

ASIAN PRIVATE BANKER 

# The Role of Singapore as an Offshore Wealth Management Hub

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## ASIAN PRIVATE BANKER

### The Role of Singapore as an Offshore Wealth Management Hub

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# Foreword

Asian Private Banker launches its series of white papers examining Asia's private banking and wealth management industry. Our first white paper represents the culmination of more than three months of research, data collection and in-depth analysis, and it examines the role of Singapore as an offshore wealth management hub.

I would like to take this opportunity to thank PwC Singapore, our exclusive sponsor for this white paper, for its support and insights. Asian Private Banker would also like to thank all the contributors to this research project for their assistance during the data collection process.

With best wishes,

A handwritten signature in white ink, enclosed within a white oval. The signature is cursive and appears to read "Stratos Pourzitakis".

Stratos Pourzitakis, PhD

Head of Research, Asian Private Banker

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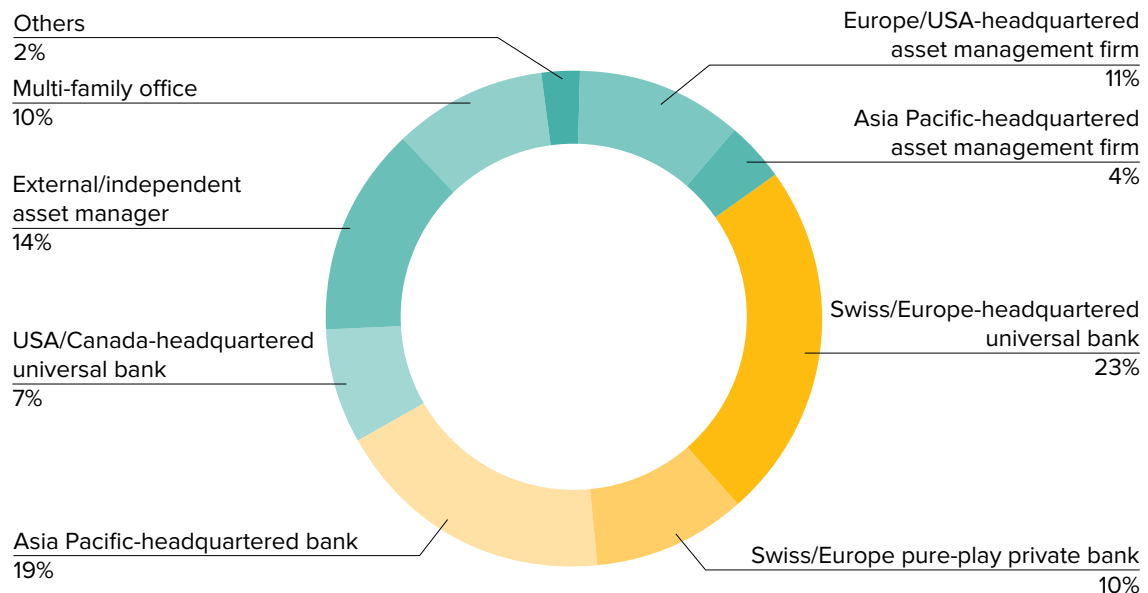


# 1. Introduction and Scope of the Research

Singapore has become one of the leading offshore wealth management hubs globally, and its role is expected to strengthen as Asia-Pacific continues to be the fastest-growing region for high-net-worth individual (HNWI) population and wealth. In 2017, approximately US\$900 billion in personal wealth was domiciled in Singapore, marking a compound annual growth rate of 10% between 2012 and 2017, which is more than three times the respective growth rate of Switzerland over the same period.<sup>1</sup> *Asian Private Banker* applied a combination of primary and secondary research and examined the current dynamics of offshore flows in Singapore, the city-state’s key strengths, as well as drivers that might affect its future offshore flows.

Concerning our primary sources, the research team at *Asian Private Banker* prepared surveys and semi-structured interviews that were conducted in Singapore and in Hong Kong. Our sample population consisted of 92 representatives in the industry. Each of our surveys comprised 14 questions, and we collected 81 surveys in total. 67 of the surveys were conducted online and 14 were submitted as hard copies. We also conducted 11 semi-structured interviews with senior representatives of private banks and family offices, FinTech experts, wealth managers, and legal experts.

Chart 1: Survey Population Breakdown



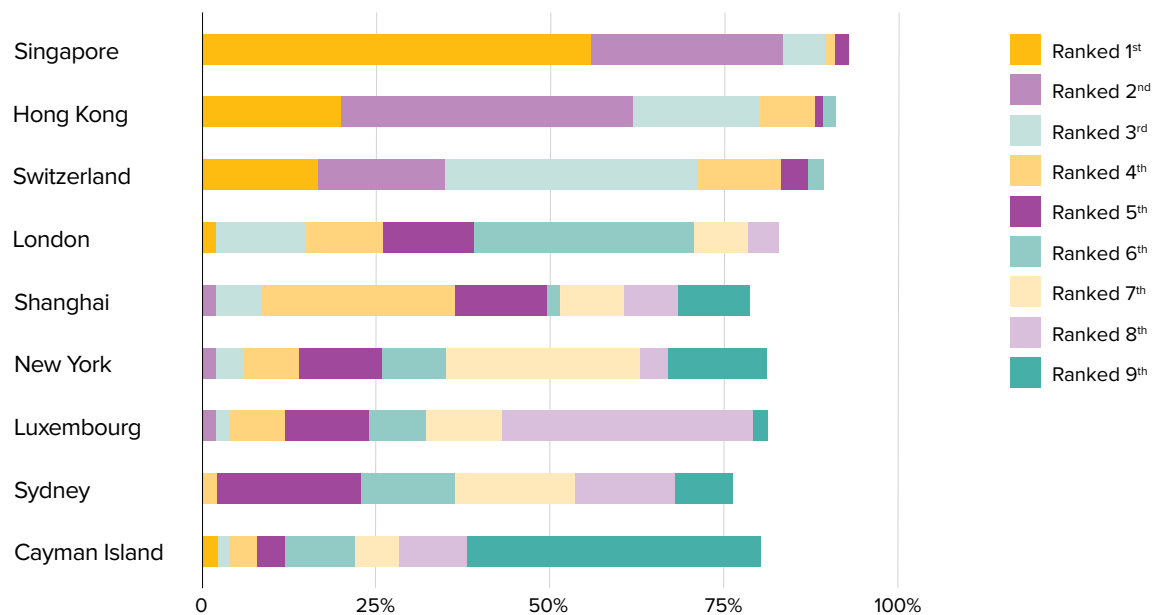
<sup>1</sup> Brent Beardsley et al., “Global Wealth 2018: Seizing the Analytics Advantage,” *Boston Consulting Group*, 2018:12-13.

## 2. Singapore as an Offshore Wealth Management Hub

Offshore flows constitute a major driving force behind the emergence of Singapore as a global financial centre. What is more, they take the lion’s share of the country’s AUM breakdown; our contributors project that approximately 82.5% of the country’s AUM originates from abroad. This estimate is largely in line with the 2016 Monetary Authority of Singapore (MAS) Asset Management Industry Survey, according to which the market share of offshore flows was 80% in 2015, and 78% in 2016.<sup>2</sup>

According to our contributors, 56% of firms’ AUM are booked in Singapore. Compared to its regional “rival” Hong Kong, Singapore appears to be more attractive, as 58% of our contributors ranked it as their most preferred market, followed by Hong Kong and Switzerland, respectively.

Chart 2: Most Preferred Offshore Wealth Management Hubs



Southeast Asia is the largest source of offshore inflows, ranking first with 58%, followed by Mainland China and India. Southeast Asia-based HNWI’s prefer Singapore as their destination of offshore wealth, while we also need to underscore the growing importance of Mainland China, due to the country’s unprecedented economic growth for the past two decades that has led to a thriving Mainland Chinese HNWI population.<sup>3 4</sup> Tightening regulations in Mainland China regarding

<sup>2</sup> Monetary Authority of Singapore, “2016 Singapore Asset Management Survey: Singapore – Global City, World of Opportunities,” *Monetary Authority of Singapore*, 2017:9-10.

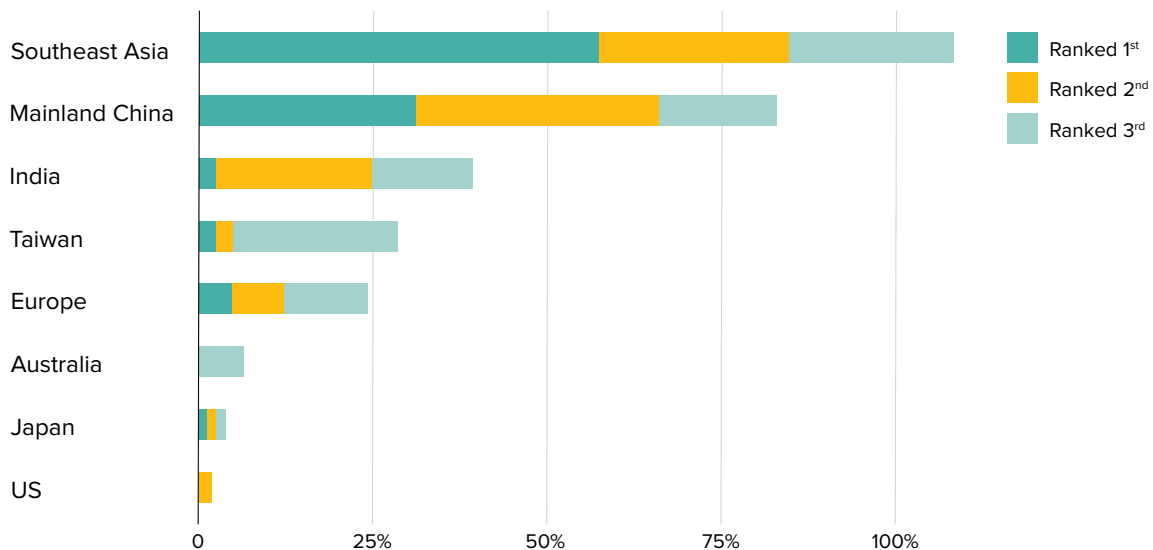
<sup>3</sup> Capgemini, “Asia-Pacific Wealth Report 2017,” *Capgemini*, 2017:21-22

<sup>4</sup> Minsuk Kim et al., “Why Complementarity Matters for Stability—Hong Kong SAR and Singapore as Asian Financial Centers,” *International Monetary Fund*, 2014:12.



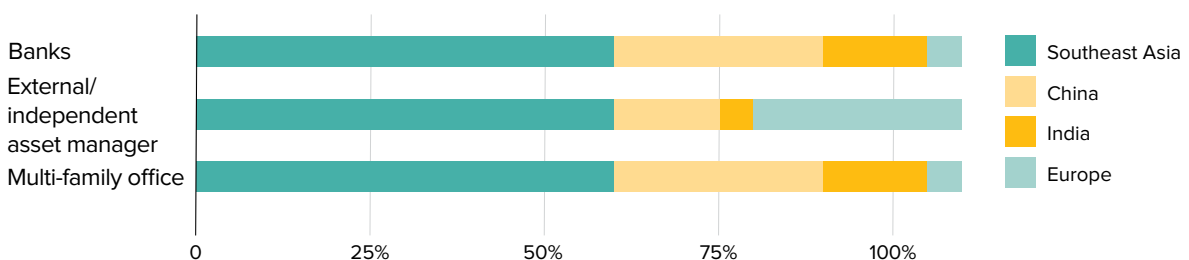
capital controls have stimulated increasing interest amongst these HNWLs in moving money offshore, and, as a result, Singapore has become particularly attractive because, compared to Hong Kong, it is less connected to Mainland China from a regulatory, political, and financial perspective. Consequently, it offers an optimum combination of diversification with lower regulatory risks.

Chart 3: Most Important Sources of Offshore Flows



It is worth noting that Europe ranks as the second-most important source of offshore flows among our surveyed independent asset managers (IAMs). We can attribute this finding to the existence of IAMs with a presence in both Asia and Europe, as well as to the familiarity of European clients with the value proposition of IAMs, given that the IAM industry is more developed and mature in Europe. In Switzerland alone, there are about 2,500 firms that manage approximately US\$430 billion in AUM. These numbers are in stark contrast to Hong Kong and Singapore, where the AUM of the IAM industry is estimated to be US\$91.5 billion, equal to 5.5% of the market.<sup>5</sup>

Chart 4: Breakdown of Most Important Sources of Offshore Flows by Firm Type

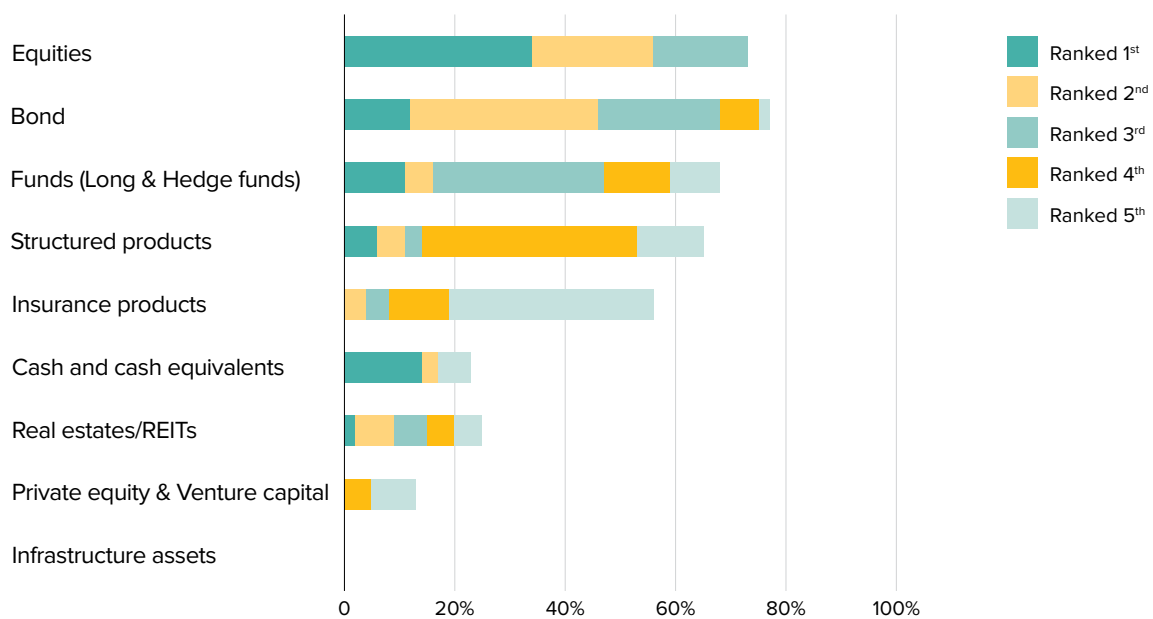


<sup>5</sup> Asian Private Banker, "2018 IAM Report: Asia-Pacific Ready for Take-Off?," *Asian Private Banker*, 2018:22, available at <https://asianprivatebanker.com/insights/2018-iam-report/>.

Amongst firms with more than 50% of their AUM originating from offshore flows, equities, bonds, funds, and structured products are the four most popular products for offshore flows. It is worth noting that insurance products, which are ranked fifth, are particularly popular among offshore clients; this reflects their interest in wealth preservation, as well as the maturity of the insurance industry in Singapore. Notably, when compared with policies available in Southeast Asia, Mainland China and India, Singapore’s insurance industry is more mature and ranked second after Hong Kong in the Global Financial Centre Index 23 Industry Sector Sub-Indices.<sup>6</sup> Hence, according to QBE Insurance, the growing maturity of Singapore’s insurance sector could help the country attract more regional clients who would view Singapore as a one-stop shop for both their offshore assets and insurance/reinsurance policies.<sup>7</sup>

All in all, according to our interviewees, there are no stark differences between onshore and offshore clients in Singapore in terms of preferences in the products provided, as they mentioned that the latter seek basic product solutions rather than exotic offerings.

Chart 5: Most Popular Products for Offshore Flows



<sup>6</sup> Mark Yeandle, "The Global Financial Centres Index 23," *Z/Yen & China Development Institute*, March 2018:32.

<sup>7</sup> Chee Keng Koon and World Finance, "Asian insurance markets continue to grow," *World Finance*, Nov-Dec 2013, available at: <https://www.worldfinance.com/markets/insurance/qbe-asian-insurance-markets-continue-to-grow>.

## 3. Strengths and Weaknesses of Singapore as an Offshore Wealth Management Hub

### 3.1 Key Strengths of Singapore

More than half of our contributors (58%) identified Singapore's strong banking sector as the most important strength for the country as an offshore wealth management hub, followed by the efficient regulatory framework and the high quality of its workforce. This ranking should come as no surprise, as the depth of Singapore's banking services is well recognised; its banking sector was ranked fourth in Global Financial Centre Index 23 Industry Sector Sub-Indices.<sup>8</sup>

Singapore is also known for having stringent yet effective regulations that help uphold Singapore's reputation as a financial centre. The MAS, which oversees the entire financial industry located in Singapore, takes pride in being highly efficient, and also promotes a two-way dialogue between market actors — initiatives that contribute to Singapore's efficient regulatory framework.

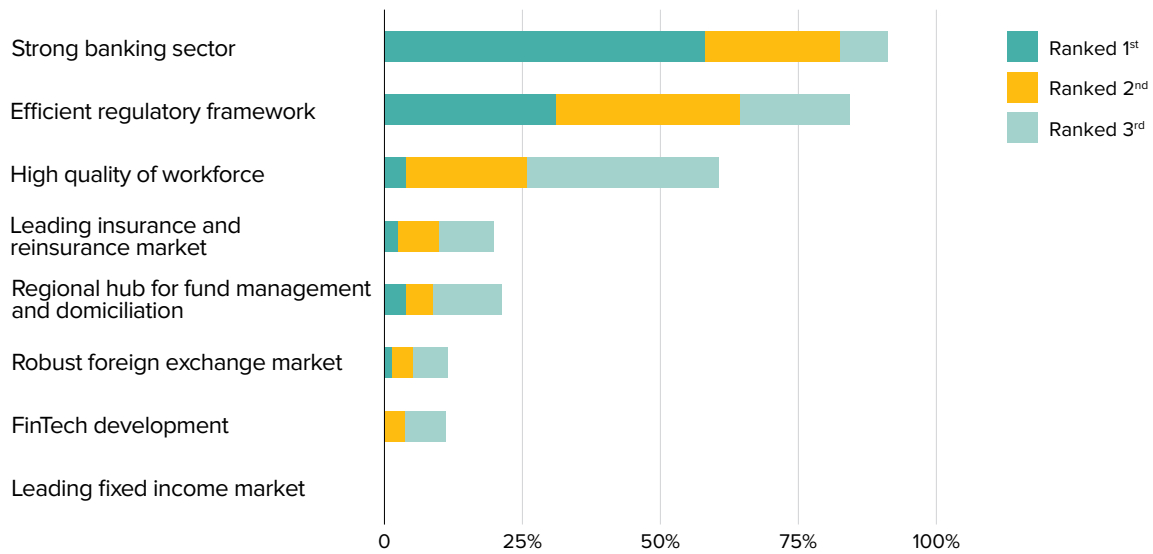
On top of that, our interviewees pointed out that the Singaporean government is known to be transparent, moves forward promptly with its decisions and is highly cooperative with financial institutions. Singapore's multicultural composition and strategic location offer distinct advantages, as the city-state is located in the proximity of Southeast Asia and is close to Mainland China, but not so close as to hinder its relative neutrality.

Moreover, the Singaporean financial sector enjoys strong institutional support from associations such as the Society of Trustees and Estate Practitioners (STEP) and the Association of Independent Asset Managers (AIAM), which are conducive in attracting offshore flows.

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<sup>8</sup> Mark Yeandle, "The Global Financial Centres Index 23," *Z/Yen & China Development Institute*, March 2018:32.

Chart 6: Strengths of Singapore as an Offshore Wealth Management Hub



### 3.2 Key Weaknesses of Singapore

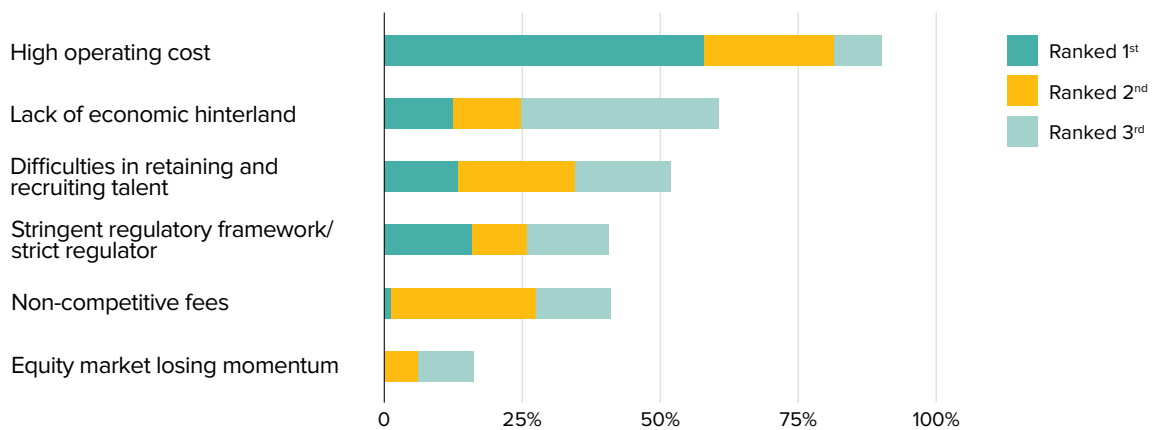
The most significant weakness of Singapore as an offshore wealth management hub is high operating costs, ranked first by 57% of our contributors, followed by a lack of economic hinterland, and difficulties in retaining and recruiting talent. We need to stress, however, that all leading offshore wealth management hubs face the challenge of high costs; in this context, the average cost margin for wealth management firms operating in Singapore is the third highest among its counterparts globally.<sup>9</sup>

In addition, one needs to keep in mind that, although high operating costs can be considered Singapore’s weakness, this does not stand as a comparative disadvantage of the country. Hence, it is commonplace among our interviewees that high operating costs is a reasonable trade-off with top-notch quality of services in a leading offshore wealth management hub. As a result, our contributors recognise that operating costs are high, but they do not consider them as unreasonable or as undermining their business model.

<sup>9</sup> Daniel Kobler et al., “The Deloitte International Wealth Management Centre Ranking 2018: The winding road to future value creation,” 3rd ed., *Deloitte Consulting AG*, 2018:27.

Moreover, 51% of our respondents stressed the challenges of talent retention and recruitment as one of the biggest weaknesses. Although the quality of Singapore’s workforce is remarkably high, there is a genuine lack in quantity of industry talent to meet the growing demand in the market. Consequently, such a small pool of talent in wealth management puts hurdles in the way of retaining and recruiting high-calibre candidates.<sup>10</sup> Our interviewees also pointed out that recruiting the right talent in Singapore stands as one of their top concerns. In line with this, a recent study on the IAM market in the Asia-Pacific region highlighted the difficulties IAMs and multi-family offices (MFOs) have in recruiting ideal candidates for relationship managers.<sup>11</sup>

Chart 7: Weaknesses of Singapore as an Offshore Wealth Management Hub



Lastly, it is important to highlight an observation from our semi-structured interviews: when asked, the vast majority of our interviewees said they cannot find any particular comparative disadvantage or weakness of Singapore. As a result, while one cannot claim Singapore is flawless, these responses underscore the strong identity and the high degree of satisfaction of wealth management professionals for the working conditions in Singapore. This highly subjective assessment is a core strength of Singapore as well, and this can be a contributing factor in the city’s value proposition as an offshore wealth management hub.

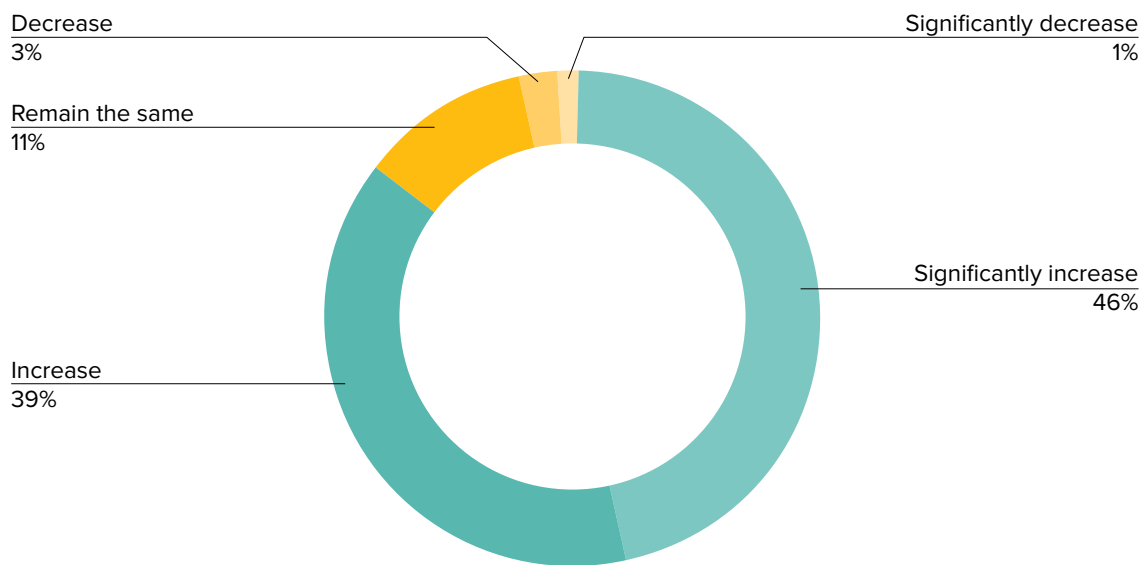
<sup>10</sup> Stefania Palma, “Private Banking: Heading East?,” *The Banker*, February 2015:52-54.

<sup>11</sup> Asian Private Banker, “2018 IAM Report: Asia-Pacific Ready for Take-Off?,” *Asian Private Banker*, 2018:42, available at <https://asianprivatebanker.com/insights/2018-iam-report/>.

## 4. Future Trends of Singapore’s Offshore Inflows

Without a doubt, the future of Singapore’s offshore inflows appears particularly promising, with 85% of contributors expecting an increase in offshore inflows to Singapore within the coming three years.

Chart 8: Expectation for Offshore Inflows to Singapore



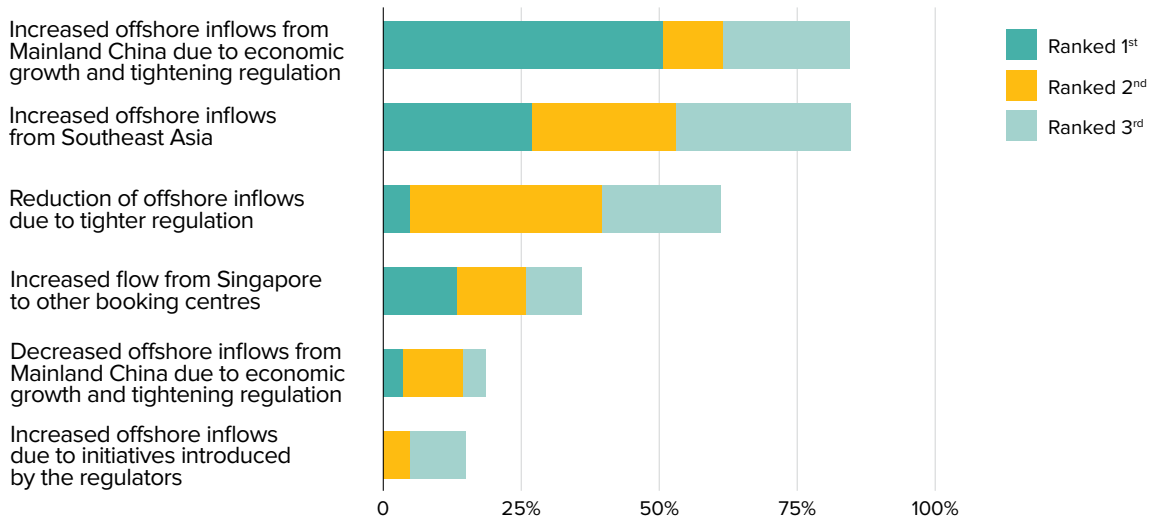
Economic growth and tightening regulations in Mainland China and Southeast Asian countries are the most important driving forces behind the projected growth. For example, increasing regulations in Mainland China and its immature private banking industry would continue pushing Chinese HNWI to book their assets offshore.<sup>12</sup>

According to a 2018 Bain & Co. study, Chinese HNWI who viewed Hong Kong as their preferred overseas place of investment decreased, from 71% two years ago to 53% now, and more than 20% favoured Singapore, up from 15% two years ago.<sup>13</sup> We attribute this trend to the fact that, compared to Hong Kong, Mainland Chinese view Singapore as an increasingly safer destination for their offshore flows because it is considered to be less proximate to Mainland Chinese authorities, as well as to the Chinese political leadership.

<sup>12</sup> Stefania Palma, “Private Banking: Heading East?,” *The Banker*, February 2015:52-54.

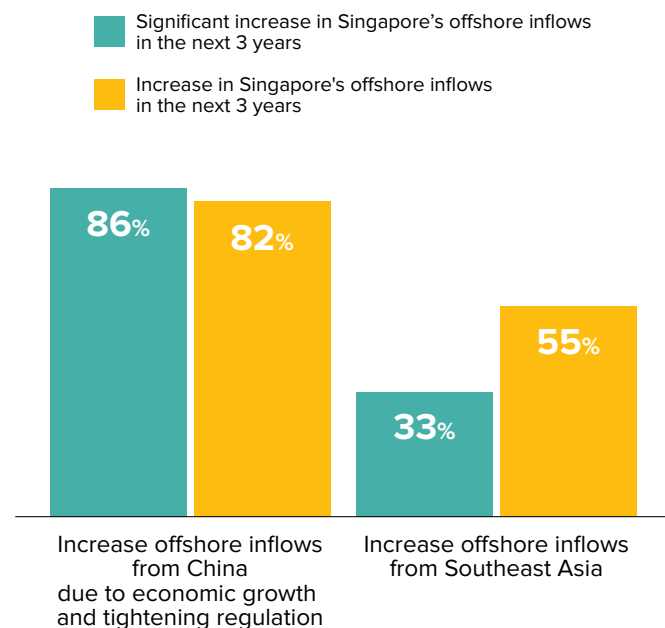
<sup>13</sup> Cathy Chan, Chanyaporn Chanjaroen and Keith Zhai, “For China’s Wealthy, Singapore Is the New Hong Kong,” *Bloomberg*, 7 February 2018, accessed 11 May 2018, from <https://www.bloomberg.com/news/articles/2018-02-06/for-china-s-wealthy-singapore-is-the-new-hong-kong>.

Chart 9: Future Trends on Singapore’s Offshore Flows



It is also worth noting that Mainland China may become more significant as an offshore inflow source to Singapore, following the growth of net outflows of Chinese HNWI during the past few years. There was an outflow of 10% of the Chinese HNWI population in 2017 alone<sup>14</sup>, which was higher than any other Southeast Asian source, and Singapore stands as one of their preferred destinations.

Chart 10: Most Probable Source of Increase in Offshore Flows



Moreover, according to a survey conducted at *Asian Private Banker's* China Wealth Management Leaders — Private Dialogue in 2018, 83% of wealth managers from Mainland China expected that the majority of their AUM would be based offshore in the next three years, up from today's 57%, due to tightening capital controls. Amongst those who chose Singapore as their preferred booking centre, 40% projected that their bookings from Mainland China would increase in the following three years. This finding is also in line with our survey data. Our contributors, who expected an increase in Singapore's offshore inflows in the next three years, pointed out that increased flows from Mainland China are more likely than from Southeast Asia.

<sup>14</sup> Knight Frank Research, "The Wealth Report 2017," *Knight Frank*, 2017:18-19.

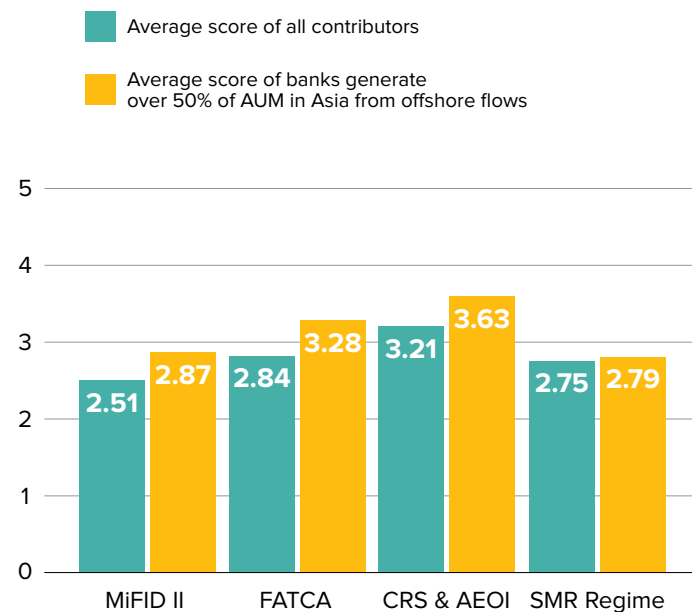
# 5. Regulation, FinTech

## 5.1 Regulatory Environment

Our contributors, especially those who identify themselves as Singaporeans, appear accommodative to regulations. In this context, although stringent regulatory framework is identified as the fourth-most critical weakness of Singapore, our contributors ranked Singapore’s efficient regulatory framework as its second-most important strength. Based on anecdotal evidence, there is a widely accepted perception in Singapore that tight regulations are not necessarily negative. On many occasions, our research team interviewed Singaporean wealth management professionals, who underscored the importance of a good regulatory framework, as it allows them to promote the high quality of their services. This, in tandem with their high degree of satisfaction for the work of the government and MAS, leads us to the conclusion that while they see domestic regulations as challenges, they do not perceive them as big threats.

On the other hand, our contributors believe international regulations have a moderate impact on future offshore inflows to Singapore, and the CRS & AEOI are rated as having the most significant effect on offshore flows. Moreover, neighbouring countries have tightened regulations to prevent asset outflows. Indonesia, for instance, provided tax incentives to taxpayers to repatriate their offshore assets from overseas under its tax amnesty programme in 2016, yet, this initiative does not necessarily affect offshore inflows to Singapore negatively.<sup>15</sup> Amongst Indonesia’s offshore assets held

Chart 11: Regulatory Impact on Offshore Flows (on a scale of 5)



<sup>15</sup> Goh Siow Hui and Sheryl Tan, “You and the Taxman, Issue 4, 2016: Indonesia tax amnesty: how effective?,” *Ernst & Young Solutions LLP*, 2016, accessed 15 June 2018, from <https://www.ey.com/sg/en/services/tax/ey-you-and-the-taxman-issue-4-2016-indonesia-tax-amnesty-how-effective>.

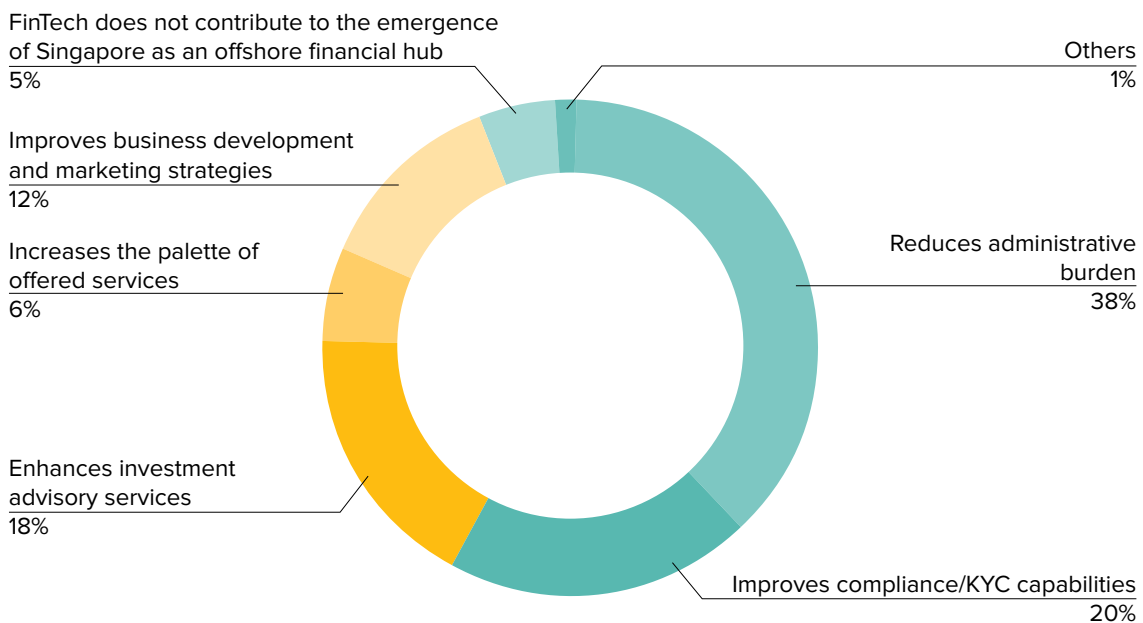


in Singapore, only around 10% were repatriated under Indonesia’s tax amnesty programme.<sup>16</sup> Our interviewees acknowledged that such regulations allowed them to highlight their value proposition and the importance of their services. To quote one interviewee, “If there were no tightening regulation in China and no concerns on Indonesia’s tax amnesty program, how would we be able to attract more offshore investors?”

## 5.2 FinTech Adoption

Industry players have been adopting FinTech to roll out new investment advisory models like robo-advisory; however, based on our survey data, FinTech adoption contributes most in reducing administrative and compliance costs, instead of enhancing investment advisory services. For 38% of our contributors, reduction in administrative burden is the most significant contribution of FinTech, while for 20% of them it is improvement in compliance/KYC capabilities. Only 18% of them say FinTech contributed most in improving investment advisory services.

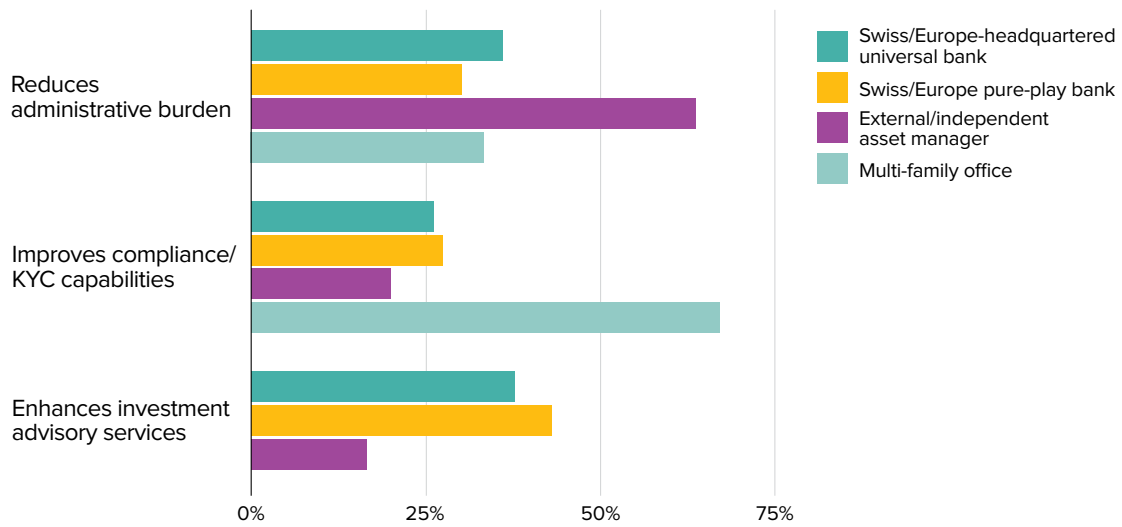
Chart 12: Most Important Contribution of FinTech Adoption



<sup>16</sup> Bambang Nurbianto, “Repatriated funds from Singapore reaches Rp 84.52 trillion,” *The Jakarta Post*, 31 March 2017, accessed 19 June 2018, from <http://www.thejakartapost.com/news/2017/03/31/repatriated-funds-from-singapore-reaches-rp-84-52-trillion.html>.

When broken down to firm type, IAMs and MFOs apply FinTech for their administrative and compliance functions. Our interviewees, however, predict enhanced synergies between IAMs and FinTech firms in the future, as the IAM market in Asia continues to mature.

Chart 13: Breakdown of Most Important Contribution of FinTech Adoption by Firm Type



## 6. Conclusion

Singapore stands as a leading offshore wealth management hub, with 82.5% of the country's AUM originating from offshore sources. The increasing volume of offshore inflows, mainly from Southeast Asia and Mainland China, reflects the high popularity of Singapore as an offshore wealth management hub, something that is validated by 58% of our contributors who ranked the city-state as their most preferred offshore destination.

Singapore's strong banking sector and efficient regulatory framework provide its wealth management industry with a solid underpinning for growth, while the strong identity amongst wealth management professionals and their high degree of satisfaction make Singapore stand out among its regional competitors. Notwithstanding all its perceived strengths, challenges lie ahead for Singapore on how to manage high operating costs and overcome difficulties in talent acquisition. These issues, however, do not necessarily pose any comparative disadvantage to the city-state's standing as an offshore wealth management hub.

While Southeast Asian countries will remain the most important source of offshore flows into Singapore, offshore flows from Mainland China are set to grow as a result of tightening regulations and because Singapore is perceived as an offshore wealth management hub with an efficient sovereign regulatory mechanism that is aligned with international regulatory standards. Looking ahead, the prospects of Singapore as an offshore wealth management hub appear particularly promising, with 85% of our contributors expecting an increase in offshore inflows to Singapore within the coming three years, serving as a driving force behind Singapore's emergence as a leading financial centre.



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