Unlocking the Potential of High Net Worth and Affluent Customers

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The Hong Kong financial services market is an increasingly challenging environment for all the players. Most banks are now aggressively targeting the only segment that is growing strongly – investments. Banks currently capture a relatively small share of their own customers' investments, but could get more by following some of the approaches described in this article.

The most valuable customers are the affluent and high net worth individuals and families. The affluent have US$100,000 to $1 million of investable assets. In the US and Europe, the key to capturing a larger share of this business is to satisfy their need for financial advice and planning. In Hong Kong, this market includes 100,000 to 150,000 individuals with a total of over US$15 billion in assets. In addition, there are over 50,000 high net worth individuals with investable wealth over US$1 million.

A number of factors are driving market growth, including:

- Greater awareness of pension needs through MPF introduction
- Ageing population
- Second and third generations "cashing out" on family assets
- Lower returns on equity and property markets
- Less reliance on property investing

Retail banks are competing against two types of competitors: insurance companies and private banks, including investment banks. The major retail banks in Hong Kong are well positioned to gain share by leveraging their branch networks. However, unlike retail deposits, the market is still relatively fragmented. Two things are critical to success: gaining maximum "share of wallet" in investments from existing affluent and high net worth customers and building overall critical mass as the market grows.

One of the real challenges for banks seeking to penetrate this market is to know who their affluent and high net worth customers are. In the US, for example, only about 20 per cent of total household financial assets are held in traditional bank deposit accounts. Banks may have affluent customers who they don't realise are affluent because their assets reside elsewhere. Improving data mining and customer profiling capabilities can be an important means of identifying potential investment customers based on transaction patterns, rather than just deposit balances.

Unfortunately, there are not many models of success from the US or elsewhere that Hong Kong banks can look to. In the US, banks have a much smaller share of customer investments than that achieved by financial planners and full service brokers. Nearly three quarters of banking customers do not believe banks have expertise in investments and financial advice. One obvious reason is that few bank employees are properly qualified and trained to sell mutual funds and other investment products.

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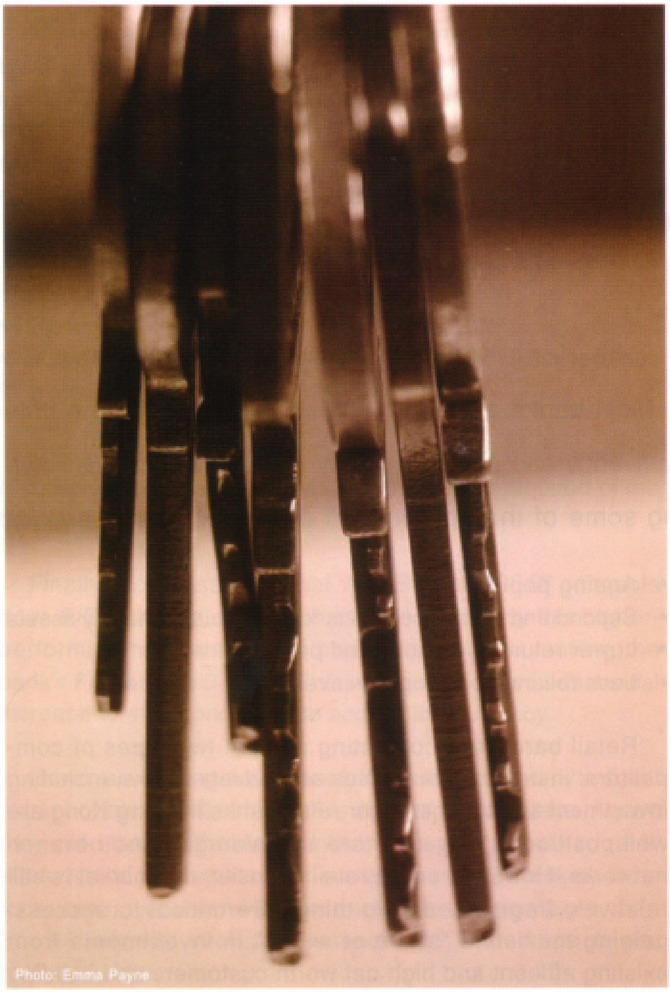

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Success with investments in Hong Kong will require a solid strategy and delivery system that succeeds in the branch. There are three approaches Hong Kong banks could follow:

Referrals. Wells Fargo achieved its 59 per cent share of customers' investable assets with its referral-based model. Bank representatives refer customers with investment needs, beyond proprietary mutual funds and annuity products, to its investment consultants. These consultants assume the lead customer relationship.

Teaming. Wachovia has a 36 per cent share of its customers' investable assets, relying on a teaming model. Its financial specialists acquire banking customers and serve their banking and basic investment needs through proprietary mutual funds, but work in concert with brokers to provide broader investment offerings. Brokers earn incentives to train and develop the financial specialists. For example, if financial specialists meet their sales goals, brokers get 20 per cent to 30 per cent overrides on their sales. The financial specialists, in turn, can earn 20 per cent of their compensation from incentives for referring customers to brokers. Brokers train financial specialists on products, identification of investment needs and sales skills.

Split-service. In a split-service model, responsibility for acquiring and serving banking needs resides with the bankers. Tellers and platform bankers refer clients to investment consultants, who focus on gaining share of investments. The problem with this model is the lack of a well-defined customer relationship manager: bankers see to banking needs, and investment advisors oversee investment needs. This leads to high expense levels and customer confusion. This model only achieves a 20 per cent share of an affluent customer's wallet.

So how can Hong Kong banks gain share in the high net worth and affluent markets? After they select a strategic approach that best fits their situation and vision, they need to focus on six areas:

Customers. Target sub-segments within the high net worth and affluent customer market. These include established families, entrepreneurs and successful professionals. Customer sub-segments have different risk profiles, investment preferences, service requirements and loyalty. It is also important to know which customers will contribute differentially to profitability, and design the service offering around them. In addition to investable assets, important drivers of profitability within this segment are higher risk tolerance, churn rates and willingness to accept and pay for advice.

Products. Develop a profitable mix of proprietary and third-party products. Aim for a high percentage of packaged products. Citibank is a leader in packaging innovative and tailored products. Both HSBC and Standard Chartered have done a good job offering a range of fund options to their customers. One challenge in Hong Kong is how to provide more professional brokerage services to retail customers. The market is still dominated by relatively small players that focus on frequent trading and do not offer planning services or high quality research. Finally, many retail banks are still focused on selling products when customers are looking to buy financial planning and advice on asset allocation.

Compensation and incentives. Include some volume-based bonus compensation for financial specialists, brokers and branch managers. The Hong Kong retail banks are still much too salary-and-benefits focused. On the other hand, the investment banks go too far in creating a structure that is primarily commissions, risking a "product pushing" culture that does not meet customer planning needs. There is a winning balance of fixed and variable compensation that meets the needs of customers and creates appropriate incentives.

Training. Develop skills in planning and repeat sales. Segment your planners and products to focus on affluent customers. Build a scale team with insurance and planning qualifications in Hong Kong. Make sure they are targeted on the highest areas of opportunity, and regularly trained to increase their qualifications and business.

Organisation. Get the sales and service interfaces right. There are significant tensions that can be very visible to the customer – between the branches and the direct sales force, between relationship managers and specialists and in reporting on retail and investment transactions and balances. The more seamless the organisation to the customer, the more share a bank will get of customer wallet.

Brand investment. Build internal and external awareness of investment capabilities. For example, HSBC is now spending more advertising dollars on positioning as an investment advisor. Most customers in Hong Kong already know about their retail banking capabilities. In addition to promoting awareness of investment capabilities, bank brands need to be reinforced by a service model and customer experience that meets affluent and high net worth customer expectations.

Photo: Emma Payne

These customers know that they are valuable and expect a differentiated experience that some banks are not equipped to deliver.

This is a challenging agenda for change. Smaller banks may not have the capability to transform in this way. They should consider the options of alliance and merger as possible solutions to penetrating this market.

It will be interesting to see how the Hong Kong investments market evolves over the next five years. We expect that it will consolidate with only a few winners able to achieve the critical mass of high net worth and affluent customers required to survive. High private banking margins of the past will be eroded in this more competitive environment. How well the retail banks in Hong Kong fare in the future battle for investments will depend in part on which relationship manage-ment approach they choose and then on how well they execute against the six focus areas. BT

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