The Singapore Asset Management Industry
Building a Strong Foundation for Future Growth

Foreword

Since the Global Financial Crisis (GFC), there has been a paradigm shift in the asset management industry. Organizations lost prestige, client trust and business during the crisis and many are still recovering.

In addition to reputational damage, rapidly rising operational costs of firms are also squeezing already thin profit margins within the industry. To add to these challenges, the crisis also led to additional regulatory reforms. This was most apparent in the mature western markets where regulators increased investor safeguards to address the issues underlying the unexpected collapse of established financial institutions, like Lehman Brothers.

The environment in the global industry continues to evolve rapidly. To regain back the trust of clients, asset managers now have to juggle between managing clients' returns expectations, increased transparency in their dealings, compliance with ever-changing and more onerous regulations, and lastly, but most importantly, mitigating risks in increasingly volatile markets.

Asian financial centres like Singapore are benefitting immensely from the sustained boom in Asia's economy post crisis. In just one decade, from 2002 to 2013, total assets under management (AUM) in Singapore grew from SGD 344 billion to SGD 1.82 trillion, representing a compound annual growth rate (CAGR) of 16.18% for the period. The number of investment professionals working in Singapore more than tripled, from 1.012 in 2002 to 3.312 in 2012. In the last 3 years, the industry recorded an average AUM growth rate of 10.7% per annum [1]. In relative terms, the Singapore asset management market was approaching the size of Hong Kong (USD 1.03 cf. 1.17 trillion as of December 2011) [2], reflecting the leaps of progress made by Singapore in growing the industry not just in Asia, but globally as well. And, looking to the future, Singapore is poised to become the second largest asset management cluster in the world by 2017, behind New York, and is predicted to experience tremendous growth from 2010 to 2040 [3].

Currently there are more than 800 organizations regulated by the MAS to conduct asset management functions in Singapore, including External Asset Managers (EAM), who are relatively new entrants to the industry here.

In light of the growth story and bright prospects for Singapore's nascent asset management industry, this paper sets out to describe the multiple facets which have contributed to the thriving hub, as well as provide a view on the emerging external asset management segment.

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1 *Monetary Authority of Singapore (MAS), Annual Singapore Asset Management Industry Surveys, 2002-2013*
2 *MAS, Hong Kong Monetary Authority websites*
3 *PWC, Top Industry Clusters in 2040 Revealed, 2010*

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Data collection

In order to supplement publicly available information, meetings were held with a range of senior individuals from organizations operating in Singapore's asset management industry. The diverse mix of firms was chosen in order to ensure a fair representation of the industry.

The interviews were conducted using a structured approach to ensure that consistent information was obtained and collated. Each interview lasted approximately one hour and was mostly face-to-face. This paper contains data self-reported by the participants and Synpulse does not take any responsibility regarding the accuracy of the data.

These findings have been supplemented by Synpulse's internal research, project experience and expertise to provide a holistic analysis of the Singapore asset management industry.

Abstract

Singapore has grown rapidly in prominence, both as a regional and global asset management hub over the last decade. This trend is expected to continue as Asia remains the main driver for global economic growth for the foreseeable future, further raising the profiles of Asian financial hubs like Hong Kong and Singapore. This paper examines the Singapore asset management scene both as a growing part of the global market, as well as providing valuable local insights, especially for External Asset Managers and software providers to the industry, collated from interviews conducted with key players operating in the market.

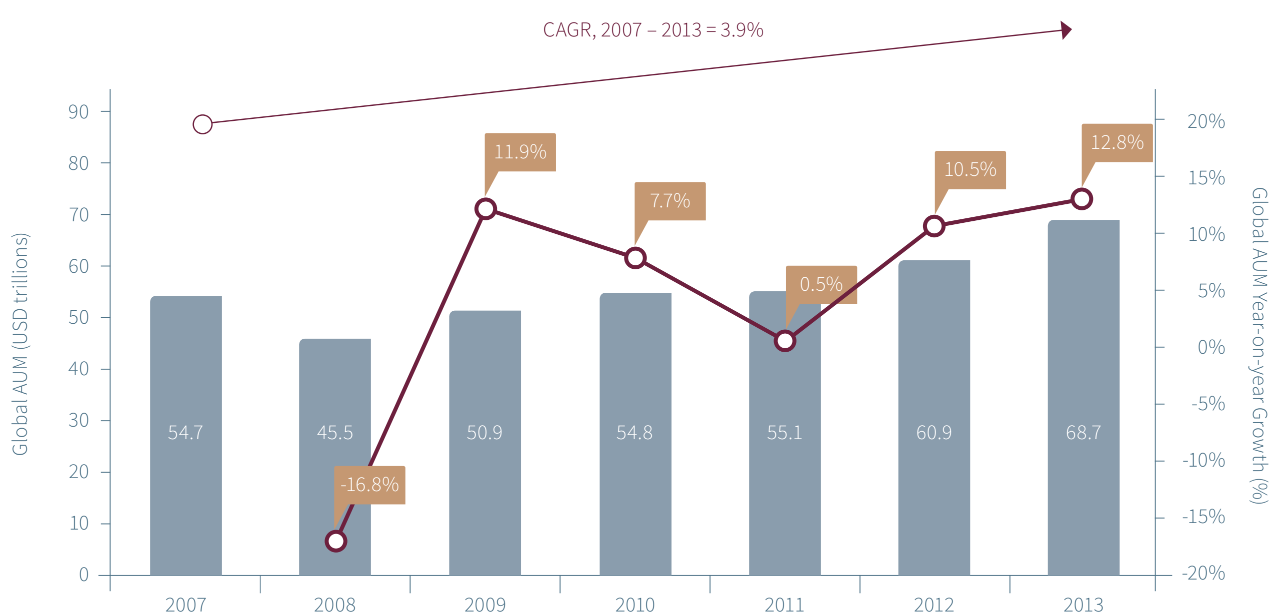
1. Global Asset Management Industry Landscape

The global asset management industry faced stalling growth in 2011. Markets were clearly in a state of flux as managers came to terms with increasing regulatory oversight and the questioning of previously successful business models. Competition intensified as more players fought for a share of the pie; asset managers therefore had to be nimble and adaptable to their clients' requirement or faced losing out to those who reacted faster.

In 2011, growth of global AUM for the asset management industry and custody banks sector slowed to 0.5%, from 7.7% in 2010; total AUM was USD 55.1 trillion vs. USD 54.8 trillion respectively. In comparison, AUM stood at USD 54.7 trillion in 2007, the year before GFC began (1). From 2007 to 2012, the CAGR of AUM was relatively flat at 2%, reflecting the industry coming to terms with the repercussions of the GFC and the slow recovery process post-crisis. In 2013, total AUM increased 13% to a record USD 68.7 trillion after rising 11% to 60.9 trillion in 2012.

According to the BCG analysis, North America and Europe continued to dominate the landscape in 2013, accounting for approximately 52% and 29% of AUM respectively, with Asia incl. Japan and Australia accounting for 16%. Since 2008/2009, Europe, Asia and Latin America have all exceeded pre-crisis AUM levels, with emerging economies in Latin America and Asia posting the strongest recoveries, albeit from relatively low bases (2).

During the GFC, the misalignment of interests between financial institutions and investors came more under the spotlight, and whilst the asset management industry remained profitable, there were hardly any net new assets inflows in 2011. This was more apparent in developed countries, where AUM was negative or unchanged, struggling to get back to pre-crisis levels. Typically, operating margins were flat as investors sought a suitable home for their assets, seeking solace in lower risk, and consequently, lower-cost products like fixed income.



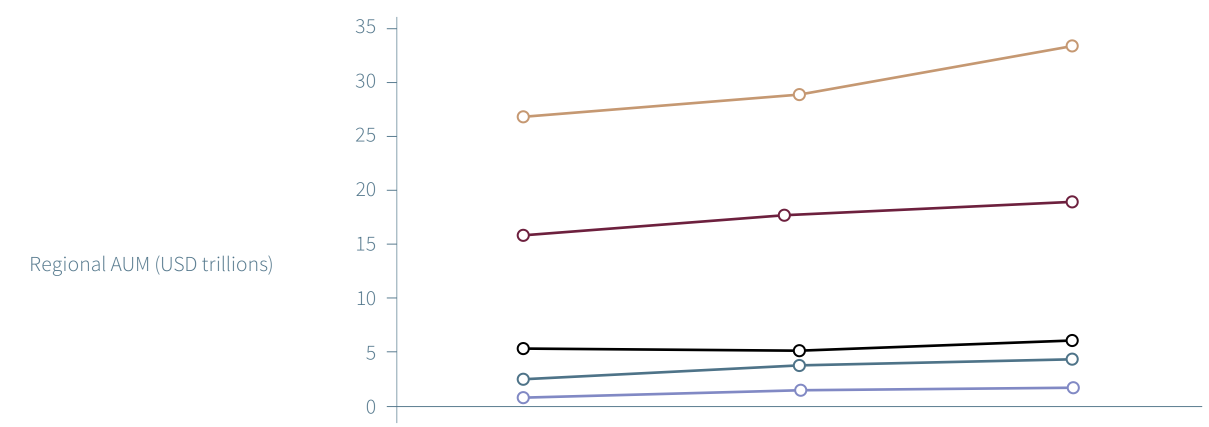
Source: BCG Global Asset Management Sizing Database, 2014

1 Global Asset Management Sector Value: USD trillions and Year-on-year Growth, 2007 – 2013

In contrast, in Asia-Pacific ex Japan and Australia, the asset management scene is thriving thanks to the recovery and growth of emerging countries in the region post-crisis. Along with the emerging economies' growth was a flood of Foreign Direct Investments into the region, as investors from developed countries sought to find growth not available in their more stagnant economies.

According to a PwC Report covering the 2012 APEC CEO Summit, 10 Asian countries (China, Vietnam, Indonesia, Thailand, Philippines, Singapore, Malaysia, Hong Kong, South Korea and Taiwan) are projected to outpace the average global GDP rate over the next decade compared to the markets in Europe and America.

Consequently, Asia Pacific is set to rise significantly in prominence and is seen by many as the main growth driver of the global asset management industry for the foreseeable future. Experts predict AUM to more than double in the region by 2020 (3a), buoyed particularly by China, India and Indonesia's booming domestic markets and growth stories. Asia Pacific is soon expected to overtake North America as the largest market for High Net Worth Individuals (HNWIs) – customers with more than USD$1 million in investable assets. By 2020, HNWIs in Asia Pacific will hold up to 29.8% of Global HWNI Assets (3b). With Asia Pacific's HNWIs growing their wealth ahead of the rest of the world, the region is expected to pass North America as the region with the highest HNWI population in the near future.

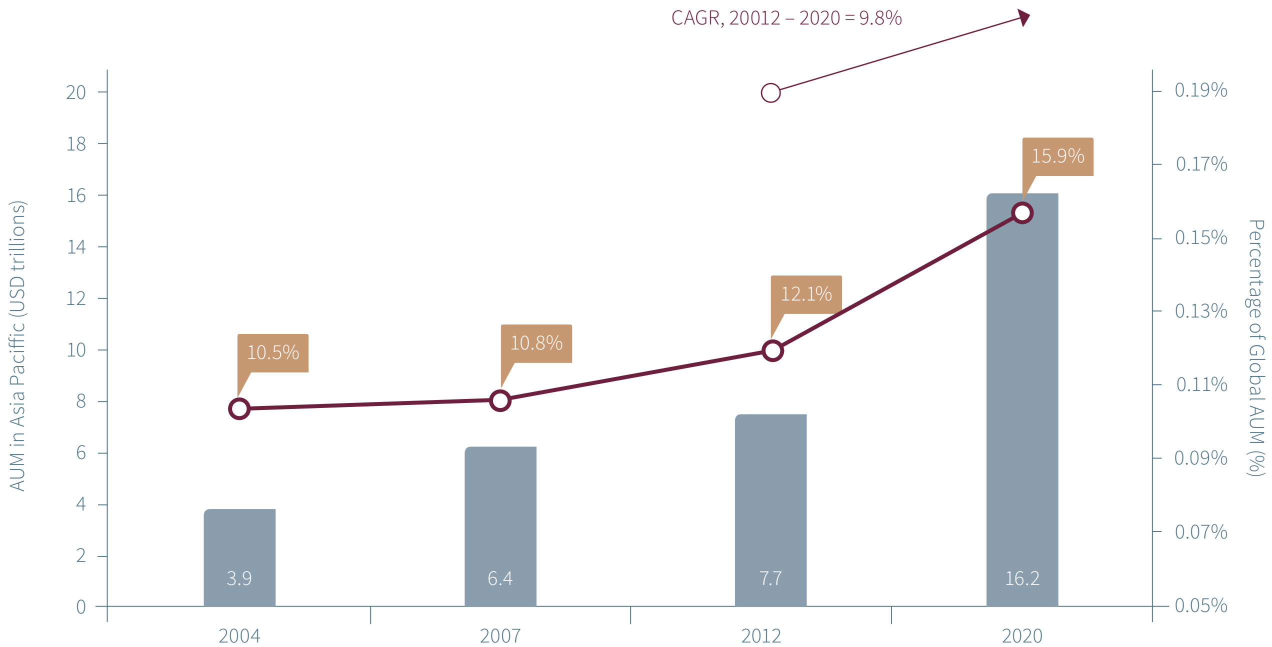


	2007	2012	2013
North America	27.3	29.4	34.0
Europa	16.1	18.0	19.3
Asia ex Japan and Australia	2.5	3.8	4.4
Japan and Australia	5.4	5.2	6.2
Latin America	0.8	1.5	1.7

	North America	Europe	Asia ex Japan and Australia	Japan and Australia	Latin America
CAGR, 2007-2013 (%)	3.7	3.1	9.9	2.3	13.4

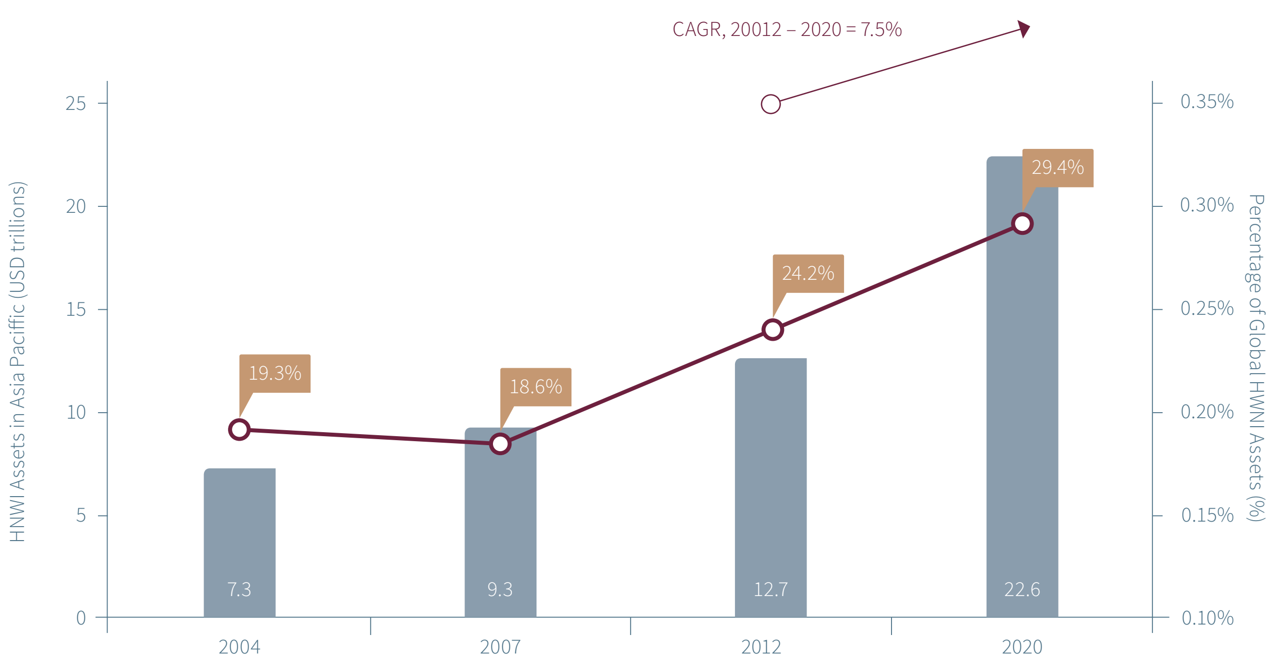
Source: BCG Global Asset Management Market Sizing Database, 2014

2 Impact of GFC on Individual Regions, 2007 – 2013



Source: PriceWaterCoopers Analysis, Hedge Fund Research, ICI, Preqin, Tower Watson, The City UK Data, Credit Suisse Global Wealth Data Book

3a Projected Growth of AUM in Asia Pacific, 2004 – 2020



Source: PriceWaterCoopers Analysis, Hedge Fund Research, ICI, Preqin, Tower Watson, The City UK Data, Credit Suisse Global Wealth Data Book

3b Projected Growth of HWNI Assets in Asia Pacific, 2004 – 2020

2. Singapore Asset Management Industry Landscape

2.1 History

The rise of Singapore as a major global financial hub can be dated back to the 1960s, when the government initiated liberalization and reforms to the infant financial industry. It was not until the Asian Financial Crisis in 1997-1998, though, that Singapore undertook a major strategic review of its financial sector; key financial industries including retail banking, insurance and stock-broking activities which were once heavily protected by the government were liberalized. Also, in order to achieve a certain critical mass to establish a successful and sustainable financial hub, MAS started to broaden and deepen local debt markets as well as increase asset management activities.

By 2002, the traditional financial services that Singapore was strong in, such as foreign exchange trading and capital market activities, had decreased in volume and significance in the global market. Various factors such as the introduction of the Euro, consolidation in the banking industry and the growing popularity of electronic brokers led to this decline.

In September 2002, at the request of the Singapore government, top ranking management from major international and domestic banks, asset management firms, law firms and management consultancies were called to form an Economic Review Committee; providing expert advice and recommendations for future strategic thrusts for the financial industry in Singapore. It was found that there was a pressing need for Singapore to look for new engines of growth and to develop comparative advantages and niches in «sunrise» services; in financial services industries that were less location dependent and more technology and knowledge intensive. In eventually selecting these services, the government also leveraged Singapore's strengths in IT and market infrastructure to accelerate movement up the knowledge-based value chain.

Over time, it was envisioned that the competencies developed would help to drive the creation of Singapore as a pre-eminent financial centre in Asia for select regional and/or global niches; one of these niches was in asset management. In order to develop Singapore as a global leader in asset management, the government first needed to create critical mass and then boost the competiveness of the industry. It did so by attracting large international fund management companies to set up offices in Singapore with tax breaks, and by nurturing indigenous start-ups with seed capital to attract small and medium-sized fund management companies. This appears to have been an effective strategy which accelerated Singapore's rise in prominence as an asset management hub.

The Committee completed its work in February 2003 and set the foundation for the rapid growth of the asset management industry in Singapore; according to MAS information, total AUM in Singapore grew from SGD 344 billion to SGD 1.82 trillion from 2002 – 2013. During the same period, the number of investment professionals working in Singapore more than tripled, from 1.012 to 3.312 in 2012 [4]. There are currently more than 800 asset management firms operating out of Singapore.

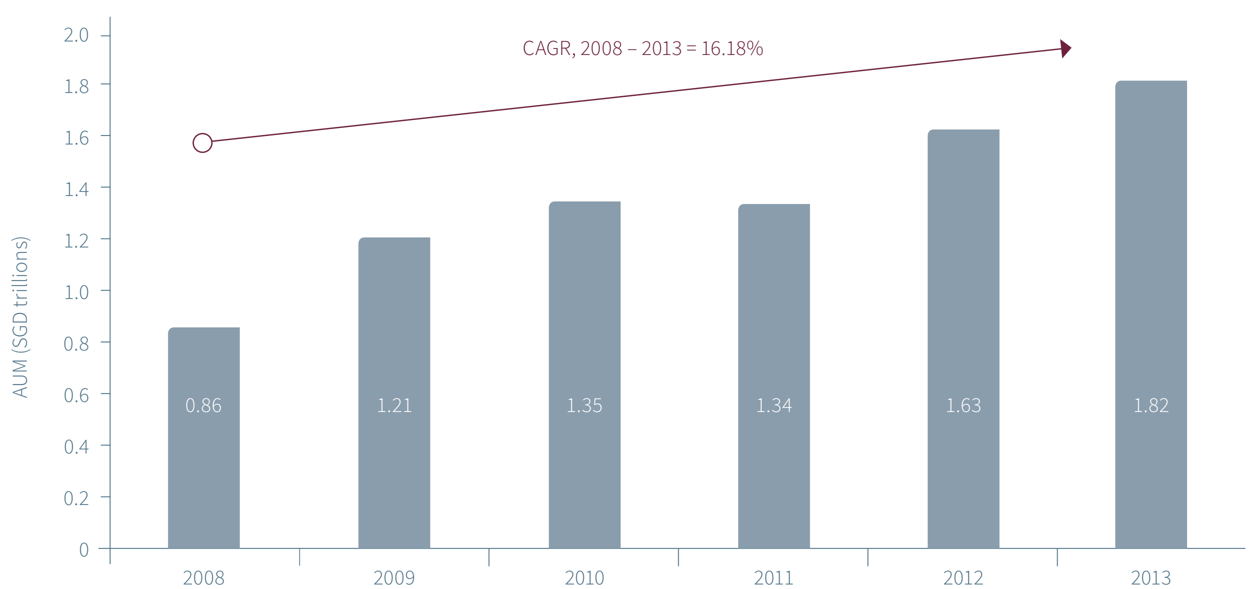
[4] *Monetary Authority of Singapore (MAS), Annual Singapore Asset Management Industry Surveys, 2002-2013*

2.2 Overview of the Asset Management Industry in Singapore

The Singapore asset management industry regulator, MAS, conducts an annual survey of the industry based on voluntary responses from companies operating in the market. From the 2014 survey results, total AUM in Singapore grew by 11.8% from S$1.62 trillion in 2012 to S$1.82 trillion in 2013. The CAGR for total AUM in Singapore from 2007–2013 was 16.18%, reflecting the strong growth and recovery posted by the industry year-on-year since the GFC (4).

Information released by MAS in 2013 showed that approximately 77% of total AUM was sourced from outside Singapore, underscoring the city state's importance in serving international investors. As in previous years, top-tier global asset management companies maintained their strong presence in Singapore; the top 20 asset management companies in Singapore accounted for 37% of total AUM in 2012.

Geographically, the Asia-Pacific region continued to be the key investment destination for Singapore-based funds, accounting for 56% of total AUM in 2013, 21% from Europe and 10% from US. Investment of funds into equities remains the favoured asset allocation choice of Singaporean investment managers, with more than 47% of total funds invested in the asset class, followed by bonds (22%), alternatives (14%) collective investment schemes (9%) and lastly, cash/money markets (8%) (5).



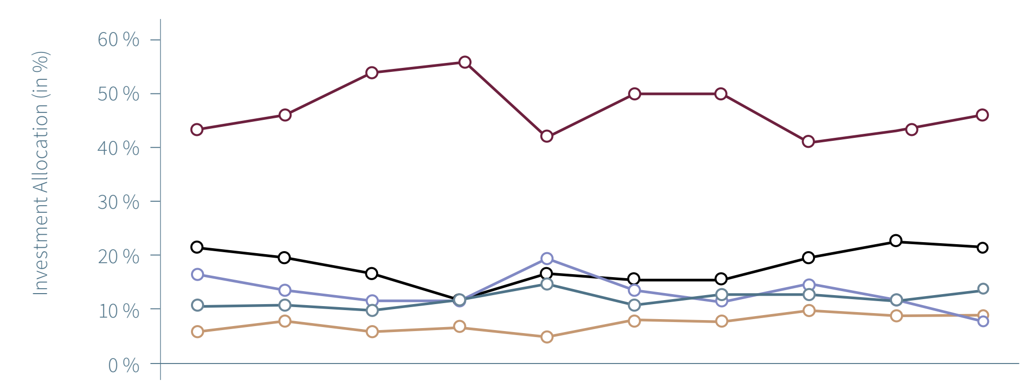
Source: Monetary Authority of Singapore, Singapore Asset Management Survey 2008 – 2013

4 Total AUM in Singapore (SGD trillions), 2008 – 2013

Primary research conducted with key players in the industry by Synpulse revealed that, for international asset managers with a presence in Singapore, the businesses typically focused on front office activities. All the companies carried out sales, marketing and/or business development activities from Singapore, while approximately half of those interviewed also had local investment teams based in the country.

Of the firms interviewed, only a couple of international organizations had senior management (at least at the CxO level, e.g. Chief Investment Officer, Chief Compliance Officer) working in Singapore; most key decision-making functions were conducted at head office in their home country or at a regional hub. A couple of organizations had regional CxO level management in Singapore, with each having its own functional reporting line to head office. Conversely, all local firms interviewed had CxO level staff based in Singapore.

All but one of the asset managers interviewed had institutional clients. Approximately half also had wholesale clients. Some of these wholesale mandates were historical; where firms had focused on this segment at some point in the past. There were some firms with wholesale clients for strategic reasons, such as diluting the «lumpiness» of institutional mandates. Generally, the relationships were with the high-net-worth distributors such as Private Banks.



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Equity	0.44	0.47	0.55	0.57	0.43	0.51	0.51	0.42	0.44	0.47
Bonds	0.22	0.20	0.17	0.12	0.17	0.16	0.16	0.20	0.23	0.22
CIS	0.06	0.08	0.06	0.07	0.05	0.08	0.08	0.10	0.09	0.09
Cash / Money Market	0.17	0.14	0.12	0.12	0.20	0.14	0.12	0.15	0.12	0.08
Alternatives / Other Investments	0.11	0.11	0.10	0.12	0.15	0.11	0.13	0.13	0.12	0.14

Source: Monetary Authority of Singapore, Singapore Asset Management Survey, 2004 – 2013

5 Investment of Funds by Asset Class in Singapore, 2004 – 2013

2.3 Reclassification of the Asset Management Industry Players in Singapore

As at the end of July 2012, the number of organizations regulated by MAS to conduct asset management functions in Singapore exceeded 800. Out of these, the majority (approximately 80%) were in the «exempt fund management company» category. In August 2012, in what was widely seen as a move to provoke consolidation and create a more professional industry, MAS amended regulations applicable to fund management companies. In February 2013, when the new regulations take effect, any corporation that carries on business in fund management in Singapore would need to hold a capital markets services (CMS) licence (if AUM is more than SGD 250 million) or be registered with MAS as a registered fund management company (RFMC).

In addition to meeting more stringent capital, compliance and risk management requirements, MAS is also pushing for fund management companies to be incorporated in Singapore and to have a permanent physical office here. The more stringent licensing and registration criteria enforceable would raise the bar with regards to setting up asset management operations. Consequently, it is likely that these new requirements will prompt consolidation in the industry, generally amongst the number of small fund managers affected by the increased stringency of regulations.

As a senior manager in an asset management firm confirmed: «There is likely to be consolidation as some are doing well, the middle is floundering and the bottom is for sale.»

2.4 Challenges Faced by the Industry

A number of organizational challenges were brought up by interviewees regarding doing business in Singapore. Their concerns covered regulatory issues, the competitiveness of the industry, new business volumes and distribution challenges. Regulation of the industry in Singapore was foremost on the minds of many, with the view that the recent moves by MAS in 2012 as mentioned above were set to be the first of many coming their way.

Another concern of the market in Singapore was the difficulty faced in finding new sources of business. Given the state of the global economic environment, investors shied away from the more esoteric markets and lesser known brands struggled to get the necessary air space. According to a senior asset manager «we're at the bottom of the decision tree».

Distribution was also brought up as a concern as institutional is a competitive market and many providers were considering other wholesale distributors, typically private banks. However, this too was becoming an increasingly competitive channel due to the maturing market in Singapore; a manager interviewed commented that it was difficult to see where the growth in private banks will come from in the future. Additionally, it was felt that only the brave would consider retail distribution.

Other organizational challenges raised included costs, specifically for the smaller organizations, and especially with the more onerous regulations in place. A manager interviewed said: «For a small organization, regulatory compliance can take a disproportionate amount of resources.»

According to another interviewee, «MAS is tightening up the rules and regulations. There is always a need to keep abreast of what is required and how to implement it.» A more global picture was painted by another interviewee, who commented that «not only do we have MAS, we also have the US, UK... regulation comes from every direction.»

Aside from regulation, a firm's value proposition, preferred business model and level of internal change were also highlighted. These issues, however, were challenges that were sometimes very specific to the type of business being run, i.e. external asset managers, which is the topic of the next section.

3. External Asset Managers in Asia – the Business Model of the Future?

The business model, in which a bank-independent asset manager looks after his or her clients with the involvement of a custodian bank, is well-established in Switzerland and carries numerous titles: External Asset Manager (EAM), External Portfolio Manager (EPM), Independent Asset Manager (IAM), and Financial Intermediary (FIM). For clarity, the term External Asset Manager (EAM) is used in this paper.

The EAM business began around 10 years ago in Singapore when the two largest Swiss private banks introduced a platform for EAMs in connection with an expansion of their services for European clients. At that time, the business model did not exist in Asia and correspondingly considerable education with the various internal and external parties had to be carried out. Many former employees of both banks can today be found at EAM desks of other, local banks. Despite, non-Asian EAMs forming the majority of operators, Asian EAMs appear to be gaining momentum.

3.1 Current EAM Landscape

A study by Synpulse showed that before 2007 there were practically no local EAMs and that the Asian EAM scene only gained momentum during the GFC. 80% of those surveyed have set up their business in Asia since 2008. EAMs emphasize customer relationship and product independence as their key elements of differentiation from banks, which provide traditional wealth management services. Additionally, experienced client advisors have ventured into self-employment over the past few years. The growing demand for customer relationship and product independence, along with the emerging EAM service offerings and the resulting better understanding of this advisory model, have led to an increase in the emergence of local EAMs.

Within Asia, Singapore and Hong Kong are established financial centres and are thus the favored destination for establishing an EAM office. The authorities in both centers endeavor to create favourable conditions for the wealth management industry. Within the framework of the study, Synpulse found that most EAMs are located in Singapore, whereas Hong Kong traditionally has more Family Offices. Additionally, it became clear that more than 80% of EAMs in Asia have European roots. A Julius Baer report of last year elaborated in close conjunction with the St. Gallen Institute of Management in Asia [5] estimates an approximated AUM of 15 billion USD for Singapore and 12 billion USD for Hong Kong. This equates to roughly 4% private banking assets in Singapore and 2.5% in Hong Kong respectively, in contrast to established EAM markets such as Switzerland or the UK with market shares of 15% (Switzerland) and 16% (UK).

[5] *Independent Wealth Management Report, Julius Baer, July 2014*

3.2 Customer Needs and Regulation Influences

Asian customers are generally much more actively involved in the investment decision than a European client would be. This means that the transaction approach is expected to dominate in EAMs in Asia. However, the Synpulse study shows that here there are also EAMs with 100% portfolio management mandates in the traditional sense. One of the reasons could be the origin of customers, who often come from the «old world» and are looking for proximity to the growth markets in Asia. The study shows a similar phenomenon as regards to loans, which are almost a mandatory offering if one wishes to provide wealth management services in Asia. This is in stark contrast to traditional private banking where loans are generally the exception. The study by Synpulse shows that there are numerous Asian EAMs which do not provide their customers with loans.

The focal point of a wealthy client is often his or her company and thus it has the highest priority. Quick and efficient access to the services of an investment bank – such as providing support in IPOs or bridging loans – is an important differentiation factor, if one wants to be and remain relevant for these clients.

In addition to customer needs, regulation also significantly influences the EAM business in Asia. Most EAMs in Singapore start out with the so-called «Exempt Fund Manager» licence. However, this licence restricts the number of clients and the AUM. EAMs with 3 to 5 years of experience in Singapore can apply for a CMS license. The latter makes higher demands on the infrastructure of the EAM; among other things it requires an in-house responsible for compliance. On the other hand, the customer and asset restrictions are reduced or removed.

As previously mentioned, in August 2012, MAS amended regulations applicable to fund management companies. Since February 2013, when the new regulations took effect, any corporation that carries on business in fund management in Singapore needs to hold a CMS licence (if AUM is more than SGD 250 million) or be registered with MAS as a RFMC.

3.3 The Future of the EAM Business in Asia

In comparison with the European and in particular the EAM business with Swiss roots, the business in Asia is just getting started. However, experts are in no doubt that this segment will develop into a crucial element of the wealth management industry in Asia in the coming years. In their report, Julius Baer projects that in 2020, assets managed by EAMs in Asia will increase by more than 100% in volume, to around 55 to 60 billion USD. The number of EAMs are thereby projected to increase by 25% for Singapore and 50% for Hong Kong and the average AUM by 60% for Singapore and 43% for Hong Kong respectively. Experts expect that next generation EAMs in Singapore and Hong Kong will predominantly come from within the region.

In the study, Synpulse asked for the reasons for this growth. The responses can be summarized as follows:

1. The quality of services of the banks has deteriorated to the extent that customers no longer completely trust them and are therefore looking for independent advisors for wealth-related matters.

2. More European EAMs who want to diversify their offerings and provide local investment expertise will establish themselves in either Hong Kong and/or Singapore.

3. The number of disgruntled experienced client advisors is increasing, as is the level of their dissatisfaction. As a result, the willingness to get involved in the EAM business model with their book of customers is growing.

In addition to the traditional Swiss private banks, local banks are also discovering the benefits of this new segment. EAMs, with their close relationship to clients, are often more active on the investment side and thus in generating commission income. Furthermore, front office personnel in private banking are one of the largest cost drivers, this does not apply in an EAM approach.

A well-functioning infrastructure with efficient processes and systems is also in Asia a basic prerequisite for the successful set-up and development of the EAM business. While the wealth management business in Asia is comparatively young and growth in the past few years has been above average, the relevant platforms and their processes and infrastructures have often not developed at the same pace.

One market player said: «We believe that the EAM model is the future of wealth management, as it is neutral and unbiased. And in contrast to the customer advisor at a bank, the EAM carries complete responsibility with respect to the client and is better qualified thanks to his or her experience.»

4. Leveraging External Asset Managers – Optimal Support of the EAM Business Model

4.1 EAM Criteria for Choosing Custodians

Client expectations are growing since years and show no sign of abating any time soon. EAMs can only deal with these increasing demands, if they are supported by a custodian bank that fully understands their needs and has the capability to react. Client satisfaction relies on a perfect relationship between EAM and the custodian bank.

The basic needs of EAMs in Asia are in many respects the same as in established markets. They begin with the reputation of the bank and its attitude towards the EAM business. The better the banks are organized – for example with a special EAM service team (EAM desk) and complete understanding and support right up to top management – the more likely it is that an EAM will recommend the partner bank to its clients.

EAMs require a comprehensive service package from custodian banks. The Synpulse study revealed that next to the brand and reputation and geographical reach of the custodian bank, EAMs ask for:

- reliable and close relationships with the EAM desk (custodian bank's care desk)
- modern IT platforms with state-of-the-art online features
- timely and marketable execution of all types of transactions
- flexible pricing models

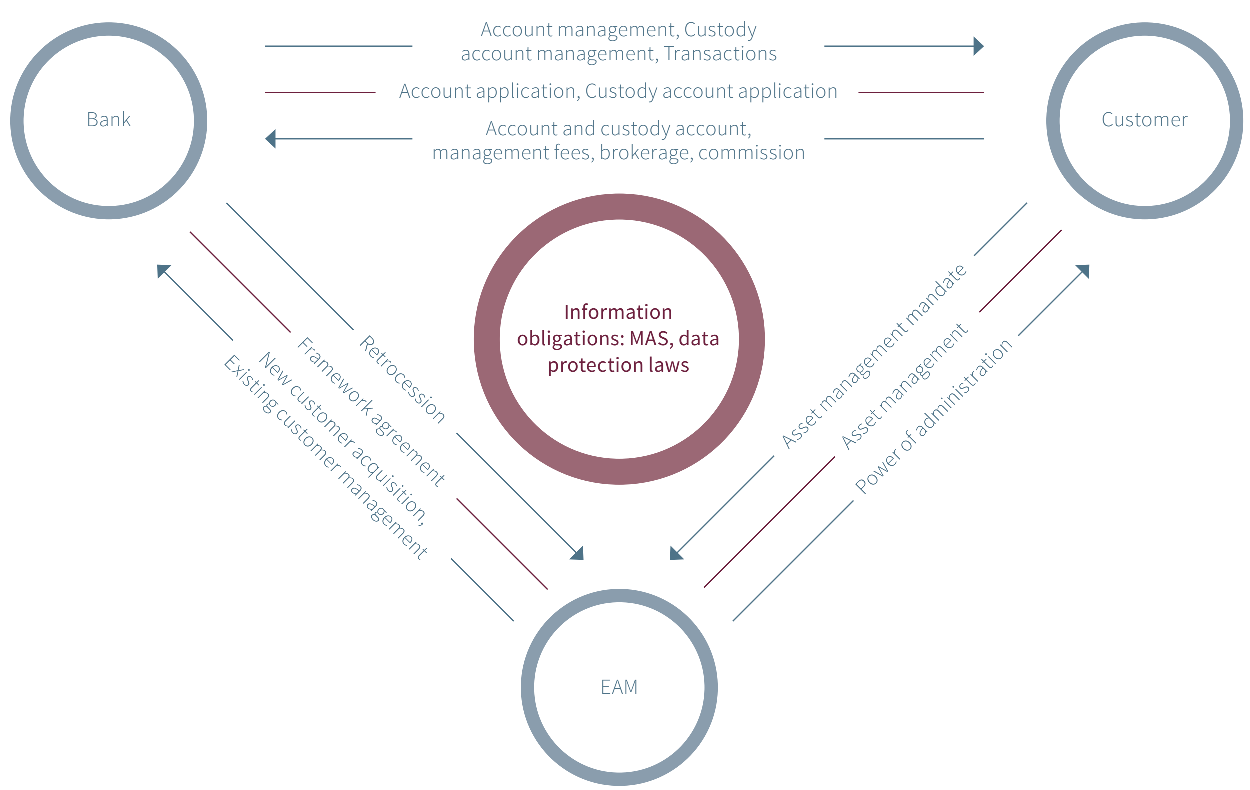
In the past, these requirements have often led to custodian banks offering EAMs customized services – right down to tailor made ad-hoc IT solutions. This meant that it was impossible to achieve economies of scale and to provide services that were cost effective and maintenance efficient.

Due to ongoing regulation and increased demands for uniform business behaviour, the administrative effort of EAMs will continue to grow. On the one hand, this will lead to a consolidation of the market, and on the other, it will influence the business model of custodian banks. If we consider the increase in customer documentation requirements (know your customer) for example, custodian banks will have to meet various new standards in the areas of data storage and transaction handling in the future.

4.2 Comparison of EAM Service Offering

Many market players still look at the development of the EAM sector in Switzerland as an indication of what the future might hold in Singapore and Hong Kong. In the study by Synpulse half of the analysed custodian banks are Swiss banks by origin and all of them are leveraging on experience, as well as infrastructure from the head office. Hence, their EAM platforms are still advanced in comparison to regional banks.

The study further shows that there are extensive differences in the EAM service offering depending on the size of their EAM business, which varies from SGD 300 million to SGD 4 billion (analysed banks considered only). Not surprisingly, banks in which the EAM business is a significant source of earnings received higher marks in their offering. Their EAM desk can rely on a fully dedicated team with a staff strength of around 10 people. In comparison, banks that are quite new in the EAM business have one or two staff only, who are not even fully dedicated to support the EAMs. Only the bigger market players provide an EAM portal and only one out of them provides a complete online trading facility to their EAMs.



Source: Synpuse

4.3 Approach to define the right EAM Operating Model

Comparing the EAM service offering in Asia shows that many banks have a considerable amount of catching up to do particularly in regards to modern and functional EAM IT platforms. Moreover, efficiency in regards to infrastructure and processes is also a clear opportunity for differentiation. Those who manage to sustainably support the needs of the EAM's Asian clients have a competitive advantage. In contrast to European customers, prompt execution – naturally under consideration of care and diligence – gives clear advantages in positioning.

Providing a variety of reporting tools for a holistic view of individual customers and the entire customer base is no longer enough. Today, a prerequisite for EAMs is the availability of numerous transaction types which they can initiate themselves. Extensive links to major stock exchanges and broker networks are also now considered part of the package. A «read-only» tool with no transactional input options is no longer sufficient. Real-time online platforms with consolidation and ad-hoc reporting features, including transaction initiation, are now in demand. Solutions which are integrated into the core banking system are necessary. They should allow a quick response to market trends, provide EAMs with the latest range of products and system features, but also guarantee best possible processing efficiency and process integrity.

Increasingly important is a consolidation of the customer base via various custodian banks which provides a holistic view of all customer and market risks. Solutions are needed which, although standardized, offer a high level of reporting flexibility as well as data extraction and integration. EAMs are focusing on fewer, larger clients of the UHNW segment, as well as wealthy families. This requires specifically in Asia access to capital markets products and to financing, but also to differentiating and complex products. Asian clients are more trading-oriented and a wider product range is important, particularly in relation to structured products.

Due to increasing regulation, the need for EAM advisory services will continue to grow. Because of their size, some EAMs find it difficult to achieve comprehensive coverage of all compliance, legal and operational risk aspects. In such cases, custodian banks which already cover these areas for their customers could also provide their advisory know-how to EAMs as a differentiating feature. This applies not only to end customer documentation requirements, but also to various advisory services, such as cross-border business. Here custodian banks have already developed the relevant guidelines for dealings with their customers.

In summary, custodian banks have to provide a wide range of services including administrative support and tailor-made advice to EAMs through an integrated service model. An EAM desk head in Singapore commented, «Regulatory constraints drive differentiated service models, which relies on larger and more sophisticated custodians. This makes it more difficult for smaller or boutique banks to stand out as custodians.» According to the Synpulse study, most custodian banks in Asia largely expand their EAM offering and they are investing in their IT infrastructure.

5. Singapore Asset Management Industry Outlook

Even with mounting challenges worldwide, Asia, in particular Hong Kong and Singapore are expected to continue their roles as regional and global financial/asset management hubs; evidence of growth plans from organizations interviewed as well as supporting statements from industry bodies strongly back this sentiment up.

The expansion of asset managers from Western financial markets to Asia Pacific is driven by the following key factors:

- Stricter regulations, thereby making it more burdensome and costly to do business.
- The ease of doing business in Hong Kong and Singapore due to the business environment established by these countries and the low-tax regimes in place.
- The lure of Asia's immense market size (population in Asia constitutes over 60% of the world population with 4.1 billion people) and future growth prospects.

While other asset management clusters in Asia such as Hong Kong, Beijing, Tokyo and Seoul are expected to grow from this migration of talent and capital from the West, it is also expected that these financial centers will continue to focus and service the more insular markets in North Asia, somewhat hampering their international growth prospects.

There is also debate whether Hong Kong and Singapore will compete unnecessarily against each other in the race to be the top financial centre in Asia. The two countries have co-existed harmoniously in the financial services environment as each country has different geographic focuses as well as individual value propositions to serve the different needs of international investors. The argument is that there is room for both to be successful in their own areas of specialism.

The prospects of Singapore, however, seem bright. According to PwC, it is poised to become the second-largest asset management cluster by 2017, second in size only to New York. Extrapolating growth rates, PwC predicts that New York, Singapore, London and Boston, in that order, will form the top asset management clusters in the world by 2040. While all clusters mentioned are expected to grow substantially from 2010 to 2040, Singapore is predicted to witness the most accelerated growth during this period.

The WealthInsight report, which reviews the performance and asset allocations of HNWIs and ultra-high net worth (UHNWIs) in Singapore, reveals that HNWI wealth will grow by 28.8% in the next four years. Singaporean investors thereby do not seem to hold a home bias in their portfolio allocations, according to the report. In 2013, Singaporean HNWIs held 32.9% of their wealth outside their home country, with Europe accounting for 36.1% of these foreign assets, followed by Asia Pacific (26.7%), North America (25.4%), Latin America (7.1%), the Middle East (2.6%) and Africa (2.2%).The increased competitiveness and professionalism of the industry in Singapore is seen to support thoughts of growth, with companies incentivized to consider new distribution channels in order to generate new investments. Singapore continues to position itself in order to become Asia's private banking hub with many predicting that it's just a matter of time before it will overtake Switzerland as leading global offshore centre. All these factors point to a bright future for the asset management industry in Singapore as long as it continues to innovate and grow.

6. Conclusion

The Singapore asset management industry and external asset management industries are increasingly attractive to firms finding the economic conditions in Europe and the US challenging. While the industries have grown rapidly in the past decade, there should be clear recognition that they are still in a relatively early stage of development; segments in the industry such as EAMs are even more nascent, having established their presence mostly in the last eight years.

While there should be a period of consolidation in Singapore, sensible segmentation and robust, healthy, professionally-run asset management companies can only be good for the industry.

In this respect, MAS should be lauded for sticking to its «steady as she goes» guiding principle for the development of the asset management industry in Singapore – to steer as needed to continue the current heading.

At a time when the whole industry is still regaining the trust and respect of investors, all companies will not only have to seriously re-look their business models, but also to comply with new regulations as efficiently as possible. To seize the moment, custodian banks should be encouraged to invest into their operating models to leverage their EAM business. Those who manage to build up an integrated service model through a well-organized EAM desk and a modern EAM IT platform will become true market leaders.

7. Appendix

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7.2 Synpulse

Synpulse is an established, globally active management consulting company and a valued partner to renowned international financial services companies. Since its formation in 1996, Synpulse has offered its clients excellent solutions, enabling them to generate high added value. We support our clients in the whole process from working out strategies and realizing them operationally through to technical implementation.

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