

Business Families Institute

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

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 - 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 Pr	ofile			+
41 Respondents	Less than 5 employees 7.32 %	5 to 10 employees 31.71 %		More than 10 employees 60.98%
Nature of Business	\$		o o o o o	
58.54% External Asset Management	6 14.63% Fund Management	12.20% Multi-family Office	12.20% Others	2.44% Single Family Office



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

51.22%

Authorities'

support

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	Investment & wealth management expertise
80.49% High quality client relationship management and engagement	75.61% Expertise in asset management
56.10% Advisory on intergenerational succession planning	70.73% Specialised and niche investment strategies
48.78% Understanding the operations of family businesses	48.78% Direct investment deals
36.59% Advisory on tax planning and management	48.78% Risk management solutions
Fees 39.02% Attractive fee structure	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 Different combinations of fee types 41 12.20% (M) Respondents Μ 7.32% R 百古百 Management Fee P ()% R (%) 7.32% 🐘+🖷 Retrocession Fee 24.39% (**M**)+(P 48.78% 🗥+(₽ Performance Fee

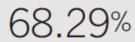


The Trust Journey of the EAM (2)

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

PERCEPTIONS OF CLIENTS' VIEWS OF EAMS





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



Trust EAMs more than bankers



Same level of trust in bankers and EAMs

26.83% Trust bankers **more than** EAMs



29.27%

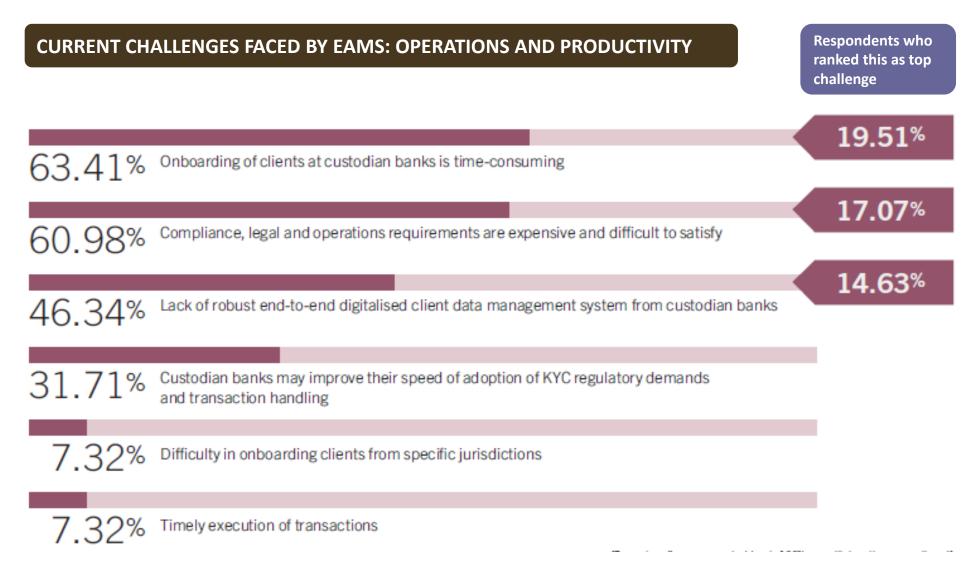
Clients are purely performance driven so they only trust EAMs who can demonstrate past successes



EAMs are only measured by the performance track record of staff



Three Key Challenges: (I) Operations & Productivity





Views from Respondents

"It is very challenging to satisfy all regulatory demands. Perhaps the regulator can distinguish EAMs based on company or asset size, or provide resources to smaller companies."

Digital Systems

"Without integrated digital systems, the process of reporting holistically to clients is cumbersome. If addressed, it can improve the productivity and speed of our data aggregation and reporting."

"There should be uniformity in requirements for all financial institutions and EAM. Delegation of power on KYC matters should be increased to avoid EAM and < the Bank (doing the same tasks twice with) different criteria."

Digital Systems

"There should be some consolidation of portfolios and establishment of minimum digital standards that private banks need to meet, or for banks to set up standardised API for data sharing with EAMs."

"The focus of our industry should be on the end client. The requirements for KYC, the paperwork and many other processes are becoming counter productive. KYC and ongoing controls are key, however, achieving a balance between commercial viability, care for the client, and compliance is also important."

Regulatory

Regulatory

Regulatory



Three Key Challenges: (II) Business

CURRENT CHALLENGES FACED BY EAMS: BUSINESS	Respondents who ranked this as top challenge
39.02% Competition from banks for talent	
36.59% Fulfilling risk control requirements as part of overall technology risk management can be daunting	4.88%
36.59% Unwillingness of banks and brokers to consider EAMs as wholesale clients deserving of institutional pricing	7.32%
19.51% Difficulty in building a business to sufficient scale	4.88%
19.51% Difficulty in obtaining real-time access to product information and market data from b	
19.51% Increase in complexity in client demands and needs	7.32%
12.20% Difficulty in gaining access to family office	
12.20% Increased demands of clients for digital wealth services	
9.76% Real-time access to product information, term sheets and market data	



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
39.02%	Client satisfaction is influenced to some degree by custodian bank's service level	
34.15%	Custodian banks' effectiveness in serving the EAM community can be improved	
17.07%	Conflict of interest when there is a mutual customer between the EAM and the custodian bank	
12.20%	Difficulty in gaining clients' trust	7.32%

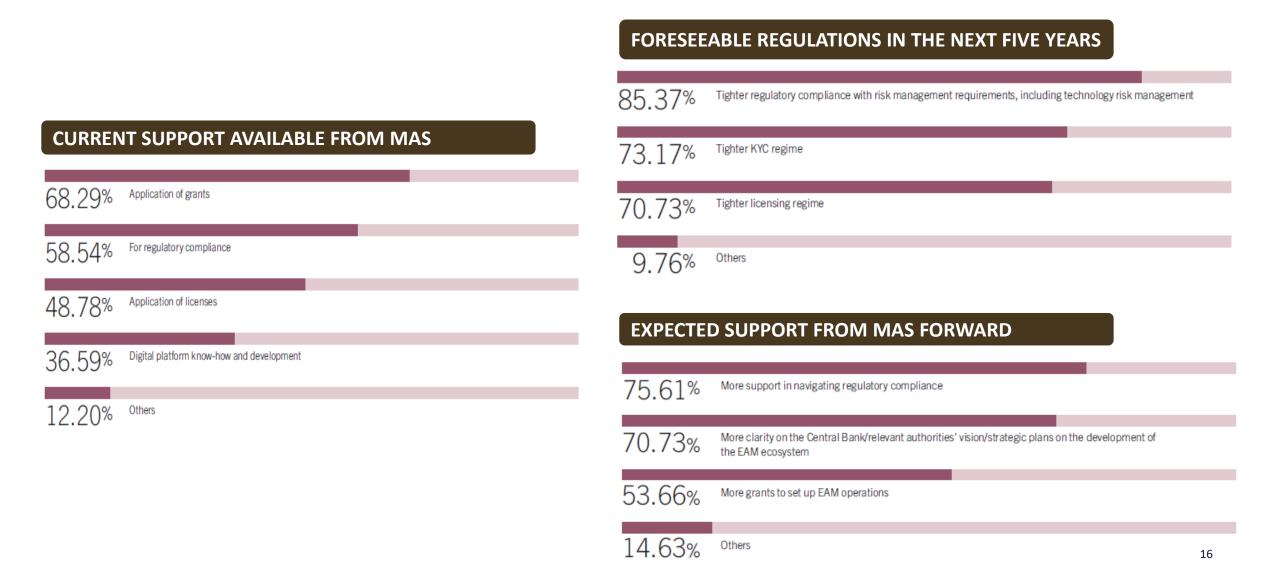
"The quality of services of custodian banks has a direct impact on EAM's service model, especially since client satisfaction is influenced to some degree by the custodian bank's service level. Custodian banks' effectiveness in serving EAMs needs to be improved for the industry to grow."

"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





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

53.66%	Adopt an open architecture
41.46%	Develop minimum competency standards that EAM professionals must fulfil through a recognised certification pathway
41.46%	Form an EAM alliance network and create an ecosystem to deliver value-added services to clients
31.71%	Provide more attractive fee structures to clients
31.71%	Develop in-house digital wealth management platform
19.51%	Others



Ecosystem

PERCEPTION OF EAM ECOSYSTEM – THREE PILLARS



65.85%

Working groups

with MAS

63.41%

Network of

family offices

63.41%

Network of

private banks

60.98%

Network of

tax experts

General networks Comprise experts and universities

51.22%

Network of

compliance experts

51.22%

An EAM association

that serves as a

central body to connect, train,

monitor and inform

46.34%

Partnerships with universities for research and

education

Existing networks Remain vital

Remain vital

43.90%

Network of investment banks

36.59%

Alliance with fintech associations

29.27%

Network of corporate banks

An ecosystem will spur business opportunities and overcome operational inefficiency



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



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.



Open architecture, ecosystem development

 Pursuing partnerships and networks to enhance resources for operational efficiency



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

