Wealth management IN SINGAPORE

By Francis Koh

Vibrant, growing, challenging

As early as 2015, Singapore may oust Switzerland as the world's top finance hub. But the path forward requires adjustments in the strategic direction of individual firms.

Private wealth continues to grow rapidly across the globe, with 2012 recording new highs in terms of high net worth individuals (HNWI), defined as those with investible wealth over US$1 million, and who now reach a population of 12 million, with aggregate investable wealth totalling US$46.2 trillion.[i] The Boston Consultancy Group reported that private wealth in 2012 grew by around 5.9 percent in the traditional mature economies of North America, Western Europe and Japan, with stronger, double digit growth observed in the new-world regions of Asia-Pacific (excluding Japan), Eastern Europe and Latin America. Thus, in an increasingly complex global environment, wealth managers are looking to aggressively grab a share in the new wealth being created in these new markets, while in the mature markets, the focus will be on retaining existing clients, or wooing them away from competitors.[ii]

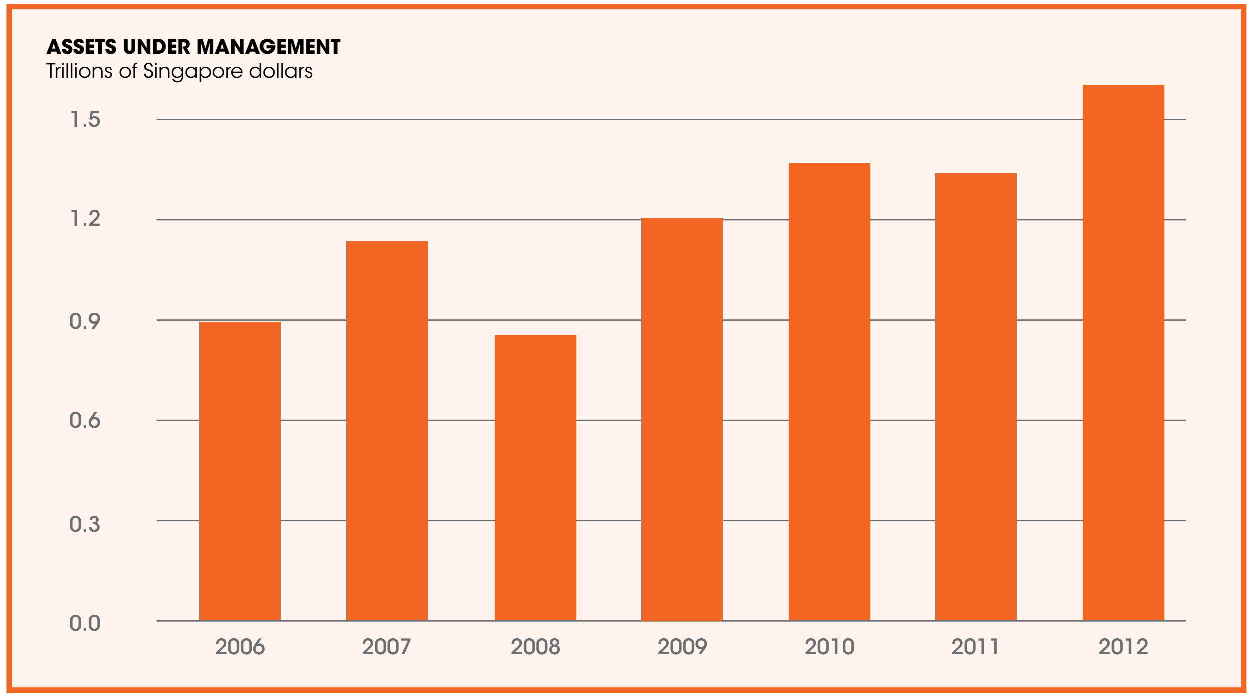
In Singapore, the wealth management industry is a buoyant part of the economy. Strategic alliances, mergers and outright new business models are being spawned amid a changing regulatory environment that is employing new technologies and shifting the focus of traditional businesses. Asia's HNWIs are also getting more sophisticated about articulating their needs, passion and direction of investments.

Singapore, with its strong governance and well-developed banking environments, is perfectly placed to meet the increased demand from HNWI clients to provide wealth solutions for their complex needs. The small city-state is challenging the older and more developed wealth management centres, becoming increasingly attractive to investors even from areas outside Asia. "Bright and optimistically vibrant" is how one insider described the future of Singapore as a global financial hub and centre of wealth management services.

In fact, respondents to the PricewaterhouseCoopers 2013 Global Private Banking and Wealth Management Survey believe Singapore will "dethrone Switzerland in the next two years as the world's top centre for managing international funds".[iii] This positive view is supported by the research firm WealthInsight. WealthInsight reported that at the end of 2011, the global private banking industry had Assets under Management (AUM) of US$19.3 trillion. Offshore centres accounted for 42 percent or US$8.3 trillion of this total. Switzerland was the global leader with AUM of US$2.8 trillion, of which over 80 percent of funds were held for foreign clients. Singapore, with a much lower AUM of US$550 billion, was however the fastest growing wealth centre in the world–and WealthInsight believed that it could overtake Switzerland to become the largest global offshore wealth centre by 2020.[iv]

This is not to discount the position of Hong Kong, which continues to compete with Singapore for both clients and market share, though AUM in Hong Kong tend to be more Sino-centric. Whereas Singapore, in tandem with the increased wealth in the region, recorded 22 percent growth during

SINGAPORE'S ASSETS UNDER MANAGEMENT



Source: The Monetary Authority of Singapore, 2012 Singapore Asset Management Industry Survey

2012 in total AUM to reach an all-time high of US$1.33 trillion. Of this, about 80 percent was sourced from outside Singapore, demonstrating the country's important role as a hub serving regional and international investors.[v] Moreover, it is believed that Singapore as a sovereign state would be better placed to manage wealth over many generations.

But despite this enthusiasm, the reality is that wealth management firms in Singapore are grappling with the same challenges that their counterparts across the globe have to deal with—which include managing a host of regulatory complexities that are being imposed by most governments, improving their AUM, generating new revenues, managing increasingly sophisticated customer expectations and battling rising costs. So what is it that will enable the wealth management firms in Singapore to win this global battle for supremacy? How can they ensure that they successfully compete and excel, making Singapore the global hub for wealth management services?

Increased regulatory complexities have changed the landscape

In the recent past, some analysts have been postulating the demise of offshore banking, a key element in wealth management. This is primarily due to a legacy issue involving certain offshore banking centres that had grown to be conduits of undeclared money. These centres prospered with the help of statutory acts providing bank secrecy, which tolerated the acceptance of indiscriminate deposits without rigorous know-your-client processes. Many of these centres were allegedly involved in money laundering and blacklisted by the Organisation for Economic Co-operation and Development (OECD). There is now a broad consensus in the industry that bank secrecy as practised previously will not be an option for banks in the near future. International co-operation against tax evasion and other forms of illicit cross-border fund transfers have made strenuous demands on financial institutions removing bank secrecy as the raison d'être for offshore banking. Consequently, those offshore financial centres that depend on regulatory provisions of bank secrecy as the mainstay of business will decline.

For its part, Singapore is keen to ensure the city-state is not seen as a tax haven for the wealthy from Europe, China, Indonesia, Malaysia and elsewhere, without diminishing its potential for sound financial services to the wealthy. Stringent regulations came into effect in July 2013, and addressed concerns from Europe that, as the veil of bank secrecy in Switzerland is lifted, tax evaders will head to Southeast Asia. Banks in Singapore were asked by the Monetary Authority of Singapore (MAS) to review their account holders, and were forced to decide whether or not they wished to retain them. The tighter rules were intended to fall in line with new global standards announced the previous year, which treat tax crimes as a money-laundering offence.[vi]

Singapore offers a politically and economically stable jurisdiction, supported by a legally efficient environment, including the Singapore International Arbitration Centre. It is also known for its "competent, clean, and trusted financial sector",[vii] which is particularly attractive to HNWIs from the region. MAS has assiduously introduced regulatory reforms and actively promoted the growth of the banks and encouraged financial innovations. It has urged wealth managers to move away from a transaction-driven approach of pushing products to a client-centred approach, which focuses on customised advice that will meet the financial needs and life-cycle circumstances of their clients. MAS has also repeatedly stressed the need to keep the financial centre "clean", introducing Client Advisor Competency Standards (CACS) examinations in September 2011.

Transforming the business model

But with these added regulations, there is also a dramatic surge in the cost of doing business. The 2013 Capgemini, RBC Wealth Management and Scorpio Partnership Global HNW Insights Survey report states that wealth management firms have seen their cost to income ratio increase to 80 percent in 2011 from 63.7 percent in 2007–and a key driver has been rising costs due to initiatives such as hiring new compliance staff, upgrading platforms and training employees to meet the additional regulatory requirements.

Given this environment, it would not come as a surprise that the industry is expected to go through a period of business consolidation. The bigger banks have a larger balance sheet and the economies of scale to deal with the regulatory challenges, while the smaller boutique players are expected to struggle as their cost-income ratio continues to spiral up. While these small players may decide to develop a business model that is focused on providing specialised services to a small niche of HNWI customers, it is far more likely that they would instead look for mergers to help spread their cost base. This pattern of consolidation has already begun, as seen in Julius Baer's purchase of Merrill Lynch Bank of America's non-U.S. wealth management divisions.

The regulatory pressure has also, in some cases, resulted in a shift in the customer profile, where firms may choose to de-market certain "expensive" clients. For instance, legislation, such as the US government's 2010 Foreign Account Tax Compliance Act (FATCA) requires that wealth managers disclose account details of their U.S. customers to the Internal Revenue Service. Wary of the anticipated increase in cost, and meeting other challenges such as the additional reporting burden and due diligence regulations, several private wealth management firms,

63.7% in 2007

80% in 2011

COST TO INCOME RATIO

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particularly the smaller ones, are limiting or altogether ceasing to offer their services to U.S. citizens.

Finding new customers?

So where can wealth managers in Singapore look to for growing their HNWI customer base and improving top line growth? Singapore is starting to become attractive to investors outside Asia, but the majority of clients are closer to home, with their wealth made in resource-rich countries such as Indonesia, Thailand and Malaysia. This offshore wealth, which is wealth booked in a country where the investor has no legal residence or tax domicile, will remain popular because the HNWI clients need the expertise, service and discretion which may not be offered in their own country.

But a new trend appears to be emerging, where growth will come not only from the fact that Singapore is a wealth management hub, but also because it is a flourishing business hub for corporates that wish to set up offices here to deal across the Association of Southeast Asian Nations (ASEAN). Hence, even if the business is, say, dealing in palm oil in Indonesia, it can be expected that there will be significant office space taken up in Singapore, and the entrepreneur/client is more than likely going to keep his family in Singapore and establish a base here for corporate decision making—and this would suggest that that the wealth management industry could grow around these people, servicing their requirements.

Wealth managers therefore need to extract value and deliver services to those corporate owners and principals residing here. They would have to realise that while the off-shore model is not dying, it is definitely morphing to a more hybrid off-shore cum on-shore relationship. This view is supported by the Boston Consulting Group's Global Wealth 2013 report, which believes that new off-shore wealth created in a region would essentially flow to the off-shore centre in that region. Hence, Singapore, along with Hong Kong, is well placed to serve the increasing wealth of HNWIs, particularly from the new wealth created in the fastest growing Asia Pacific region.[viii]

And this trend will also help with managing cross-border issues, because as an on-shore client, there are no issues with banking a resident "foreign" client, and hence even from a regulatory stand point, it makes more sense for assets to be held in Singapore and for clients to have business interests here. Thus, the bulk of the growth will come from the business owners that have significant equity share—either in family-owned businesses or the large corporates that will expand through Singapore—and it is these business owners that the industry needs to focus on.

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But these business owners are likely to be over-banked, given the highly competitive industry in Singapore. So what is it that would enable a wealth manager to become the leading adviser to a big client? What is the value proposition that HNWIs are looking for?

The evolving customer: meeting client expectations

Hand in hand with the changing wealth environment, the profile of the HNWI is also changing. They are more sophisticated, better educated, more exposed to varied information sources, and demanding a higher level of service. They no longer wish to be passive investors. Evidence that HNWIs have over-invested in real estate and/or passive cash are also signs they will continue to need professional wealth management in the near future and the level of service will need to go beyond such investment. Although there is increased and enhanced demand for lucrative yet trustworthy investment advisory services, Asian clients still want to preserve family wealth and leave a meaningful legacy, or manage their personal family affairs and run active businesses. They may also need to have special structures to manage family wealth and/or intergeneration gifts. And as Asia ages, there will be more "old" wealth to be transferred to the next generation. This inter-generational transfer of wealth will add to the demand by the younger generation for professional wealth management services.

While wealth solutions and products, such as trusts, financial investments and insurance will always remain important, HNWIs are now also looking at investment in "goods of passion" such as art, wines and watches, all of which continue to increase in value with enhanced demand. Shariah investments, which are those investments that comply with the principles articulated for Islamic Banking, are just starting to emerge and will gain popularity with time. The interest to accumulate more wealth in a low interest rate environment is also encouraging HNWIs to overcome "home bias" and invest beyond their own shores.

Thus, to become the leading adviser to a big client, wealth managers will need to offer their clients not only wealth management services—that is a given—but in addition there would be a need to provide other value-added services, be it corporate connections, connectivity to an international global network of say investment bankers, or putting HNWIs in touch with counterparts globally through a solid network that can help their business grow and expand. Hence private banking in an international bank, which was for many years considered to be aloof and elitist, would now see itself increasingly interacting and relying on other parts of the bank, such as global banking or corporate banking, to further its own business.

THE GROWTH OF DIGITISATION

On another front, there is also an increased demand for digital channels, and it is expected that delivering a quality digital experience to clients will emerge as a key element that sets apart the leaders in the wealth management industry—particularly to those tech-savvy HNWI clients. Big data analytics in client advisory services will become more important. This is an area where we expect to see significant investments being made in the future, as firms ramp up their information technology (IT) networks. It will also have an added benefit in that it would not only offer additional value to their customers, but also meet new regulatory standards with automated risk management and reporting processes, while improving scalability and relieving pressure from rising middle- and back-office operating costs.

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The *Financial Times* reported that banks and other financial institutions felt the need to "invest in technologies to respond to changing customer demands, reduce risks and battle cyber crime." It also estimated that in 2014, "large North American financial institutions alone will spend US$73.8 billion on IT improvements, including software, hardware and professional services."[ix]

RAISING COMPETENCIES

HNWI clients are increasingly demanding a one-stop service, to be delivered by highly experienced and knowledgeable staff. There is therefore a heightened demand for skilled and trained staff in the wealth management industry, in particular for the role of a Client Relationship Manager. The fact that competition for talent would increase was identified by MAS several years ago. The Authority has encouraged the industry to train more professionals, and quickly.

Banks and MAS are intent on developing a pipeline of manpower for the industry and thus far, about 1,700 professionals have been certified under the Financial Industry Competency Scheme (FICS).[x] Academic institutions too have started playing their part towards contributing to the pressing need for more competent wealth managers and client relationship managers. The Singapore Management University, in collaboration with the Wealth Management Institute (WMI) and supported by the Swiss Finance Institute (SFI) and Yale University, offers a Master's degree in wealth management to aspiring and incumbent wealth managers. This offers qualified candidates opportunities for internships during their studies. And so far, more than 400 participants have graduated from the programme.

The future of wealth management in Singapore

Are Europe's challenges the same for Singapore's wealth management industry? Essentially yes, as whatever happens in Europe will affect Singapore either now or in the near future. European banks operating in Singapore will also be burdened with the same problems. Regulatory changes are a given in this industry, where compliance impacts reputation. To these challenges, and with Southeast Asia in mind, I would also add the wild card of political uncertainty.

Asia's growth story is still very much intact and it will continue to raise income levels in the region. Amongst the Asian countries, Japan, China, India and Indonesia will continue to grow and be ranked amongst the world's largest economies, and their wealth will grow in tandem. Both Singapore and Hong Kong are well placed to serve the increasing wealth of HNWIs due to their developed financial markets, including infrastructure, human resources, IT and a conducive business environment. Singapore thus stands to play an even bigger role in the region. Hong Kong is near China and will benefit from that proximity, notwithstanding that Shanghai too is a fast-growing centre, and is now poised on the starting blocks in the sprint for the asset-rich or cashed-up.

The close collaboration between industry and regulatory authorities is a key strength of Singapore's wealth management industry and augurs well for its future as a competent and clean wealth management centre for both onshore and offshore banking.

Hand in hand with the positive economic growth recorded in the region, and a greater level of sophistication on the part of the HNWI, the future for Singapore's wealth management industry is thus "optimistically vibrant".

At the same time, the relative positioning of international financial centres is also clearly shifting and as we move forward into an era of greater transparency and shifting wealth creation patterns, "centres located in emerging markets stand to gain increased stature".[xi]

Singapore is well positioned to take advantage of that shift, whether in 2015 or 2020.

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