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The Practice of Private Wealth Management in Singapore

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Abstract
Singapore is currently one of the wealthiest countries in the world in terms of GDP per capita. According to Forbes magazine, the combined net worth of the top forty wealthiest Singaporeans in 2010 was S$60 billion1, up from S$51 billion in 2009, and common sources of wealth for these individuals included Financial Services (OCBC, OUB) and Real Estate (Far East Organization, Pontiac Land). As such, there is no doubt that there are a substantial number of wealthy Singaporeans who reside in Singapore. However, the combined amount of assets that these Singaporeans hold pales in comparison to the over S$1.3 trillion2 worth of assets currently managed by Singapore‟s asset management industry - a statistic that bears witness to Singapore‟s growing popularity as a wealth management hub among wealthy individuals from around the Asia Pacific region. Given this, this paper notes a distinction between the wealth that is flowing into the country through wealthy individuals, which includes both Singaporeans and non-Singaporeans, and the wealth generated by Singaporeans. This paper seeks to gain a deeper understanding of the former group, which mostly includes Asian investors, through a small-scale research study.

Keywords
Singapore, GDP, private wealth

Disciplines
Business | International Business | Taxation

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The Practice of Private Wealth Management in Singapore

1 Introduction

Singapore is currently one of the wealthiest countries in the world in terms of GDP per capita. According to Forbes magazine, the combined net worth of the top forty wealthiest Singaporeans in 2010 was S$60 billion[1], up from S$51 billion in 2009, and common sources of wealth for these individuals included Financial Services (OCBC, OUB) and Real Estate (Far East Organization, Pontiac Land). As such, there is no doubt that there are a substantial number of wealthy Singaporeans who reside in Singapore. However, the combined amount of assets that these Singaporeans hold pales in comparison to the over S$1.3 trillion[2] worth of assets currently managed by Singapore's asset management industry - a statistic that bears witness to Singapore's growing popularity as a wealth management hub among wealthy individuals from around the Asia Pacific region. Given this, this paper notes a distinction between the wealth that is flowing into the country through wealthy individuals, which includes both Singaporeans and non-Singaporeans, and the wealth generated by Singaporeans. This paper seeks to gain a deeper understanding of the former group, which mostly includes Asian investors, through a small-scale research study.

Unlike the West[3] where the private wealth management industry is relatively well developed, there appears to be little research and few support structures available to wealthy individuals in Asia. There is also a stark difference in the number of research reports, family offices and wealth management clubs between Asia and the West. For example, a report by Wharton's Global Family Alliance showed that only around 6% of Single Family Offices were located in the Rest of the World[4] in 2007[5]. It would thus be interesting to find out how wealthy individuals in Asia handle their wealth.

2 Objectives

Private Wealth Management can generally be defined as a financial service with varying degrees of customization and complexity[6], provided to high net worth clients[7]. This study aims to gain a deeper insight into the psyche of wealthy individuals in Singapore. In particular, we want to find out about their attitudes towards wealth management – how they invest their money, what types and levels of services they demand etc. From this, the study also aims to understand if there are any wealth management needs that have yet to be met.

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[1] http://www.forbes.com/2010/07/27/singapore-richest-ng-family-wealth-singapore-10.html
[2] http://www.mas.gov.sg/resource/eco_research/surveys/AssetMgmt09.pdf
[3] West refers to US and Europe
[4] Rest of the World refers to Australia, Hong Kong, Japan, Malaysia, Philippines and Singapore
[5] http://wgfa.wharton.upenn.edu/WhartonGFA_SFO_Study.pdf
[6] The Swiss Bankers Association, *The Swiss Banking Sector Compendium 2010* (Basel 2010) 41.
[7] According to The Swiss Bankers Association, High Net Worth (HNW) refers to individuals with disposable assets of between 1 and 50 million CHF. Individuals with more than 50 million CHF belong to the Ultra High Net Worth (UHNW) category.

3 Trends in the Asian Wealth Management Industry

This section aims to give a quick snapshot of trends in the Asian Wealth Management Industry as reported by current research.

3.1 Surge of Wealth in Asia

From newspaper articles[8] to wealth reports[9], most analysts are in general agreement that a growing amount of the world's wealth can be found in Asia. The rise of business opportunities in China and India has not only resulted in new wealth being created, but has also attracted much wealth through foreign investments in the region[10]. According to the Cap Gemini and Merrill Lynch 2010 World Wealth Report, Asia Pacific's HNWI population rose 25.8% overall to 3.0 million, catching up with Europe for the first time. Likewise, Asia Pacific HNWI wealth surged 30.9% to US$9.7 trillion, surpassing the US$9.5 trillion held by Europe's HNWI[11].

This is an interesting situation as this surge of wealth in Asia has created a sudden increase in demand for wealth management services. Most of these HNWI are first generation wealth creators and it is unlikely that they would have the experience and expertise to manage their wealth. Unlike the West where wealth management services and institutions are readily available, the development of wealth management structures in Asia has lagged behind, although this industry has seen much growth in recent years.

3.2 Singapore as the new global wealth management hub

Some analysts have argued that the focal point of wealth management has been shifting from Switzerland to Asia in recent years. This shift has been accentuated by the surge in wealth in Asia, as well as the weakening of bank secrecy laws in Swiss banks and the increasingly negative tax haven reputation associated with Switzerland. Asian cities, such as Singapore and Hong Kong, have been very attractive to wealthy individuals because of their business friendly laws, the availability of international wealth management services as well as their strong regulatory and tax friendly frameworks[12].

Singapore, which is the center of wealth creation in the Asia Pacific, has distinguished herself from Hong Kong by branding herself as a holistic lifestyle destination where these rich individuals can establish their homes. In the words of Nick Pollard, chief executive of private banker RBS Coutts' Asian arm, "What Singapore has done very well is that it

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[8] Gopalakrishnan, Raju. "Special Report: Singapore Swing: Playing for Wealth Crown." *Breaking News, Business News, Financial and Investing News & More | Reuters.co.uk*. Reuters, 30 Sept. 2010. Web. 09 May 2011. <http://uk.reuters.com/article/2010/09/30/us-wealth-singapore-idUKTRE68T2KL20100930>.

[9] "World Wealth Report 2010 | Wealth Management | Capgemini US." *Collaborative Business Experience | Capgemini US*. Web. 09 May 2011. <http://www.us.capgemini.com/services-and-solutions/by-industry/financial-services/solutions/wealth/worldwealthreport/>.

[10] According to the Cap Gemini report, HNWIs' allocations to emerging markets rose overall, and to Asia Pacific in particular, as investments flowed to regions and markets expected to have the most growth in the coming years.

[11] Cap Gemini US, *World Wealth Report 2010* (Cap Gemini) 4

[12] Jek Aun Long, Danny Tan, *"The growth of the private wealth management industry in Singapore and Hong Kong".* Capital Markets Law Journal (2010) 6 (1): 104-126.

has almost created a whole infrastructure, not just a place to work, but also a place to live, a place to educate your children, a place to have great fun."[13] HNWIs are attracted to Singapore because of the convenience of having a comprehensive range of world-class services, from banking to recreation, thus allowing them to live and manage their assets in Singapore.

3.3 Interest in "Brick and Mortar[14]" investments

One hypothesis is that investors have become more interested in investing in brick and mortar investments, such as real estate, following the 2008 financial crisis, based on the view that these investments are more tangible and are hence safer. Globalized cities such as Shanghai, Beijing, Hong Kong and Singapore have experienced a sharp increase in property prices in recent years. According to Barclay's Wealth Insights report, Singapore is the most optimistic on the growth in property as an asset class, with 89% of the respondents in Singapore thinking that property will do well on a one-year horizon.

4 Research Methodology

The primary method of data collection for this study was through interviews. This is because the Wealth Management industry is very private, and as such, not much academic research has been published. Many industry practitioners are also very guarded about the information they possess, especially information about their clients. Most of the information for this report has been gleaned through interactions with industry practitioners as opposed to the HNWI themselves.

In order to get balanced viewpoints for this study, two groups of people have been interviewed. The first group can be described as industry practitioners – these would include current private bankers and client advisors. The second group can be described as governing or regulatory bodies – these would include people from the Monetary Authority of Singapore and the Institute of Banking and Finance.

For this paper, I interviewed seventeen individuals across the two groups of people over the past semester, nine of which was done in Singapore in January 2011. Please refer to Appendix A for the list of interview questions.

5 Preliminary findings

The following is a summary of qualitative findings about Asian investors from the interviews that has been conducted for this research study.

5.1 Asian investors like to be in control

A common interview response from private investors asked to comment on the difference between Western and Asian HNWI is that Asian HNWI are more aggressive when it

[13] Gopalakrishnan, Raju. "Special Report: Singapore Swing: Playing for Wealth Crown." Reuters, 30 Sept. 2010.
[14] Barclays Wealth, Ledbury Research, *"Barclays Wealth Insights, Volume 11: The Changing Wealth of Nations".* Barclays Wealth, 2010

comes to handling their investments. They request to see their bankers a lot and like to hear updates from their bankers. Their keenness on control can also be seen from their aversion to mandates and structured products. When asked if Asian HNWIs are more savvy investors compared to their Western counterparts, a banker commented that Asian HNWIs are punters at heart, and their aggressiveness does not imply that they are savvier. In addition to the procedural aspect, Asian investors are also aggressive in terms of chasing after higher returns, which stems from their mindset of, or desire for, continuous wealth creation, versus the mindset of wealth preservation in the West. This correlates to the fact that many of them are first-generation wealth creators as explained in the next section.

5.2 Transition from 1st to 2nd generation wealth

As a lot of new wealth is being created in Asia, HNWIs are facing the challenge of leaving an intergenerational legacy for the first time. HNWI in the West have adequate experience with this as wealth has been passed down for many generations, and have put in place proper structures, such as the setting up of a family office, to oversee this transition. A proper transition of wealth between generations requires the HNWI to think about issues such as tax planning, abiding by the regulations as well as advisory services (e.g. answering questions such as “what do I want to tell and leave for my children?”).

5.3 Correcting misperceptions of HNWI through conferences

A typical HNWI would start off expecting no risk and high returns from their investments, and are generally not used to the idea of paying fees for wealth management services. However, along with increased interactions with their bankers, it seems like this misperception is being corrected through conferences organized specially for HNWIs. Governing and regulatory boards have indicated that there has been an increase in the number of such conferences being organized in Singapore. These conferences typically cover basic wealth management education topics, involve networking sessions and include a feedback session to gain insights from what these HNWIs want.

5.4 Growing interest in the loan market

A Credit Structuring estimated that the current lending penetration rate to HNWI is between 10 to 20%, with a market size of around S$100billion in loans. HNWIs usually borrow money from their private banks to leverage their current investments, finance their short term needs (e.g. Expanding their business) or to have an extra amount for liquidity. This has created a new aspect of risk management within the wealth management space, as clients would have to be screened and accessed to ensure that the operating risk of these loans lie with the clients and not with the bank. It also presents a new business opportunity as higher interest rates can be charged by the bank due to the short term high value nature of these types of loans.

6 Recommendations

From the interviews and secondary research that was conducted for this study, there are a few areas which may be of interest for industry practitioners to follow up on.

6.1 Focus on Priority segment

A few private bankers have generally defined the priority segment as young professionals with high earnings potential who currently possess investible assets of between S$0.5 to S$2 million. This segment includes a large portion of professionals who are not in the finance industry, such as doctors, lawyers and engineers. It is possible that people who form the top-tier in these professions know little about how to manage their money, and hence, could form a potential target segment. As these professionals are building up their career and wealth, they could be particularly interested in networking and wealth management education opportunities. Traditionally, industry practitioners have focused on getting the 'big fish'. However, it would also be advantageous for the private banks to engage these professionals in their wealth building stage before they get into HNWI category. These professionals are also rising in number against the backdrop of an affluent Singapore.

6.2 Wealth Management Education

As the economic climate and financial products increase with uncertainty and sophistication respectively, there is a need for both HNWIs and industry practitioners to understand what they are buying/selling. Gone are the days where wealth management is simply a glamorized sales effort. Currently, private banks offer education seminars to their clients that cover the basics of investment theory. However, some clients might feel that these seminars might not be completely neutral and unbiased, especially when the bank ties it with the introduction of a new product or asset class. Hence, there might be a need for an independent organization with no affiliation to any financial services providers to offer wealth management education to any interested individuals.

7 Summary and Conclusion

For the purposes of this study, the wealth management hierarchy of needs can be simplified into four main categories, starting from the most basic:

- Wealth Building – Individuals in this category are concerned about their career development and anything that can aid their progression (eg. Networking opportunities)

- Wealth Management – Individuals in this category have amassed a significant amount of wealth and are concerned about how they can preserve and enhance their wealth. Hence, they would be interested in wealth management education and advice on how to invest their money.

- Intergenerational Legacy – Individuals in this category are concerned about tax planning, regulation issues and counseling on issues such as inheritance.

- Social Legacy – In recent years, we have seen a movement for HNWIs to leave a social legacy by giving back to society. These individuals would need advice on how they can give and what are the most effective ways of giving (e.g. adopting common practices in the West such as through the setting up of a foundation).

Currently, it is not surprising to find all these needs being met by a single provider (e.g. a private bank). As the wealth management industry develops in Asia, these four categories will be more clearly defined and would thus require specialized attention. Hence, in moving forward, there is the opportunity for 'boutique' firms in Asia to compete against large traditional wealth management powerhouses by providing specialized services to one or two categories. Traditional shops should also recognize these trends and groups of HNWIs to position themselves to meet these needs.

APPENDIX A

Questions for Industry Practitioners

1) Out of 100%, kindly divide your clients according to how much they know about finance/investing:

Very educated: Request for sophisticated products, actively manage their accounts and portfolios, often question the way things are being done

Educated: Understand basic principles, but still rely a lot of Client Advisors for advice

Uneducated: Allow the Client Advisor to manage the entire portfolio

2) Are your clients proactive about pursuing their investment ideas - eg. Request for specific products? How much of an influence do you have in your client's investment decisions?

3) Please rank the main sources of your client's education/investment ideas. (Friends/ Client Advisors/ Family and Friends/ Others)

4) What services do your clients typically demand from you. Do you face any difficulty in meeting any of those demands?

5) What are some trends and challenges in the Singaporean Wealth Management landscape over the recent years? How will that shape the role of a private bank?

Questions for Governing/Regulatory bodies

1) What are some trends you have observed in Singapore's Wealth Management Industry over the recent years?

2) Have you observed any area that is lacking in the Wealth Management industry in Singapore? Would the growth or addition of any service further develop the Wealth Management industry in Singapore?

3) Is there a need for Wealth Management education for consumers? Who would be most interested in this type of educational services?

4) What would you think High Net Worth individuals most interested in? (You can check more than one box) (Education/ Networking/ High Profile Speakers)