

SMU-21-0XXX

CREATING A REPRESENTATIVE VOICE - THE ASSOCIATION OF INDEPENDENT WEALTH MANAGERS (AIWM) IN SINGAPORE

May 2021. The city of Singapore had seen burgeoning wealth over the past few decades. Despite the Covid-19 pandemic, billionaire wealth managed on the island had jumped by 30 percent from April 2020 to July 2020, reaching a total of US\$102.6 billion.¹ Rise in private wealth drove demand for professional asset management from high net worth clients. In response, the private banks in Singapore had expanded and bolstered their in-house asset management capabilities, attracted global talents and embarked on a life-long journey to continuously up-scale the competencies of their bankers. As the private banking landscape matured, a growing number of senior private bankers, driven by their innate entrepreneurial genes, had exited the banks to start their own independent asset management firms to provide independent portfolio management and advisory services to high net worth clients.

Lucie Hulme, President of the Association of Independent Wealth Managers (AIWM) Singapore², shared:

“We expected the level of wealth in Asia to grow in the coming years, and that more bankers would join independent wealth management firms as an alternative model to manage private wealth.”

The number of IWMs (independent wealth managers) in Singapore had risen over the years, and steered the growth of sophisticated wealth solutions by high net worth clients. The ever-rising complexity of regulation and compliance added further sophistication to the equation. Hulme noted,

*“There is great diversity in the capabilities of the IWMs in Singapore to cope with the complexity. As IWMs, we may not always have the same financial means and resources as private banks to rapidly develop in-house expertise in regulatory compliance, technology risk management, talent development and recruitment programmes, regular engagement with the regulators, public relations management and branding. However, an IWM must also embark on these initiatives, because the key ingredient for survival is the **trust** of the client in the IWM. How can we achieve this as a diverse group spanning from start-ups to more mature and much larger firms? We have to band together as a community and project a collective voice! We must also self-educate, self-regulate and self-advocate in order to gain recognition and bargaining power as a sector.”*

In 2011, a group of proactive IAMs came together to establish an industry association, previously known as the Association of Independent Asset Managers (AIAM), in Singapore to support IAMs in the country. A decade later in the year 2021, the IWM sector had expanded with undiminished diversity. It seemed that the stewardship role of AIAM would become more critical. Hulme knew that AIAM could play an even larger role in the IAM sector and that it required rebranding to stay relevant and inclusive. However, many questions swirled in Hulme’s head. How could AIAM be rebranded?

¹ <https://www.straitstimes.com/business/economy/singapore-gains-3-more-billionaires-amid-pandemic-as-crazy-rich-asia-keeps-top-spot>

² <https://aiam.org.sg/>

This case was written by Dr T. Mandy THAM, Assistant Professor of Finance (Education), Lee Kong Chian School of Business, Esther KONG, Deputy Director and Juliana KOH, Research Associate, Business Families Institute University at the Singapore Management University. The case was prepared solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

The relevance of the Association could not be over-emphasised, as Singapore embarked on a rapid transformation in its wealth management ecosystem with the IWM sector poised to expand and become a key pillar.

Independent Wealth Managers (IWM)

The IWM concept was relatively new in Asia-Pacific compared to countries such as the US, Switzerland, and the UK, where IWMs had existed in the wealth management ecosystem alongside traditional financial institutions for managing private wealth for decades. Traditionally, the wealth management industry in Asia-Pacific was dominated by financial institutions, private banks, fund management houses, and external financial advisors (EFAs). The subprime financial crisis in 2008 drove a trust gap in the financial system and created a need gap that propelled the rise of the IWM model in the wealth management space. The IWM model typically offered investment advisory, discretionary portfolio management, and succession planning services to clients. IWMs had particular advantages of trust, flexibility and scope of offerings as they were independent advisors, and could offer an open architectural platform by partnering with many private banks, prime brokerages and other service providers to offer a wide portfolio of investment and wealth management products to best meet the needs of the end clients. In a 2018 research report³, it is estimated that there are some 3000 IWMs in Switzerland, managing as much as CHF 300 billion (about USD 326 billion equivalent as of 29 June 2021).

With the rapid growth in wealth in the Asia-Pacific region over the past decade, the IWM business had grown significantly. A UBS 2016 study on the Rise of External Asset Managers⁴ estimated the assets managed by the IWMs in Hong Kong to be around 3% of assets and in Singapore about 5%. In the inaugural Independent Wealth Management Report by Julius Baer in 2014⁵, they projected an increase by more than 100% in volume of assets managed by IWMs in Asia to around 55 billion by 2020. This growth was projected to drive an increase in IWMs by 25% for Singapore and 50% for Hong Kong. By 2019, Singapore's total assets under management (AUM) had risen by 15.7% reaching S\$4.0 trillion (US\$2.9 trillion); it was estimated that IWMs accounted for 5% of the total AUM.⁶ Demand for IWMs by wealthy families was expected to grow, driven by the city-state's strategic vision to attract family offices and upscale wealth management in its next phase of wealth management services development.⁷ Using Europe (where the assets managed by IWMs stood at roughly one-third of financial assets) as a reference, analysts believed that there was clearly huge potential for the IWM business to grow in Singapore.⁸

The Business Model

The IWM model works differently from the traditional model. In a traditional private wealth management model, the client opens an investment account with a bank, and the bank's in-house

³ The Future for External Asset Manager. A snapshot for the year 2018. <https://clearviewpublishing.com/wp-content/uploads/2018/06/The-Future-for-External-Asset-Managers-in-Switzerland-A-Snapshot-for-2018-Final-distribution.pdf>, accessed Jan 2018

⁴ UBS, A Tale of Two Cities for Now, The Rise of External Asset Managers, 2016, <http://www.thirdrockgrp.com/wp-content/uploads/2013/07/A-Tale-of-Two-Cities-for-Now-The-Rise-of-External-Asset-Managers-in-Asia.pdf>, accessed April 2021

⁵ Wealth Report Asia 2014, <https://www.juliusbaer.com/en/insights/wealth-report/wealth-report-asia-2014/>, accessed April 2021

⁶ Salomon Wettstein, Jereme Yeo, External Asset Managers in Singapore and Hong Kong – addressing custodian banks' challenges on IAM service offering, Synpulse, https://www.synpulse.com/Resources/Persistent/2e5f8b54b62d0fce9414ff3de42c03d2d5a4b7fe/IAM%20Case%20Study_SG.pdf, accessed Jan 2021.

⁷ About 200 single family offices in Singapore manage some \$27 billion in assets: Tharman, The Strait Times, Oct 6, 2020, <https://www.straitstimes.com/business/banking/about-200-single-family-offices-in-singapore-manage-some-27-billion-in-assets>, accessed Jan 2021.

⁸ Azad et.al., State of the European asset management industry: Adapting to a new normal, McKinsey & Company. Nov 2019, <https://www.mckinsey.com/~/media/mckinsey/industries/financial%20services/our%20insights/adapting%20to%20a%20new%20normal%20in%20european%20asset%20management/state-of-european-asset-management-industry-final.ashx>, accessed Jan 2021.

investment professionals would manage the investments of the client. The IWMs provided an alternative business model, where the client could choose to appoint independent investment professionals external to the bank to manage their investments, while the bank serviced the account. Hence, the IWM business model was a tripartite relationship between the client, the custodian bank, and the IWM. These three parties were legally contracted to one another in a triangle business model (refer to **Exhibit 1** for IWM Business Model). The IWM typically offered investment advisory, discretionary portfolio management, and succession planning services to clients. The clients of the IWM then chose the custodian bank where they would like to maintain their accounts and assets. Alternatively, they could also get the IWM's advice on suitable custodian banks. The clients then appoint the IWM to manage the assets with the custodian bank based on a Limited Power of Attorney (LPOA) over the account. Because the assets are parked with the custodian bank and the IWM merely performs the investment advisory and management process, clients have the assurance that the assets are safeguarded in this triangle business model.

As independent advisors operating on an open architecture platform, IWMs can collaborate with different service providers and custodian banks acting as the IWM's prime brokers, thereby gaining access to a wide spectrum of capital markets, investment products and solutions offered by their panel of partnering banks. This provides their clients with flexibility, as they are not restricted to a single bank or house view. Clients could also consolidate all their trades and holdings from different custodian banks through the IWM. Moreover, IWMs do not face short term revenue targets and are able to deliver long-term client-focused investment and wealth advisory solutions (refer to **Exhibit 2**⁹ for other factors driving growth of IWM).

IWM in Singapore

The IWM industry in Singapore is relatively young with some of the oldest IWMs being slightly more than one decade old. The diversity in the IWM landscape is huge. The larger IWMs, by virtue of their survival and growth over time through delivering strong performance, could have AUMs exceeding SGD\$1 billion. They would typically be more adequately staffed, and have deployed technology to increase operational efficiency and reduce operational risks especially in areas of regulatory compliance. In contrast, the smaller IWMs could be run by a team of not more than five, and would face greater resource constraints in risk management and regulatory compliance fulfilment. The smaller IWMs generally would struggle with the increasing cost pressures on manpower and IT security, with talent attraction being one key challenge. They could also find it harder to navigate the rapidly changing regulatory compliance landscape.

Vision of the Association of Independent Wealth Managers

The AIWM was set up to provide a platform to equip IWM practitioners with business support, training development and networking opportunities in order to operate competently in the rapidly and ever-changing wealth management landscape in Singapore and globally. Supported by over 80 ordinary and associate members from IWMs and service providers in Singapore¹⁰, the vision of AIWM is to be the leading industry advocate for IWMs and multi-family offices (MFOs) in Singapore.

As the voice of the industry, AIWM has the following five missions to deliver the vision.

- Represent the distinct interests of members to help various stakeholders better understand the role of independent wealth managers;

⁹External Asset Managers in Singapore and Hong Kong – addressing custodian banks' challenges on IAM service offering, https://www.synpulse.com/Resources/Persistent/2e5f8b54b62d0fce9414ff3de42c03d2d5a4b7fe/IAM%20Case%20Study_SG.pdf

¹⁰ Ordinary members are offered to companies whose core business is to provide independent asset management such as the IAMs, independent wealth managers (IWMs) and the multi-family offices (MFOs). Associate members refer to the service providers supporting the ordinary members in this business, such as the custodian banks, regulatory compliance providers, legal and trust services providers, prime brokers, etc. As of the year 2020, AIAM has about 80 members, about half are ordinary members.

- Strengthen the visibility and uphold the reputation of independent wealth managers in Singapore;
- Drive dialogue and collaboration with regulators to shape policy initiatives, communicate new market practices and navigate regulatory changes;
- Foster a collaborative community of like-minded professionals that can benefit from one another; and
- Empower members through continuous education and training development to elevate industry standards.

Hulme elaborated:

“We must uphold professional standards and build reputational capital as a sector. We cannot risk a rogue player ruining the reputational capital that is tantamount to our survival as IWMs. We aim to achieve this in our missions which are dynamically reviewed and adjusted as the needs of our community evolves.”

Establishment of the AIWM

As the saying goes, *“Nothing is impossible with a willing heart”*. But the devil would definitely be in the details. It helped that the principals of IWMs were entrepreneurial by nature and a few like-minded IWMs had recognised the needs for a collective voice to champion the IWM sector. In 2011, the founding members comprising six IWMs - AL Wealth Partners, Crossinvest, Finaport, HP Wealth Management, Marcuard Heritage and Swiss-Asia Financial Services, came together to establish the Association. However, while the Association was recognised by the Monetary Authority of Singapore (MAS), it remained as a private non-profit organisation and membership was taken up by IWMs on a voluntary basis. Raising awareness and visibility of the AIWM brand and growing the membership base required continuous efforts.

Throughout each year, the Association runs an extensive calendar of webinars, networking events and industry forums, as well as collaborations with education institutions in Singapore. Given the prominence of digital channels within the financial community and the wider public in Singapore, the Association has also been stepping up efforts to develop more content for its website and leverage social media to increase awareness. As the Association celebrates its 10th anniversary in 2021, the current committee led by Hulme, believes that it would be a timely opportunity to further enhance the Association’s profile in the public eye and expand the member base further. To reflect the expanding sector which includes MFOs alongside IWMs, the Association rebranded and reinvented itself with a name change to the Association of Independent Wealth Managers. It is also ramping up efforts to reach out to the growing pool of newly-established IWMs and MFOs in Singapore.

Serving the IWM sector

To deliver its mission, AIWM performs the following roles and functions, as described below.

Supporting Existing Members

As a member society, AIWM equips its ordinary members with business support and resources, which include legal and compliance support, as well as compliance templates. This was intended to support smaller IWMs in coping with the demands of regulatory compliance and managing the risks of slippage among the community. To help members grow in competencies and strengths, the Association provides on-going training programmes, negotiated pricing with selected service providers and creates networking opportunities for members. To aid members in

staying one step ahead of changes, AIWM provides regular updates on industry developments, new market practices and regulatory guidelines through regular events, webinars, and email newsletters.

As of 2018, the AIWM website had more than 160 documents available to members that helped with template policies and template procedures. These documents could help member organisations improve efficiency and reduce cost. AIWM also acts as the active lobbying body for the industry. The Association engages with the MAS twice a year. At the same time, AIWM tries to enroll as many members as they can to project a stronger, and more representative industry voice, which in turn increases the likelihood of successfully promoting and resolving issues faced by members. AIWM also organises regular training events and networking gatherings, and offer a centralised compliance support centre for its members. The support centre service is free for members where members could ask any compliance and regulatory questions, and receive a written response from the compliance consultant, without charge. AIWM also offers a standardised internal audit framework, which companies could use as is or customise based on their individual requirements.

In AIWM's quarterly networking events, associate members and ordinary members could gather and exchange information, insights, experiences, frustrations, and hopes. The Association also arranges professional development talks where industry experts are invited to exchange information and share their views. In addition, compliance workshops have also been arranged where a team of specialists, including legal or compliance professionals would guide members through new or planned regulations by the MAS. The Association also has a wide array of associate members from various industries who could help and support the independent wealth management industry with custodian service, brokerage service, research, technology, trust business, or legal support. Thematic presentations by AIWM's associate members also provide an avenue for them to showcase funds, discuss industry trends, explain new technologies, and highlight products or services of whatever firms they represented. In 2018, AIWM had 36 members (out of 100 IWMs) and in 2019, this grew to 40 members. AIWM also strives to foster closer collaboration between the ordinary members and associate members.

SUPPORTING NEW ENTRANTS

When a new IWM in Singapore becomes an ordinary member of AIWM, the new entrant would be able to tap into the expertise of the ordinary members as well as the associate members. The associate members comprise experts based in Singapore and across the globe spanning from legal counsel, tax experts, banks, IT to insurance providers. AIWM also provides new players with a suite of useful tools and templates (for example, risk assessment templates), a dedicated compliance support centre, and a group chat to support their businesses. The new entrants could also benefit from cost synergies through exclusive offers and updates.

FOSTERING DIALOGUES AND ADVOCACY

Members are always able to engage with AIWM on various matters and, as and when feasible, AIWM would foster dialogue with industry stakeholders and advocate on behalf of members.

As the leading voice of the IWM community in Singapore, AIWM plays an active role by participating in regular discussions and consultations with regulatory authorities on new regulatory developments on behalf of members. With the number of IWMs and corresponding AUM growing in Singapore and across Asia, IWMs are increasingly recognised for being significant and valued players in the Singapore's financial ecosystem. Leading global banks have also embraced the rise of the independent wealth advisory segment by establishing dedicated IWM desks within the banks. This positive development has enabled A IWM to gain greater credibility in the industry and forge a closer relationship with regulators. By driving active

dialogues among key stakeholders in the ecosystem, AIWM aims to contribute towards policies that could shape the next phase of the wealth management industry in Singapore.

SETTING STANDARDS AMONG MEMBERS

With IWMs operating in a heavily regulated industry, all IWMs in Singapore must establish robust operating processes and have stringent policies and procedures in place to ensure compliance with ongoing regulatory obligations. To safeguard the reputation and overall standards of the wealth management industry, AIWM imposes strict quality and due diligence checks on new applications to the Association before admitting the qualified ones as new members.

AIWM champions the best industry practices to elevate overall standards of the IWM profession in Singapore. One initiative undertaken by AIWM was to offer training programmes in regulatory compliance with Continuing Professional Development credits. For example, in an interview with Hubbis conducted in March 2018, it was reported that AIWM offers a centralised compliance support centre. Members can call in to the compliance support centre and ask any compliance and regulatory questions, receiving a response in writing from this compliance consultant, without charges.¹¹ The goal of this initiative was to uphold a minimum competency in industry standards and compliance among its members. In a similar interview with Hubbis in 2019, enhancements in compliance support for members were again emphasised.¹² In addition, the frequent open exchange and knowledge sharing among leading IWMs and MFOs had raised the level of professionalism, integrity and expertise in this industry.

THE FUTURE OF THE IWM

The rapid growth in Asia's private wealth in recent years had created a favourable backdrop for the continued expansion of the wealth management industry in Singapore. Forming a burgeoning community within Singapore's wealth management and banking space, IWMs play a pivotal role in driving greater diversification and maturity in the industry. This would help to meet the evolving needs of high net worth individuals who desire different models of wealth management.

The benefits of the IWM business model are increasingly recognised. Besides those mentioned earlier (refer to **EXHIBIT 2**), IWMs also have the ability to adapt quickly to fast-changing market environments. Over time, private clients are becoming more aware of and more receptive to the IWM model of wealth management. However, banks would continue to wield a significant amount of power and influence, so it would naturally take time for IWMs to gain a larger share of the client's wallet. But Hulme felt that the time was ripe for the IWMs.

LEVERAGING ON TECHNOLOGY FOR GROWTH

Digitalisation had now become a vital requirement for many private wealth clients, particularly for a younger, digitally-savvy generation. The COVID-19 pandemic has accelerated digital adoption across the IWM industry as well as the wealth management ecosystem in Singapore and across the region. Digital innovation and technology adoption has become a necessity for IWMs to meet current and future needs among clients.

¹¹ Update from the Association Independent Wealth Managers Singapore, 2018. <https://pdf.hubbis.com/pdf/article/update-from-the-association-independent-asset-managers-singapore.pdf>. Accessed 29 June 2021

¹² Update from the Association Independent Wealth Managers Singapore, 2019. <https://pdf.hubbis.com/pdf/article/aiam-singapore-s-president-philipp-piaz-gives-rallying-call-to-the-independents.pdf>. Accessed 29 June 2021

To effectively realise their digital ambitions, IWMs must first identify what they aim to achieve, and then adopt a gradual, modular approach to support their actions in order to provide seamless, value-added services for clients. AIWM has organised several webinars on this topic of technology in the wealth management industry to explain and raise awareness of the recent MAS technology grants¹³ to members.

Hulme, while acknowledging the importance of technology in improving efficiency and reducing cost, emphasised on the core DNA of the private wealth management industry.

“The IWM industry remains very much driven by personal relationships and trust, hence a complete digital shift is unlikely”.

REBRANDING AIAM

The Association has been ramping up efforts to engage different stakeholders in the financial ecosystem. The objectives are to share insights to increase the understanding of the IWM business model, and to contribute to the depth and maturity of the wealth management industry in Singapore. For example, a public relations agency had been appointed to work on increasing the public awareness of the IWM wealth management model. The committee has also actively championed greater cooperation and openness in the wealth management community through a series of webinars and networking events. Through the open and proactive exchange of expertise, best practices and insights on new trends, AIWM aims to build a strong, collaborative community of experts that would help its members stay ahead of the curve and ultimately benefitting their clients and the reputation of the industry as a whole.

The independent wealth industry would likely shift further towards greater autonomy in the coming years as digital execution and custody platforms has begun to gain popularity and traction in the region. The industry would likely see more partnerships between IWMs and private banks in Asia aimed at creating seamless onboarding process for their clients^{14,15}. In the long run, these partnerships could increase efficiency and achieve cost savings for both IWMs and banks, ultimately benefitting the clients. AIAM plans to facilitate such partnerships.

Positioning AIWM for future growth would not be without challenges. The IWM sector remains relatively young in Singapore and greater education would be needed on the differentiating values offered by an independent model compared to the private bank offerings. Hulme shared on one pertinent question that clients had been asking.

“How are IWMs able to help clients achieve a more holistic and inclusive wealth management offering?”

Further education and outreach efforts by AIWM would be necessary in order to address common misconceptions among clients that IWMs delivered less security (i.e. more risk) and charged higher fees than private banks. Hulme added:

“We must explain to clients that the independent model has become very viable in today’s landscape. It offers a flexible approach with an open architecture platform that, for instance, enables IWMs to remain agnostic to which investment products are used for their clients, as long as the products were best suited to meet client’s individual needs and objectives. Furthermore, in these unpredictable and volatile times, flexibility, alignment of interests and a holistic approach to wealth would be essential considerations to safeguard clients’ best interests.”

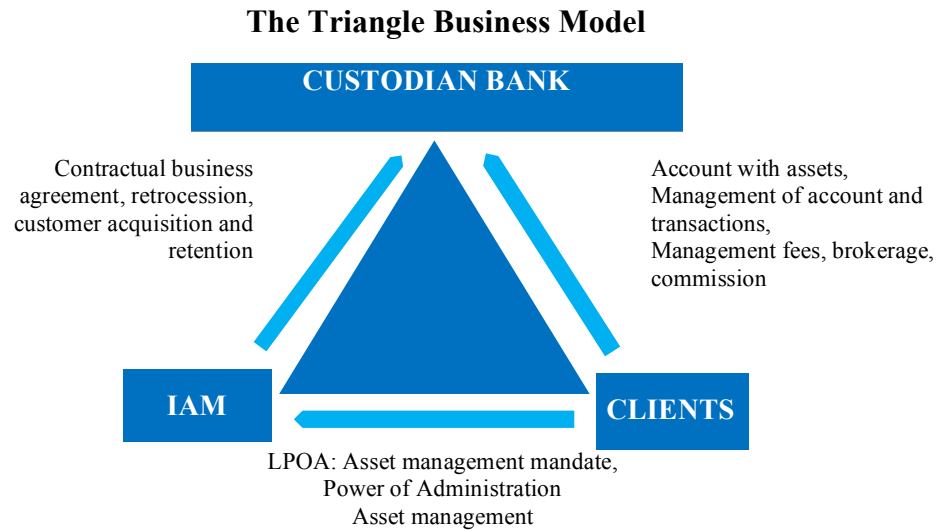
¹³ <https://www.mas.gov.sg/development/fintech/digital-acceleration-grant>

¹⁴ Article on the investments in technology by Bank Julius Baer to support end clients including the IAMs. <https://www.juliusbaer.com/en/insights/behind-the-scenes/technology-to-power-human-advice-a-glimpse-behind-the-scenes/>

¹⁵ <https://asianprivatebanker.com/family-office-iam/credit-suisse-prive-team-up-on-game-changing-iam-tool/>

Key strategic questions remain for AIWM to work on. How can AIWM continue to drive membership enrolment and outreach? What additional services can AIWM provide to its members in order to address the diversity gap and needs gap across the IWMs? Has AIWM done enough to create awareness among clients, other stakeholders, and the larger community of the value propositions of the IWM model? Has AIWM engaged sufficiently with the regulators on the needs of IWMs? Indeed, AIWM would have more work to do in order to project a stronger voice for the IWM sector and to drive the long-term growth of IWM sector alongside the growth in wealth.

EXHIBIT 1: THE IWM MODEL



Source: Adapted from

External Asset Managers in Singapore and Hong Kong – addressing custodian banks’ challenges on IAM service offering,
[http://www.synpulse.ch/ Resources/Persistent/2e5f8b54b62d0fce9414ff3de42c03d2d5a4b7fe/IAM%20Case%20Study_SG.pdf](http://www.synpulse.ch/Resources/Persistent/2e5f8b54b62d0fce9414ff3de42c03d2d5a4b7fe/IAM%20Case%20Study_SG.pdf), accessed April 2021

EXHIBIT 2: FACTORS LEADING TO GROWTH IN THE IAM INDUSTRY

Factors leading to growth in the IWM industry	
1.	Ability to focus on long term success of a relationship and to be aligned with needs of clients, as they are not pressure to meet sales targets
2.	IWMs provide clients with sense of stability as they are less likely to change employers compared to Relationship Managers (RM)
3.	IWM spend more time in understanding client’s needs
4.	IWMs are experts in providing the sophistication and specialisation required by the UHNW clients or families

Source: Adapted from

External Asset Managers in Singapore and Hong Kong – addressing custodian banks’ challenges on IAM service offering,
[http://www.synpulse.ch/ Resources/Persistent/2e5f8b54b62d0fce9414ff3de42c03d2d5a4b7fe/IAM%20Case%20Study_SG.pdf](http://www.synpulse.ch/Resources/Persistent/2e5f8b54b62d0fce9414ff3de42c03d2d5a4b7fe/IAM%20Case%20Study_SG.pdf), accessed April 2021