

# **The Growing Ecosystem of Wealth Management in Singapore: Lenses on the External Asset Manager**

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EMBARGOED

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  - Case Study: Creating a Representative Voice - the Association of Independent Wealth Managers (AIWM) in Singapore
  - Case Study: HP Wealth Management – Pioneering External Asset Management in Singapore
  - Case Study Sino Suisse: Turning the Tide - The Journey of Rebuilding for Success
  - Case Study: Bank of Singapore’s EAM Business: Standing Tall Against Competition

## The Research Team



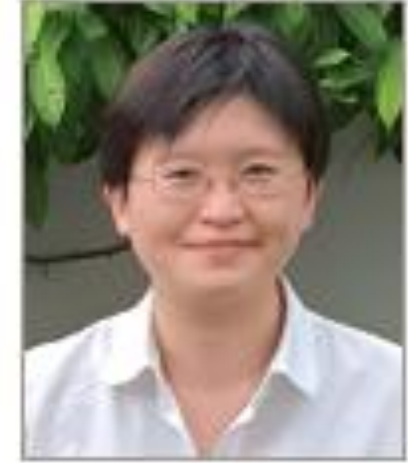
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## Executive Summary

- Singapore is establishing herself as a family office hub. Symbiotic growth of the external asset manager (EAM) industry
- We focus on EAMs based in Singapore & the unique landscape of this country

### Key Findings

#### 1. Perceived growth factors for the EAM industry

- Value proposition of the EAMs
- Value proposition of Singapore
- Support from local authorities

#### 2. Challenges to the future growth of the EAM industry in Singapore

- Retrocession fee model creates a conflict of interest between the EAM and clients
- Clients' lack of understanding of the EAM model
- Operational and productivity challenges

#### 3. Opportunities for future growth of the EAM industry in Singapore

- Bringing greater value-added solutions to family offices
- Greater acceptance of the management fee model by clients
- More support from MAS
- More engagement with custodian banks
- Increase in the adoption of an open architecture by EAMs
- Adoption of minimum competency standards by EAMs.
- Development of a thriving ecosystem

## Research Methodology & Sample

### • Survey Methodology

- Questionnaire launched from March-July 2021
- Zoom in on two aspects:
  - Perception of the growth factors
  - Challenges and opportunities for future growth

### • Targeted Audience

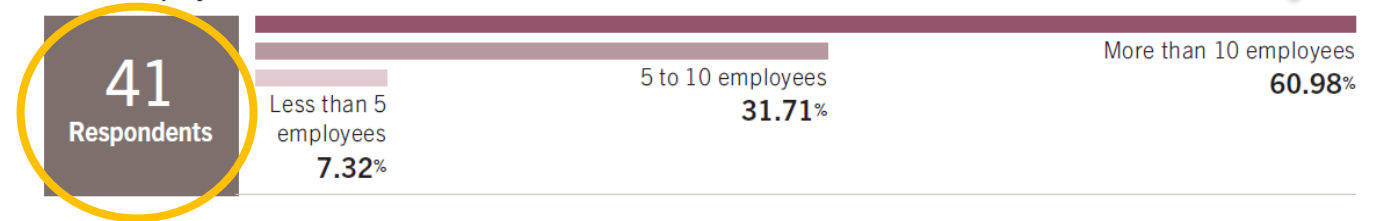
- EAMs and Multi-family Offices in Singapore

### • Complemented with

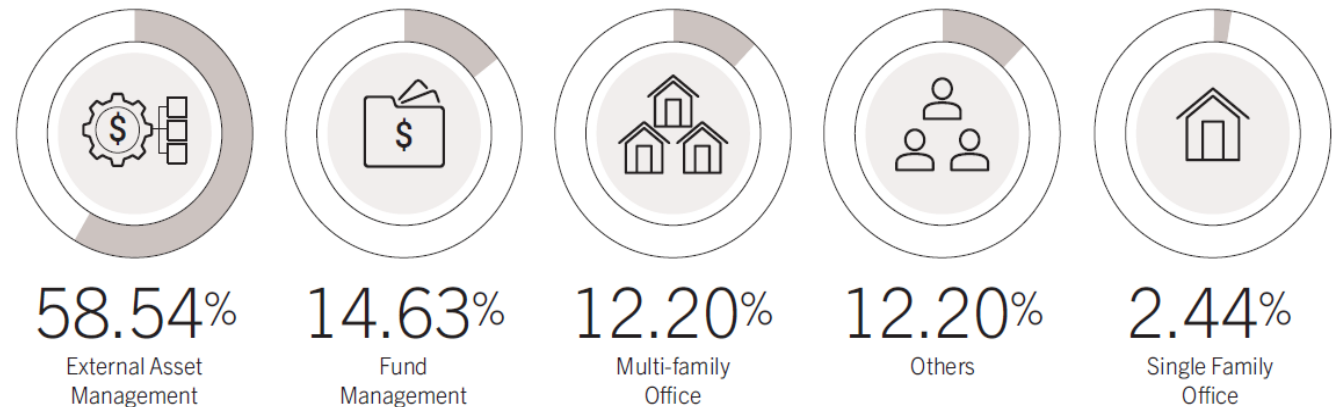
- Exclusive interviews with AIWM, representative EAMs & custodian banks.
- Case studies on Sino Suisse, HPWM, AIWM & Bank of Singapore

### Sample Profile

#### Size of Company



#### Nature of Business



## EAM Sector in Singapore at a Glance

**Young & diverse industry**

Business model:

*To provide wealth and investment management services to clients.*

[FIGURE 2]

**EAM business model**

QUESTION

Is your envisioned long-run business model different from your current model?



**Those who envisioned long-term changes aim for:**

- A more holistic service, gearing towards flexibility and more private equity offerings
- Openness to external investors, expanding into other synergistic business lines that do not contradict with their main business ethos and values
- A shift away from retrocession fees towards management and performance fees, and an open architecture

**Perceived obstacles to achieving long-run model:**

- Regulatory restrictions
- Limited talent pool
- Lack of knowledge
- Client openness

## Three Key Drivers of Growth in next 5 years

### Growth drivers for the EAM industry in the next five years

#### EAM's value proposition

80.49%

Focus on building long-term relationship with clients

70.73%

Clients are gradually opening up to EAMs

68.29%

Provide customised approach to satisfy client needs

#### Singapore's value proposition

58.54%

Growth in family offices raises demand for EAM services

31.71%

Growth of Singapore as a fintech hub

#### Authorities' support

51.22%

Support (e.g. grants) from the Singapore government for EAMs to develop digital wealth management solutions

## Capitalising on the Growth of Family Offices

- Demand for EAMs increases with growth in family offices in Singapore

### VALUE THAT EAMS BRING TO FAMILY OFFICES

#### Client servicing quality

80.49% High quality client relationship management and engagement

56.10% Advisory on intergenerational succession planning

48.78% Understanding the operations of family businesses

36.59% Advisory on tax planning and management

#### Fees

39.02% Attractive fee structure

#### Investment & wealth management expertise

75.61% Expertise in asset management

70.73% Specialised and niche investment strategies

48.78% Direct investment deals

48.78% Risk management solutions

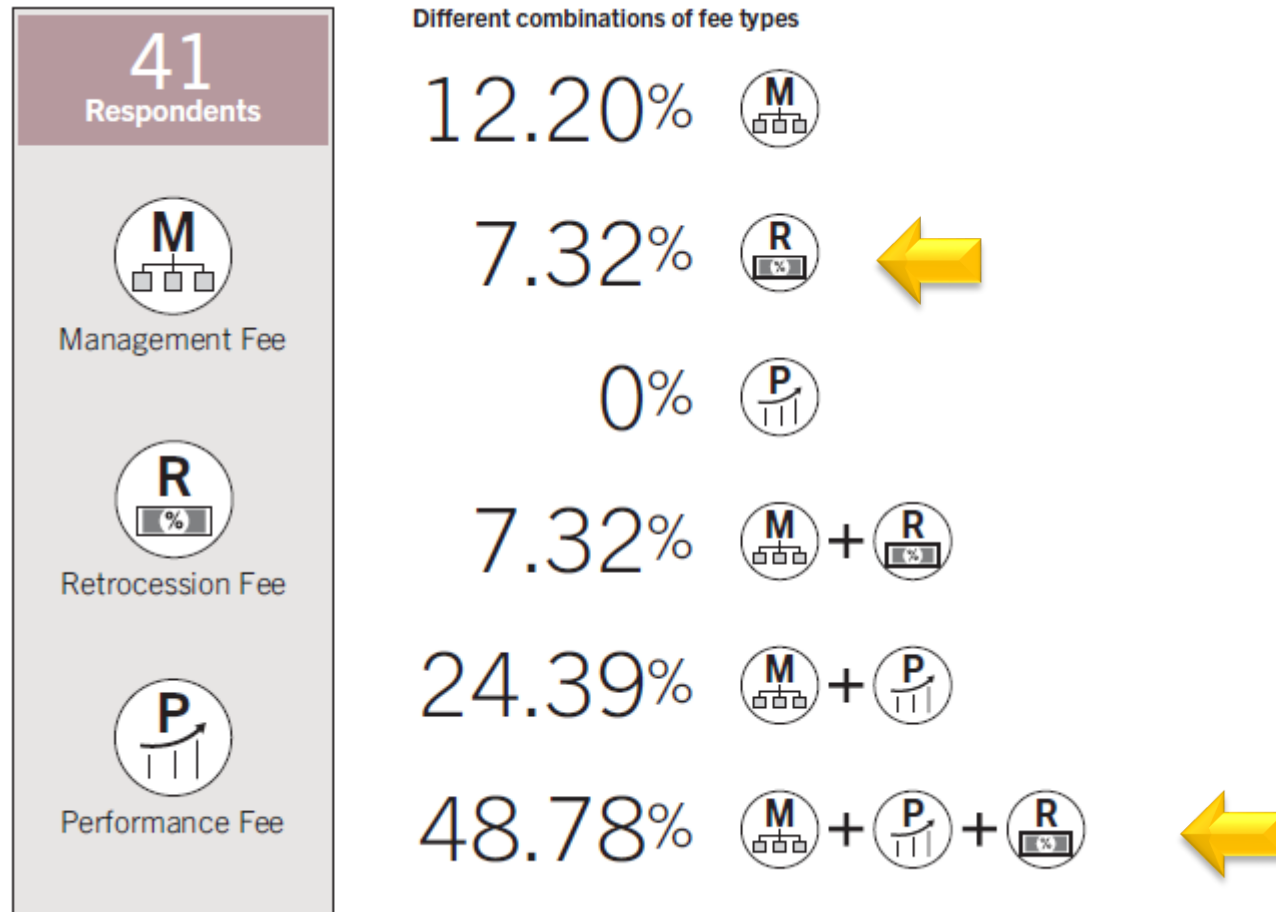
29.27% Philanthropy



## The Trust Journey of the EAM (1)

- Changing fee model reflects increased trust with clients, as the industry matures

### CURRENT REVENUE MODEL OF EAMS



## The Trust Journey of the EAM (2)

- The trust journey is steep but the road ahead is dynamic and hopeful

### PERCEPTIONS OF CLIENTS' VIEWS OF EAMS



68.29%

Lack of a clear understanding about the value proposition EAMs leading to clients maintaining direct relationships with private banks



34.15%

Clients only trust EAMs with significant AUM

26.83%

Trust EAMs **more than** bankers

29.27%

**Same level** of trust in bankers and EAMs

26.83%

Trust bankers **more than** EAMs



29.27%

Clients are purely performance driven so they only trust EAMs who can demonstrate past successes

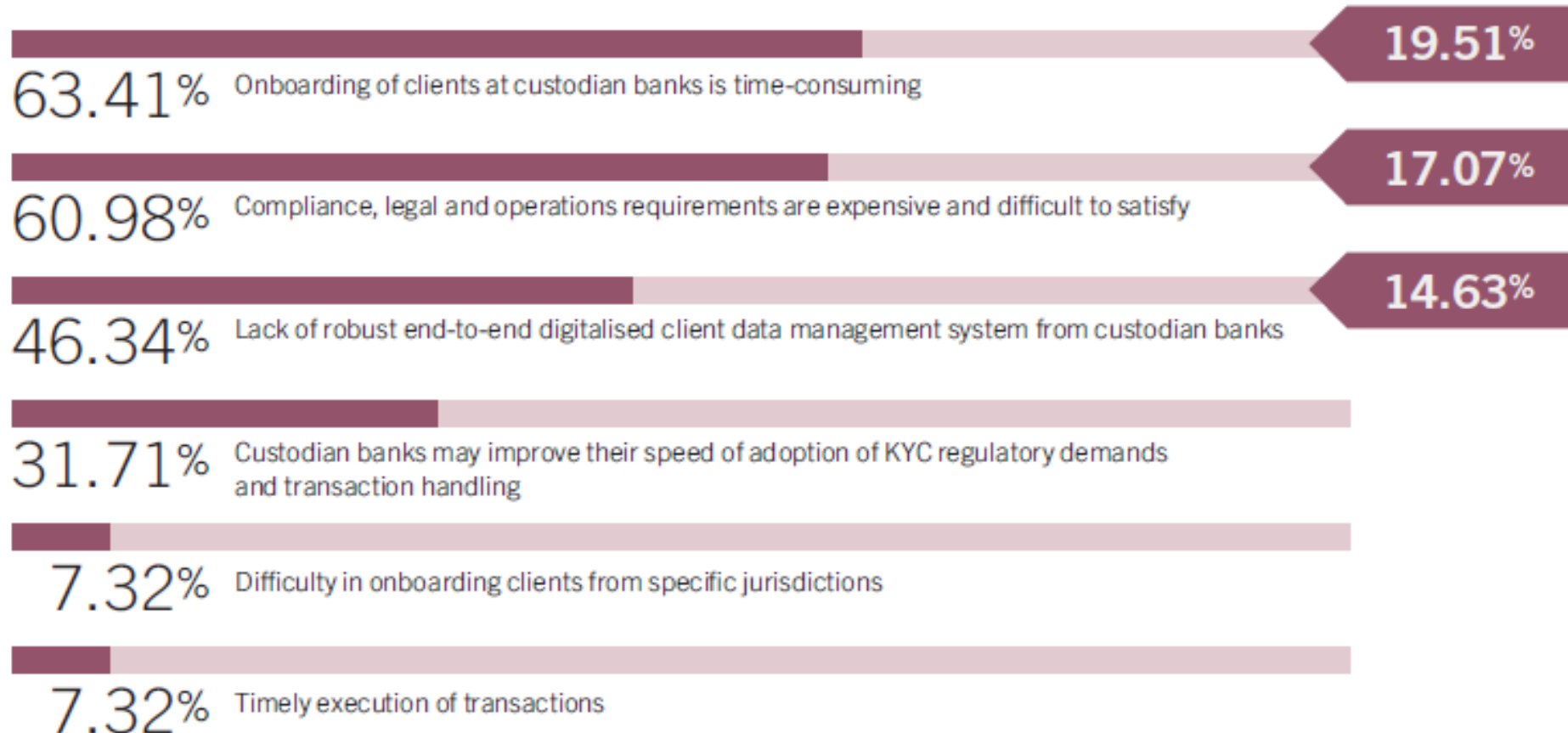
7.32%

EAMs are only measured by the performance track record of staff

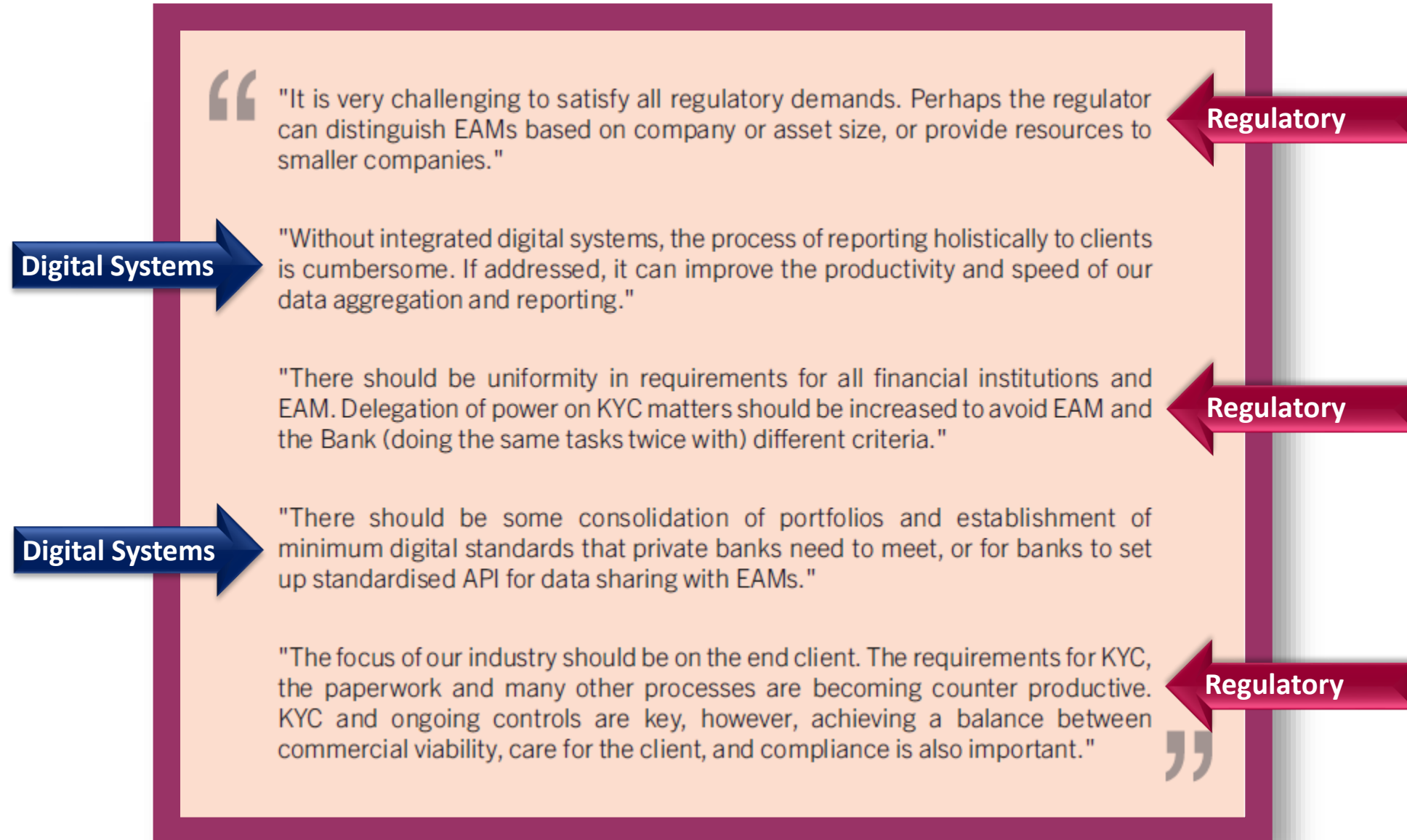
## Three Key Challenges: (I) Operations & Productivity

### CURRENT CHALLENGES FACED BY EAMS: OPERATIONS AND PRODUCTIVITY

Respondents who ranked this as top challenge



## Views from Respondents



## Three Key Challenges: (II) Business

### CURRENT CHALLENGES FACED BY EAMS: BUSINESS

Respondents  
who ranked this  
as top challenge



## Views from Respondents

“

"It is hard to scale the business when the industry is crowded and the customer base in Singapore is limited. This could be improved with government assistance to attract foreign capital, and clients start accepting a new concept of fund management."

"As clients evolve and have more complicated demands, we need to have more tools and services, even engage external distribution to help promote our investment strategy to cater to their needs."

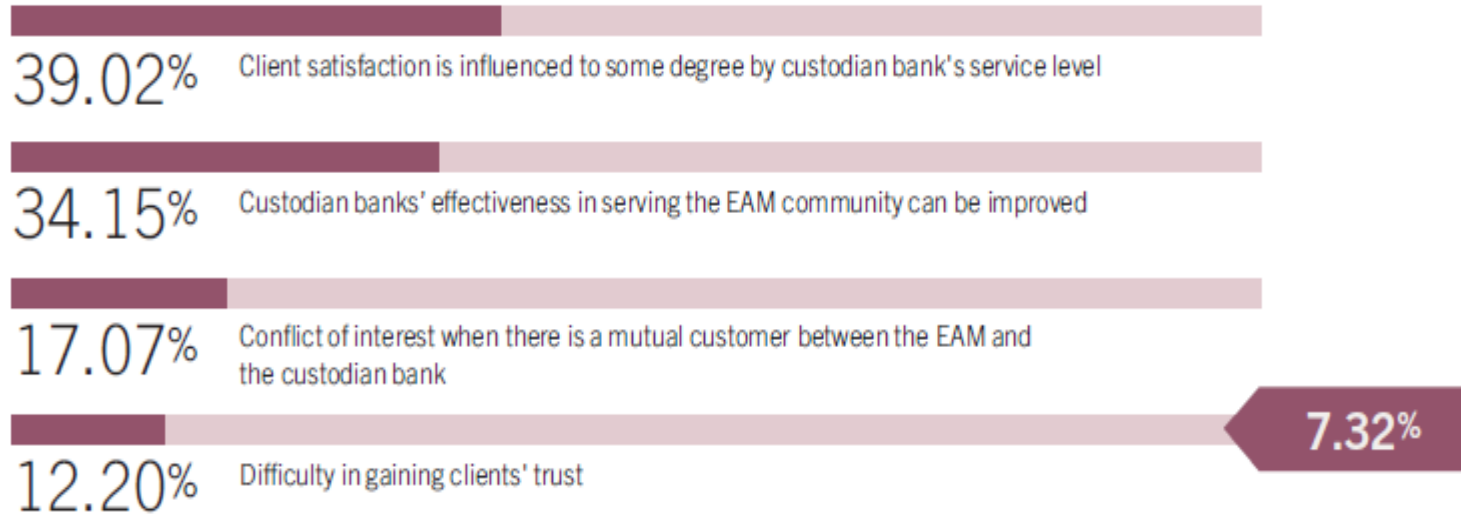
"Fulfilling risk control requirements is capital intensive and especially daunting when technology is ever-changing. As EAMs have limited resources, even having a core team with the necessary skill set to integrate risk management and IT framework can be challenging."

”

## Three Key Challenges: (III) Relational

### CURRENT CHALLENGES FACED BY EAMS: RELATIONAL

Respondents  
who ranked this  
as top challenge



“

"The quality of services of custodian banks has a direct impact on EAM's service model, especially since client satisfaction is influenced to some degree by the custodian bank's service level. Custodian banks' effectiveness in serving EAMs needs to be improved for the industry to grow."

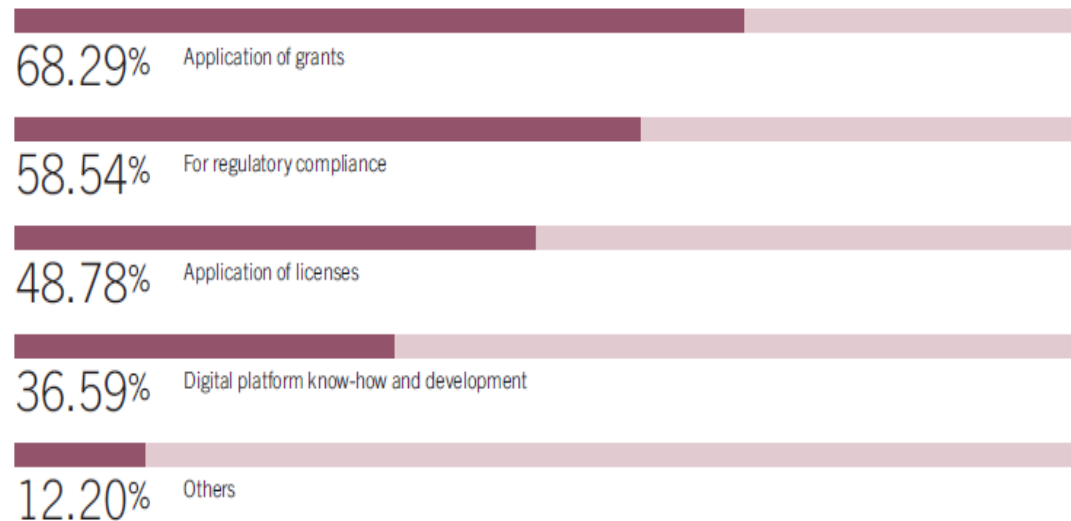
"There is a clear lack of acting in the best interests of the end clients despite marketing messages from banks stating the contrary. As such, to get clients to invest, it is crucial to gain clients' trust first. We should have mandatory full transparency of levied fees and compensation structures that will align banks' interests with their clients."

”

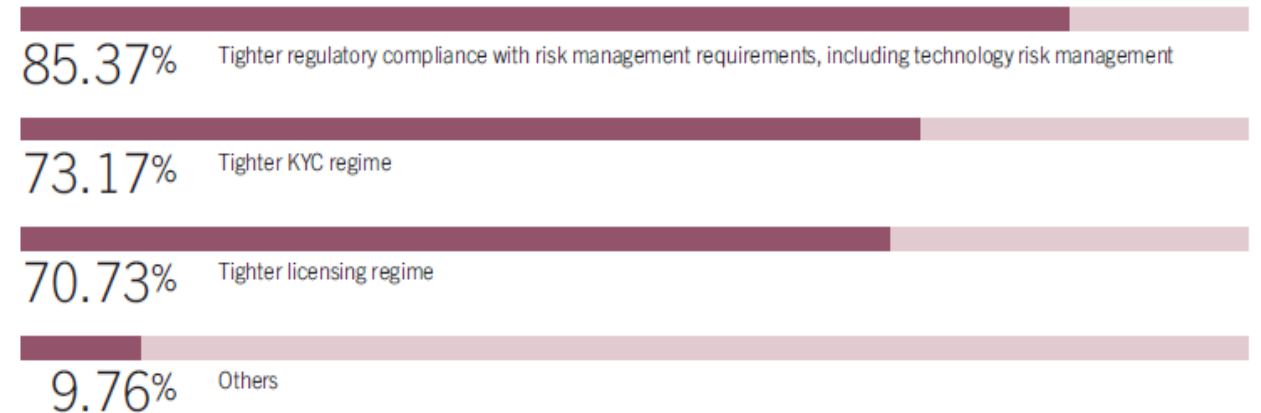
## Regulatory Landscape

- Foreseeable regulations in next 5 years remain a concern. Expect continuing support from MAS

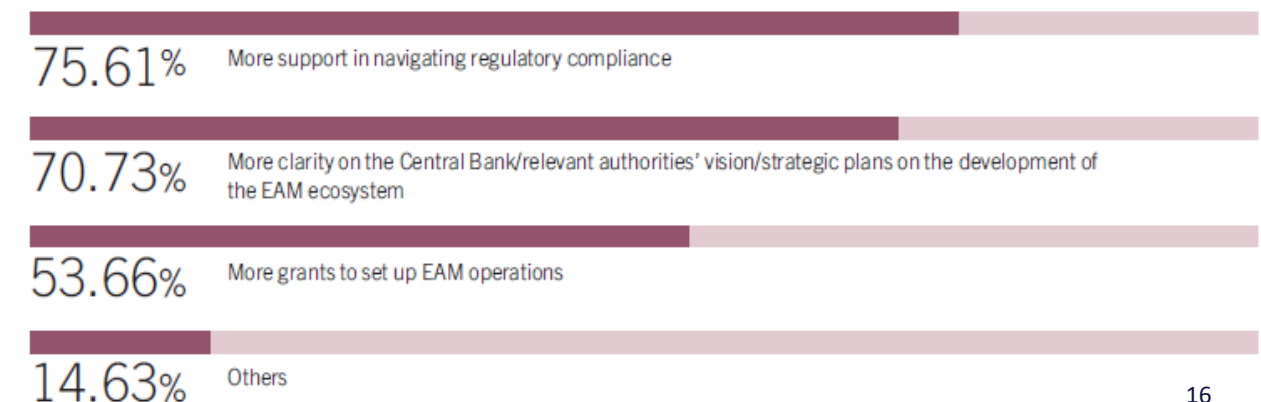
### CURRENT SUPPORT AVAILABLE FROM MAS



### FORESEEABLE REGULATIONS IN THE NEXT FIVE YEARS



### EXPECTED SUPPORT FROM MAS FORWARD





## Custodian Banks Engaging with EAMs

### (I) CUSTODIAN BANKS RECOGNISE THE UPSIDE OF PARTNERING WITH EAMS

- The EAM business, if well managed, is profitable for private banks because it is scalable
- However, there are challenges:
  - Risk of engagement
  - Potential conflict of interest
  - Inadequate capabilities in managing an EAM relationship
  - Revenue sharing in the retrocession fee mode

### (II) DEDICATED DESK TO SERVICE EAMS AND MULTI-FAMILY OFFICES

#### ***For the banks:***

- Operational efficiency as risks can be better managed
- Curate the right talent to service the EAMs

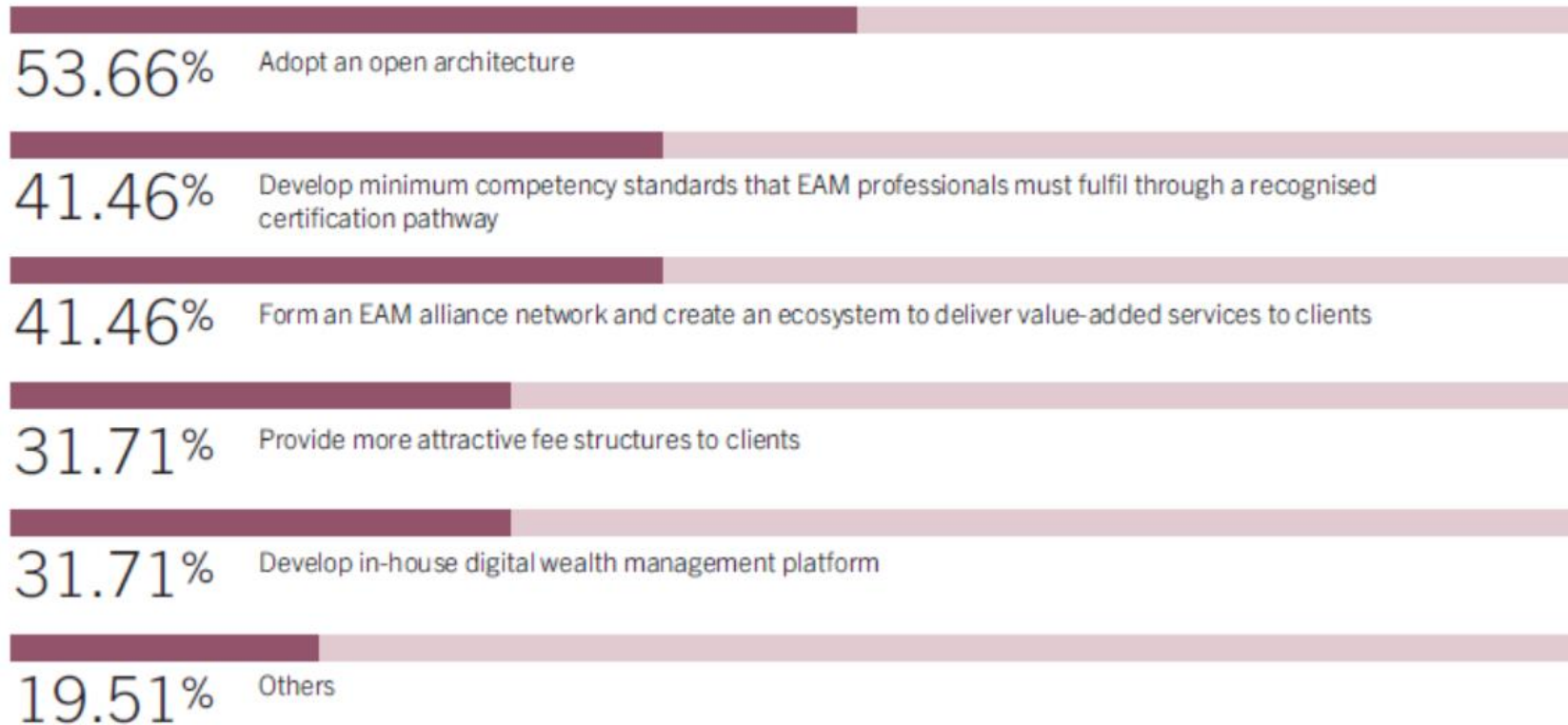
#### ***For the EAMs:***

- Access to quality service, fast response, open architecture platform (for best pricing), and digital platform (for executing and monitoring trade).
- Access to thought leadership and research, market views, and specialized funds of interest in areas of ESG.
- Benefits such as comprehensive offering, platform connectivity, global access, service quality and technology platform

## Painting the Future

- Ready to embrace a new phase of growth and develop an ecosystem

### IMPROVING EAM'S COMPETITIVE ADVANTAGE IN THE NEXT FIVE YEARS



## Ecosystem

*An ecosystem will  
spur business  
opportunities and  
overcome operational  
inefficiency*

### PERCEPTION OF EAM ECOSYSTEM – THREE PILLARS



## Six Emerging Thrusts



### Digitalisation

- Manage risk; reduce costs; increase efficiency



### Talent Development

- The EAM industry will remain human-centric and trust-based.
- Recruit and retain experienced relationship managers with strong industry and product knowledge



### Open architecture, ecosystem development

- Pursuing partnerships and networks to enhance resources for operational efficiency



### Better relationship with end clients

- Strengthen trust
- Transition to management fees, and DPM approach
- Build family office segment
- Develop expertise in structuring or accessing cross-border solutions to facilitate global investments.



### Better relationship with the regulator

- Expect tighter regulation but also more regulatory support
- To work closely with the regulator and engage compliance partners, or build up in-house compliance capabilities.
- To incorporate ESG into investment process and business model, in anticipation of Singapore's Net Zero Carbon goal in 2050.



### Better relationship with custodian banks

- Improved relationship with custodian banks & achieve better institutional pricing, efficiency on KYC, and timely trade execution

## Conclusions

The Next phase .....

- Further transition in revenue model from retrocession fees to management fees
- Widespread financial literacy of the EAM model
- Improvements in client servicing, investment strategies and value-added offerings to clients
- Closer collaboration between EAMs and custodian banks;
- Increased digital adoption and augmentation of digital capabilities;
- Active engagement with and stronger support from the regulator;
- Self-regulatory initiatives such as ensuring minimum industry competency standards
- Expanding and maturing ecosystem that will fuel further growth

The general spirit: **Optimism**