Wealth management as a strategic priority

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From asset management to wealth management

The policy of the 2000s grew out of an earlier decision to develop fund management. In November 1998, in the middle of the Asian financial crisis examined in Chapter III of this part, the government announced that MAS would place S$10 billion with private fund managers over three years. The minister who made the announcement described the aim as "a bold but realisable vision of becoming a premier asset management centre in Asia".[1] The Government of Singapore Investment Corporation (GIC) had already granted external mandates worth S$6.5 billion between January and September 1998, following the announcement in February 1998 that it would place an additional S$25 billion with outside managers. The state thus used its own reserves, whose institutions Chapter I of this part examines, to seed a private industry.

At the end of 1998 the funds managed in Singapore amounted to S$150.6 billion. Discretionary funds accounted for S$111.9 billion of that total, while the number of fund management professionals had risen to 822.[2] These figures were modest by the standards of London or Zurich. They were also dominated by institutional money.

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Private banking, which manages the assets of wealthy individuals and families, was present through the Singapore branches of international banks, but it was not yet measured as a separate industry in the official surveys.

The move from asset management to wealth management came with the reports of the Economic Review Committee, set up by Prime Minister Goh Chok Tong to review the strategy of the economy. Its working group on financial services published its recommendations in September 2002 under the title *Positioning Singapore as a Pre-Eminent Financial Centre for Asia*.[3] Contemporary reports described the document as a set of recommendations for bolstering Singapore's role as a global wealth management centre, with a shift of emphasis from traditional banking and foreign exchange towards fund management, custody and risk management.[4]

The Wealth Management Institute and the policy statement of 2003

The clearest statement of the new priority came on 26 September 2003. Speaking at the Singapore Investment Forum as Deputy Prime Minister and Chairman of MAS, Lee Hsien Loong launched the Wealth Management Institute and told his audience: "We can be a global centre for wealth management activities." He presented Singapore as a safe and secure place for such activities and announced that MAS would "spare no effort" to make a wide range of wealth management products and services available.[5] In the same speech he stated that the government was modernising trust law, preparing a framework to regulate trust companies and exempting interest income and many types of foreign-sourced income from tax.

The Wealth Management Institute was established by GIC and Temasek.[6] Its creation reflected a characteristic feature of Singapore's method. A Swiss or British financial centre would leave the training of private bankers to the banks and their associations. Singapore treated the supply of qualified people as a public task, because the shortage of experienced relationship managers was one of the main obstacles to growth. By 2011 more than 1,500 wealth management professionals had been trained under the industry's competency framework.

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Tax measures

Tax policy supported the strategy throughout the decade. The exemption of foreign-sourced income received by individuals meant that a wealthy person resident in Singapore was not taxed on the income of assets held abroad. Approved trustee companies benefited from a concessionary tax rate for trustee and custodian services, while income of foreign trusts administered by an approved trustee company was exempt, as was income received through eligible investment holding companies. The Budget of 2005 extended the exemption to the foreign accounts of charitable purpose trusts.[7]

The most visible measure came in the Budget statement of 15 February 2008. The Minister for Finance, Tharman Shanmugaratnam, abolished estate duty with effect from that day. The duty dated from the colonial period. The minister justified its removal by the aim of making Singapore an attractive place for wealth to be invested and built up.[8] The same Budget introduced a tax exemption for qualifying family-owned investment holding companies from 1 April 2008 to 31 March 2013, covering both local and foreign investment income. The incentive anticipated the family office regimes that Chapter III of Part E examines.

Taken together, these measures gave Singapore a tax profile that suited internationally mobile wealth. There was no tax on capital gains, no estate duty after 2008 and no tax on most foreign income of resident individuals. Critics later argued that this profile, combined with banking secrecy and the availability of corporate and trust vehicles, also suited clients who wished to avoid taxes elsewhere.[9] The government's answer was that tax competition was legitimate and that the legal framework did not shelter crime, a position examined in the next section.

The logic of a state-led strategy

The strategy rested on a calculation that deserves to be stated plainly. Singapore had no natural resources and a small domestic market. Its earlier growth had come from manufacturing, shipping and the regional activities of multinational companies, all of which faced rising competition from China and from its neighbours. Wealth

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management promised high value added per employee, little demand for land and a client base that grew with the prosperity of Asia. It also fitted the existing strengths of the city: political stability, a currency managed with conservative discipline, English as the working language and a legal system derived from English law.

The method was equally characteristic. The state acted as investor, legislator, regulator and promoter at the same time. Public institutions placed mandates with private managers, financed the training of their staff and rewrote the laws under which they worked. The regulator was charged with promoting the industry it supervised, a dual mandate that Chapter I of Part E examines in its current form. Critics saw in this concentration of roles a risk of regulatory capture. Its defenders pointed to the speed with which decisions could be taken and to the coherence of a strategy that a single executive could plan and carry out over a decade.

Growth in figures

The results of the strategy were visible in the annual surveys of MAS. Assets managed in Singapore grew from S$465 billion at the end of 2003 to S$573 billion in 2004, S$720 billion in 2005 and S$891 billion in 2006. At the end of 2007 they reached S$1.173 trillion, about US$814 billion, after growth of 32 % in a single year. That year marked the seventh consecutive year of double-digit growth.[10] About 86 % of the assets were sourced from outside Singapore, with the Asia-Pacific region providing 44 % of the funds. The number of investment professionals rose to 2,185. The surveys changed their scope over the decade. The 1998 survey counted the funds under management of 159 institutions and their fund management professionals, while the later surveys measured total assets under management, including advisory assets, and a wider category of investment professionals. The series is therefore only broadly comparable.[11]

These totals include institutional mandates, hedge funds and the advisory assets of private banks. Private banking assets as such were estimated by industry observers. One estimate, quoted in 2010, put the growth of private banking assets in Singapore

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between 2000 and 2008 at sixfold, to US$300 billion.[12] The figure cannot be checked against an official series. It nevertheless matches the order of magnitude of the MAS surveys and the testimony of the banks themselves.

A further indicator was the growth of the wealthy population. MAS cited in 2005 a report by Merrill Lynch and Capgemini according to which Singapore recorded the fastest growth in the number of high net worth individuals in the world, at 22.4 % between 2003 and 2004.[13] Domestic wealth and the wealth of the region were rising together. Singapore's strategy aimed to capture both.

Notes

1. MAS, media release, "MAS to place out S$10bn to private sector fund managers as part of drive to develop Singapore's financial sector", 13 November 1998 (speech of Minister Lim Hng Kiang at the 25th anniversary dinner of ACI Singapore): placement of S$10 billion over three years with qualifying fund managers; aim of "becoming a premier asset management centre in Asia". MAS, media release of 13 November 1998, cited above: GIC mandates of S$6.5 billion granted between January and September 1998 under the plan, announced in February 1998 by Deputy Prime Minister Lee Hsien Loong, to place an additional S$25 billion externally. ↩
2. MAS, *1998 Survey of Fund Management Activities in Singapore*: total funds under management of S$150.6 billion at end-1998, of which S$111.9 billion discretionary and S$38.7 billion non-discretionary; 822 fund management professionals; decline of 9.8 % in discretionary funds as a result of the Asian financial turmoil. ↩
3. Nelson Goh, "Banking Secrecy in Singapore and Its Impact on Pre-Action Asset Tracing", Centre for Banking & Finance Law, National University of Singapore, Working Paper CBFL-WP-NG03, 29 December 2016, footnote 2: Economic Review Committee, Sub-Committee on Services Industries, Financial Services Working Group, Ministry of Trade and Industry, *Positioning Singapore as a Pre-Eminent Financial Centre for Asia* (September 2002). ↩

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4. Jame DiBiasio, "Singapore outlines wealth management vision", *FinanceAsia*, 18 September 2002 (opening paragraph): the Economic Review Committee "has just released its recommendations for bolstering Singapore's role as a global wealth management centre". ↩

5. MAS, "Speech by DPM Lee Hsien Loong at the Singapore Investment Forum", 26 September 2003, paras 1, 5, 17, 19 and 29: launch of the Wealth Management Institute; "We can be a global centre for wealth management activities"; Singapore as "a safe and secure place to conduct wealth management activities"; MAS "will spare no effort to ensure that a wide range of wealth management products and services are available in Singapore"; WMI as a building block for a "hub for wealth management in Asia". Speech of 26 September 2003, cited above, para 19: "We are in the process of modernising our trust law and working out a framework to regulate trust companies"; "we are exempting from tax interest income as well as many types of foreign-sourced income". Para 18: "Most of the top private banks and fund management institutions have operations in Singapore." ↩

6. Ravi Menon, Managing Director of MAS, keynote speech "A competent, trusted and clean financial centre" at the WMI Connection, 28 October 2011 (reproduced by Mondo Visione): "the Wealth Management Institute, set up by GIC and Temasek in 2003"; "more than 1,500 wealth management professionals have been trained to-date" under the competency framework. ↩

7. MAS, speech at the Trusts in Asia Pacific Conference of the Society of Trust and Estate Practitioners (STEP), 26 October 2005 (Andrew Khoo): exemption of foreign-sourced income for individuals; concessionary tax rate for approved trustee companies; exemption of income of foreign trusts administered by an approved trustee company and of eligible investment holding companies; Budget 2005 exemption for foreign accounts of charitable purpose trusts. ↩

8. "Singapore Budget Includes Wealth Management Incentives", *Family Wealth Report*, 18 February 2008: abolition of estate duty effective 15 February 2008, announced in the Budget statement by Finance Minister Tharman Shanmugaratnam; the duty dated from the British colonial period; the

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minister's rationale of making "Singapore an attractive place for wealth to be invested and built up". *Family Wealth Report*, 18 February 2008, cited above: exemption for qualifying family-owned investment holding companies from 1 April 2008 to 31 March 2013, covering locally sourced and foreign-sourced investment income. ↩

9. "Swiss private banking shifts East", *Business Times* (Singapore), 24 September 2010 (reprinted from *The New York Times*): Richard Murphy of the Tax Justice Network pointed to the absence of taxes on capital gains and most foreign dividends and to the possibility of opening accounts "in the guise of corporations, trusts and limited liability companies". ↩
10. MAS, *2007 Singapore Asset Management Industry Survey*, July 2008, para 1.1 and chart 1: total AUM of S$1.173 trillion (about US$814 billion) at end-2007, up 32 % from S$891 billion at end-2006; series of S$344 billion (2002), S$465 billion (2003), S$573 billion (2004), S$720 billion (2005); seventh consecutive year of double-digit growth. MAS, *2007 Singapore Asset Management Industry Survey*, cited above, paras 2.1 and 5.1: about 86 % of total AUM sourced from outside Singapore; Asia-Pacific 44 % of funds sourced; 2,185 investment professionals in 2007. ↩
11. MAS, *1998 Survey of Fund Management Activities in Singapore*, cited above: survey of 159 financial institutions, discretionary and non-discretionary funds, fund management professionals; MAS, *2007 Singapore Asset Management Industry Survey*, cited above, para 1.1 and chart 1 (total AUM, discretionary and advisory) and para 5.1 (investment professionals). ↩
12. *Business Times*, 24 September 2010, cited above: "Singapore's private banking assets grew sixfold, to US$300 billion, from 2000 to 2008, according to the Calamander Group"; about US$500 billion in private banking assets in Singapore and US$200 billion in Hong Kong according to the Boston Consulting Group. ↩
13. MAS, speech at the STEP Trusts in Asia Pacific Conference, 26 October 2005, cited above: Singapore recorded the fastest growth in high net worth individuals worldwide, 22.4 % for 2003–2004, according to the 2005 Merrill

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Lynch–Capgemini report; assets under management of S$572.6 billion, more than 70 % sourced from overseas. ↩

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