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Navigating the independent wealth management landscape

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Independent wealth managers operate outside of larger financial institutions, enabling them to take a limitless, objective perspective and remain agnostic to which investment products they use for their clients, as long as they are best suited to meet their individual needs and objectives. ILLUSTRATION: PIXABAY

INDEPENDENT wealth managers (WMs) are seen as the new frontier of wealth management, but unlike the Wild West, there are no cowboys here.

Up until recently, the concept of external asset managers (EAMs) or independent WMs was relatively unknown and less well-established in Asia's wealth management landscape than in Europe and the US. The sector accounts for an estimated 3-6 per cent of the wealth management market in Asia, compared to approximately 15 per cent of assets managed by independent firms in Europe.

But this also presents an opportunity for industry's continued expansion amid the rapid growth in Asia's private wealth.

Research from Synpulse shows that over 80 per cent of EAMs have set up their business in Asia since 2008, and the sector has witnessed greater diversity in the past few years with the emergence of more independent wealth management firms in Singapore.

When the Association of Independent Asset Managers, the trade body for EAMs in Singapore, was first established a decade ago, it started with a small network of less than ten founding members.

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With a burgeoning community of independent WMs in Singapore, the Association now has over 70 active members from established independent WMs, multi-family offices, banks, and service providers from Singapore.

Gaining momentum

The popularity of independent WMs surged following the global financial crisis, when in the aftermath of economic recovery, many investors placed more emphasis on wealth management, and started to explore different asset management models and investment offerings.

Against the backdrop of a fast-changing and volatile environment, sophisticated investors also demand more bespoke and holistic wealth management solutions that can adapt flexibly during periods of market stress.

Independent WMs are financial operators that are external or independent from the traditional private banks. They offer products and services not too dissimilar from private banks, and are regulated by the Monetary Authority of Singapore (MAS). They range from boutique management firms to multi-family offices to even individual advisers.

Smaller, leaner and more agile, independent WMs serve only the interests of their clients, and their independence is a strong selling point as an alternative model of wealth and asset management.

Independent WMs operate an open architecture model without being restrained by rigid structures, legacy policy issues or internal revenue targets of larger financial institutions.

This enables them to take a truly limitless and objective perspective on wealth management and remain agnostic to which investment products they use for their clients, as long as they are best suited to meet their individual needs and objectives - thereby allowing them to be trusted stewards of clients' assets.

Clients place their assets into a bank's custody and assign authority and power of attorney to an independent WM to manage these assets on their behalf in strict accordance with a pre-agreed investment mandate.

Their attractiveness lies wholly on the fact that they are able to provide clients with assurances of independence, but can and often still do collaborate with custodian banks to provide a global reach and ensure the best outcomes for their clients.

As a result of this, the independent wealth management model has become a new frontier, and will certainly become more prominent in the wealth management landscape of the future.

As more investors today seek out alternative investment and wealth management options for their assets, independent WMs have become much more mainstream and have also received significantly more investment inflows.

This has also prompted more bankers to depart from the relative security of private banks to venture out on their own, or to join established independent firms in recent years.

Tackling industry misperceptions

However, this growth is accompanied by some misconceptions around their service offering. There are fears around how independent WMs may sometimes fly under the jurisdiction of regulatory authorities, or that they lack the resources, internal infrastructure or compliance support of larger institutions to adapt to the constantly changing regulatory environment.

These concerns are wholly unwarranted. Independent WMs operate in a highly regulated environment and are held up to the exact same rigorous compliance standards and practices that apply to banks. Private bankers who venture into the EAM and multi-family office space in Singapore should be fully cognisant that this means applying and registering for a licence with the MAS, having their discretionary advisory or investment model fall under Singapore's financial regulation and establishing stringent policies and procedures to ensure compliance with ongoing regulatory obligations.

Independent WMs cannot take shortcuts when it comes to compliance, anti-money laundering measures or risk monitoring. That they can be perceived as some kind of "loophole" or "gateway" to less compliance is especially untrue, considering that they often work in tandem with the banks themselves and will be subject to an additional layer of compliance controls and screening there.

This clarification is necessary to do justice to the valuable role that independent WMs play in driving greater diversification and maturity in Singapore's wealth management ecosystem.

Driving the industry's growth

As investors reassess their wealth management priorities in this post-pandemic environment, they are likely to rely on more independent advice on holistic wealth accumulation and preservation going forward.

With an emphasis on being relationship-focused, advisory-driven and solutions-based, independent WMs help to meet the evolving needs of new and affluent investors. They are open to different models of wealth management and will, alongside traditional banks, play an important and compliant role in the future of wealth management in Singapore.

- **The writer is the president of the Association of Independent Wealth Managers (Singapore).**