implementation measures and time-frames in relation to recommendations made in December regarding the offering and distribution of structured products.

The HKMA circular, which covered broadly the themes of systematic investor protection, more prescriptive disclosure rules and more stringent scrutiny of the independence and adequacy of the sales process, directly affects distributors but will also place pressure on originators to assist with the compliance process.

MAS, on the other hand, released early last month the findings on an investigation carried out on the sale and marketing of structured notes linked to Lehman Brothers.

The regulator issued formal directions to the 10 financial institutions involved "to rectify all the weaknesses identified by the investigations and to review and strengthen all internal processes and procedures for the provision of financial advisory services across all investment products".

These institutions are also required to appoint an external person approved by MAS to review their action plan and report on its implementation. In addition, these institutions are required to appoint a senior manager to oversee compliance with the monetary authority's direction.

Do it like you meant it

Industry experts, on the other hand, say some lost clients may never return following the massive losses they have incurred from the advice they got from financial institutions that have operated on a universal bank model and thus, may have been juggling competing interests.

David Maude, formerly with McKinsey & Co's European banking and securities practice and now an independent consultant, says in an email reply that "the basic challenge is to recognise the sheer scale of the necessary changes and hence, the time and effort required to reconnect effectively".

"The basic message is do it like you meant it," says Maude, who is the author of *Global Private Banking and Wealth Management: The New Realities*.

He points out that financial institutions need to change their business practices as well as intensify communication with clients and other stakeholders.

"On business practices, the agenda is broad with much of it geared to removing real and perceived conflicts of interest," he adds, pointing to Julius Baer's spinning off of product manufacturing as an example of how to avoid such conflicts.

Other areas in which financial institutions should look into include overhauling risk management, improving advisory and product due diligence processes, rethinking relationship manager training and incentivisation and, enhancing pricing transparency.

Maude says different business models in the industry have been impacted by the crisis in different ways and that will help shape the landscape in the future.

"For example, well-run independent pure plays and boutiques are likely to be particularly advantaged, while product-wise, it's going to be about simplicity, transparency and value for money supported by more rigorous advisory processes," he adds.

He points out that government ownership in financial institutions are already influencing some US and European wealth management strategies.

"The global regulatory clampdown means undeclared offshore wealth management is a business now largely in secular retreat. Geographically, wealth generation is clearly shifting eastwards, so I see Asia as continuing to be a hard-fought battle ground – with local players continuing to up their wealth management game.

"Overall, wealth management remains among the most attractive areas of financial services."
