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Headlines: Wealth Management shifting to the East


# Wealth management shifting to the East

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Wealthy Asians – defined as individuals having a net worth of more than US$1 million – saw an increase in their assets to US$5.7 trillion last year. During the same period, wealthy investors in the United States and Europe saw their investment holdings drop in value.

"Many Asian countries have experienced good economic growth despite the difficult environment in recent years," says Francis Koh, associate professor of finance at Singapore Management University. "The general view is that the Asian economies will continue to possess good fundamentals and growth recovery will continue, barring any major upheavals."

As stock markets around the world show signs of an upswing, the trend is expected to continue. "This means more wealth will be generated domestically and within the region, thus providing the impetus for future development of the wealth management industry in Asia," Dr Koh says.

According to this year's Merrill Lynch/Cap Gemini Ernst & Young World Wealth Report, an estimated 1.8 million people in the Asia-Pacific region are considered wealthy, against 2.6 million in Europe, and 2.2 million in North America. The figures are expected to grow.

"A total of 7.3 million wealthy individuals worldwide [hold] total assets valued at US$27 trillion," Dr Koh says, adding that Asia's share of global wealth is estimated at about 20 per cent. Merrill Lynch predicts that the holdings of wealthy individuals will increase by an annual average of 7 per cent to US$38 trillion by 2007. "According to this estimate, Asia's high net worth individuals will hold about US$8 trillion worth of financial assets in 2007."

Dr Koh is noticing a shift in investor behaviour. "High-net-worth individuals have reduced their exposure to equities during the bear market of 2002 and increased their holdings of cash, fixed income, and alternative investments," he says. "These generally include hedge funds and real-estate investment trusts (REITs)."

A return to equities is expected. "In the coming months, we are likely to see increased asset allocations to equities, especially in Asia, as stock markets around the world continue to recover in strength and the US market maintains its current strength," Dr Koh says.

A Swiss bank account has long been seen one of the world's ultimate status symbols. Nearly one-third of the world's private wealth is held through Swiss banks, the Swiss Bankers Association estimates. Along with gold bullion, Switzerland and the Swiss franc have long been considered a "safe haven" during times of crisis and uncertainty by well-heeled and prudent investors around the globe.

"To many Asians, Switzerland was [seen as] a politically neutral, tax-efficient, and trustworthy financial centre," Dr Koh says.

The situation started to change in the 1960s with the emergence of other offshore financial centres such as Luxembourg, London, New York, the Channel Islands, Singapore, and Hong Kong. The latter two are now thought to manage about one-fifth of the total amount of cross-border assets worldwide.

"The centre of gravity in wealth management is shifting from the western to the eastern hemisphere," Dr Koh says. "Wealth management is a growing industry in Asia – particularly in Singapore and Hong Kong."

Owing to external pressure, banking laws in Switzerland are changing. "In recent years, the G8 countries have exerted pressure on Switzerland for more disclosure of account information," Dr Koh says. "In June 2003, Switzerland agreed to repatriate income taxes on accounts held by citizens of the European Union, starting in 2005. The tax rate kicks off at 15 per cent, but rises to 35 per cent by 2011."

In light of these developments, it is likely that the wealthy may decide to place their wealth away from Switzerland and the other European centres."

Europe's loss could easily be Asia's gain. "Taxation in Singapore and Hong Kong is very competitive internationally," Dr Koh says. "This favours domestic as well as offshore investors. Coupled with strong global investment advisory services and expertise, off-shore investors (in general) and Asian investors (in particular) will be motivated to consider placing their funds through Asian centres of wealth management."

Dr Koh believes that high-asset Asian investors no longer need to cross oceans when high-quality wealth management services are available right here. "We have the expertise in Asia to manage wealth on a global basis," he says. "Both Singapore and Hong Kong have a critical mass of professional wealth managers who can provide the whole value chain of wealth management services, from asset management, to the distribution of products and services and the provision of financial advice."