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Private banking in a sweet spot

Singapore is now in a unique position to strengthen and grow its private banking industry

By KAREN BOWMAN

SEISMIC shifts in the global economy have changed the face of financial institutions across the world, and private banking is no exception. Traditional private banking strongholds, such as Switzerland, are increasingly facing competition from other jurisdictions. Now may prove to be a good time for Singapore to solidify its presence on the private banking world stage.

Singapore has shown impressive growth in the private banking industry over the past decade, ballooning from 20 private banks in 2000 to 42 in 2009. Private banking assets have also grown accordingly, from $50 billion in 2000 to $300 billion today. Singapore is now the second largest private banking centre internationally, holding 6 per cent of global private banking assets, behind Switzerland, which holds an 18 per cent share, according to a 2008 report, Singapore: The New Switzerland, by Barrons. However, Euromoney indicated that same year that, while Switzerland can only strive for single digit growth in the industry during 2009, Singapore is projected to grow its private banking sector by 26 per cent.

Singapore (as well as Switzerland), is currently included in the Organisation for Economic Cooperation and Development's (OECD) 'grey list' as a jurisdiction that has committed to the OECD's exchange of tax information standard but has not yet substantially implemented the standard.

Government officials recognise that graduating to the OECD's 'white list' and being labelled a jurisdiction that has substantially implemented the OECD's standard will be critical to enhancing Singapore's position as a major international private banking centre.

In a speech to Parliament on 29 May, 2009, Second Finance Minister Lim Hwee Hua stated that the government is working to move Singapore to the OECD white list. She went on to emphasise that this is 'in line with Singapore's status and reputation as a trusted and responsible financial hub', as 'Singapore does not and will not stand for the abuse of its laws to shelter financial criminals'.

Proposed changes

On 30 June, 2009, the government released proposed amendments to the Income Tax Act that will allow Singapore to enter into Avoidance of Double Taxation Agreements (DTAs) with other countries. This supports the internationally agreed standards on the exchange of information (EOI) for tax purposes.

The proposed changes will help with the level of assistance that Singapore can provide to foreign jurisdictions under DTA's.

Sum Yee Loong, a tax partner at Deloitte Singapore, feels that if these amendments are enacted, Singapore will soon find itself on the white list.

This commitment to ensure Singapore retains its reputation as a trusted financial hub will be critical to private banking's long-term success in the country.

The recent moves by the G20 and the OECD to tackle, through the exchange of tax information between countries, the perceived use of so-called offshore tax haven jurisdictions for tax evasion purposes, should lead to a more level playing field globally. Singapore can only benefit from this, with a well-regulated and efficient business environment and a strong rule of law, as well as a competitive but transparent tax regime.

Singapore's many advantages should help counter a growing lack of investor trust for private banking. A recent Deloitte survey found that 69 per cent of Swiss private bank clients do not trust their wealth manager. Strategically, Singapore's reputation for transparency and stability may be paired with low pricing as an incentive to move accounts from markets such as Switzerland to Singapore.

Though Singapore has set a solid foundation for its private banking sector, there are challenges that will have to be overcome to ensure success. Building a dominant brand takes time, commitment, and significant investment. Migrating clients will require an extremely high standard of customer service with assurance of in-depth expertise.

Time differences make attention to communication particularly important, and a variety of methods need to be analysed to determine how best to achieve seamless interaction with clients.

At a recent executive briefing focused on private banking, Deloitte's Asia-Pacific Head for the Global Financial Services Industry, Dr Philip Goeth, noted that there are several critical success factors that will help lead to Singapore's growth in private banking. These include brand development, trust building, high quality client service, a proven track record in wealth management, and seamless, scalable operations.

Volatile markets render even more important the need for a clear framework and process in managing risk for private banking.

Sound, cutting-edge processes for identification, valuation, control and monitoring of risks help organisations anticipate risks in uncertain markets and lead directly to improved financial performance. Risk models need to be implemented and tested on a regular basis to ensure that they work as intended.

Staying vigilant

Banks must remain vigilant and up-to-date on exposures regarding international sanctions. In addition to protecting reputation, a strategic approach to meet regulatory conditions in the current economic environment can create a competitive advantage with higher returns for the medium term. Perhaps the most significant strategic differentiator, in particular for Asian clients, that Singapore must strive for, is operational excellence.

A bank should work to understand clients' perceptions of its potential and brand. Clients need to be assured of expert investment advice, bank reputation, and comprehensive systems to protect assets. Best-in-class data privacy and protection is essential in allaying fears and growing the market.

Deloitte South-east Asia's Privacy and Security Head, Joshua Chua, emphasises that data leakage protection and detection needs to be embedded upfront into systems. Singapore has already taken steps in this direction, with many banks moving data centres handling private banking transactions from India back to Singapore.

This is a strategy that can be capitalised on in advertising Singapore's strength in the industry,as banks in other regions have moved their back office functions to India.

Though the new financial landscape continues to shift, some of its features are becoming clear. Private banking clients are increasingly concerned about risk exposure and reducing risk, which will lead to increased demand for simplified, transparent financial products. Investors seek institutions with strong capital positions.

This puts pressure on banks to ensure the utmost operational efficiency. Assurance and protection are the new catch phrases. New market drivers, such as customer excellence, come to the fore. With its strong business reputation, government support, and strategic location, Singapore stands in a unique position to strengthen and grow its private banking industry.

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