

# THE BUSINESS TIMES

PUBLISHED FEBRUARY 14, 2014

EDITORIAL

## More changes ahead in the wealth business

SINGAPORE's wealth management industry is making its mark globally; a number of studies predict it could overtake European centres as an offshore hub in the near future. It has quite a few features in its favour: strong regulation, well capitalised banks and a well established legal framework. Its central location in Asia where wealth creation is expected to be prodigious also helps. Yet, success cannot be taken for granted. Already the industry has seen a number of exits and mergers and acquisitions, which are disruptive to some degree for clients. In 2009, ING sold its Asian private bank business to OCBC, which resulted in the creation of the Bank of Singapore. In 2012, Bank of America sold its Asian and European private bank business to Bank Julius Baer. Now, Societe Generale is divesting its Asian wealth management business.

More consolidation may be on the cards, particularly as the industry's dynamics appear to favour larger banks with economies of scale. Smaller banks should take stock. High business costs such as rentals are fairly easy to anticipate, and so is the cost of talent. One big additional challenge is regulation and compliance, where costs are expected to rise. But perhaps a far larger challenge is the scramble for client assets in a wealth market that may well be overbanked. The asset threshold at which a bank achieves critical mass is said to be US\$20 billion. Wealthy individuals are likely to have as many as three to five banks. If so, they are unlikely to shift assets along with every job change that their relationship manager may secure. Some banks say that they have veered away from the practice of hiring based on the book of clients an adviser promises to bring in. This is a good trend and should inject rationality in a market where manpower accounts for a disproportionate share of costs.

The Boston Consulting Group notes in its 2013 global wealth report that Asia-Pacific banks' performance have shown "significant improvement" in terms of return on assets and cost-to-income ratios. Still, pre-tax profit margins are among the lowest globally at 20 per cent. The way forward is to eke out more efficiencies, a tall order when regulation is increasing and clients' preference is for simplicity and transparency.

Banks will have to review their business projections and segment their client base carefully. Ultra wealthy clients are desirable, but margins in that segment are thin. Clients in the lower wealth bands are likely to have less complex needs, and are more likely to go for managed products that offer regular income streams. Banks will also need to prepare for a time when product commissions may cease to be feasible, either due to regulation or client preference. A new business model based on advisory fees should be considered. New sources of revenue are also possible from independent asset managers and family offices which will need to tap bank platforms for transactions. As for staff costs, judicious hiring is key, as are efforts to retain existing staff. Growth prospects are bright for wealth managers, but more so for those who can deliver stability and continuity.

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**Document ID:**

956363

**Author ID:**

GEN

**Source:**

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**Definition type:**

STORY

