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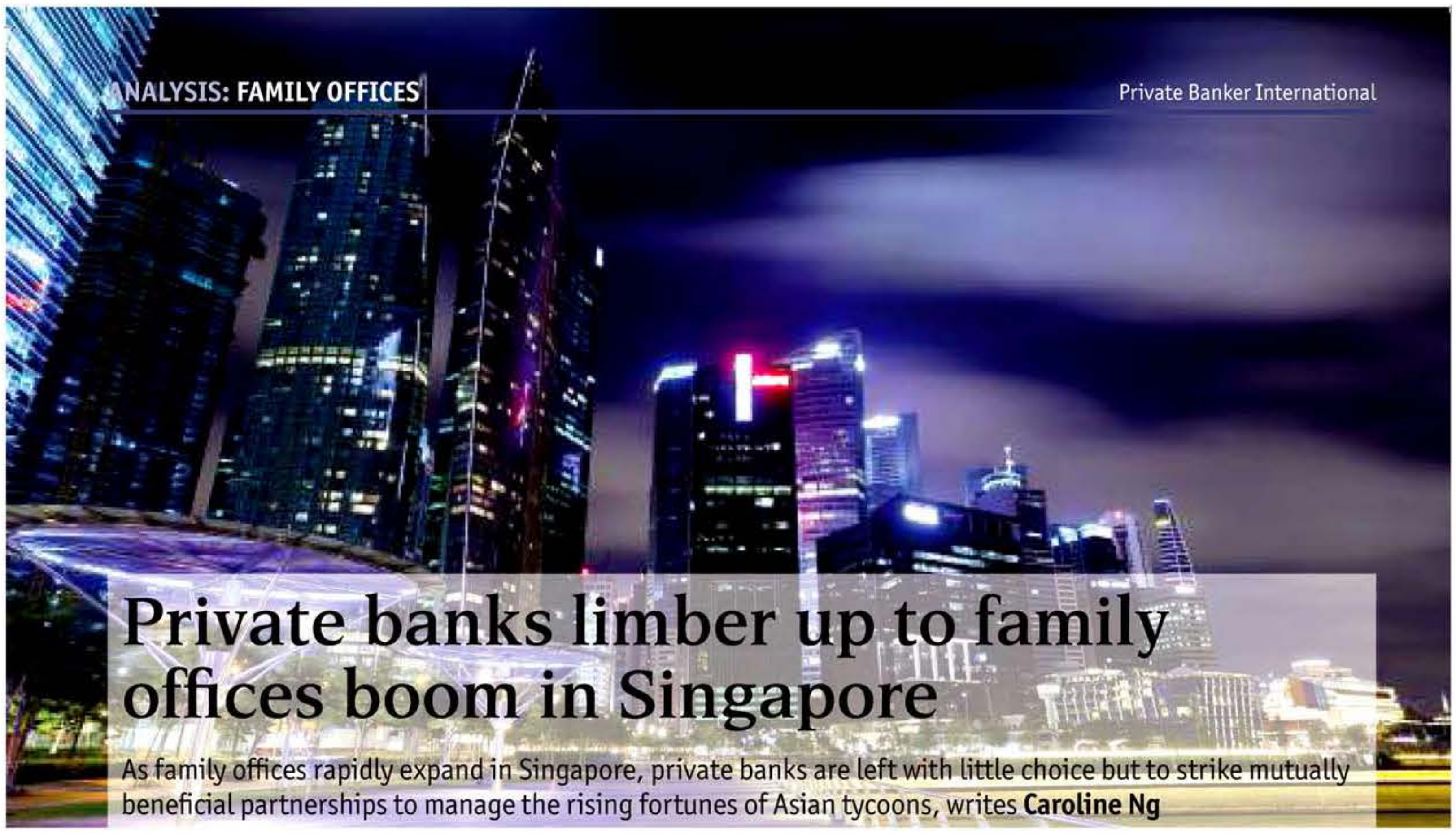

# Private banks limber up to family offices boom in Singapore

**As family offices rapidly expand in Singapore, private banks are left with little choice but to strike mutually beneficial partnerships to manage the rising fortunes of Asian tycoons, writes Caroline Ng**

The Chinese have an old proverb, 'fu bu guo san dai,' or 'wealth never survives three generations' and Asia's rising generations are finding ways to avoid the historic curse.

The concept of family offices created in 19th century America and Europe is only starting to gain traction two centuries later in Asia as the region benefits from tremendous growth rates in recent years.

With more than 80% of Asian businesses family-owned and around of 80% of wealth in the region estimated to be passed on to the next generation over the next 15 years, the competition among wealth managers is heating up for a slice of business from the wealthiest clients.

"The liquid assets which private banks manage are actually a small part of their overall wealth as most are tied in the business. Families have got to the stage where they need more coordination and structured services," says Nisha Singh, senior lawyer for private clients at global law firm, Berwin Leighton Paisner.

According to research by Citigroup, the number of family offices is set to triple in Asia within the next decade. The potential is against the backdrop of the wealth of the region's 3.3 million high-net-worth-individuals expected to triple to $15.81trn by 2015, estimated by Swiss private bank Julius Baer.

## Signs of growth

Encouraging signs of growth are emerging in Singapore. A year ago, Singapore Management University launched Business Families Institute (BFI) backed by government to build an ecosystem buttressing the boom of family offices.

"Three years ago, there was a conscious attempt by the Monetary Authority of Singapore to have the right ecosystem of professionals, lawyers, private bankers (we already have such a nice catchment area) to support the family offices set-up," says Professor Annie Koh, academic director at BFI.

With the region's wealthiest at the cusp of wealth transference, the initiative underscores Singapore's commitment to prolong the longevity of family riches beyond generations. The move is also upping the ante of growth potential of family offices in Asia, which is still in its infancy despite notable growth of regional investable wealth.

The population with $1m in investable assets in Asia has grown 31% with their combined wealth expanding 27%, well above the world's average of the respective 14% and 9%, the latest report by Capgemini and Canada's RBC Wealth Management found.

Asia also expanded at the fastest pace for private wealth last year, rising 13.8% to $28tn, according to Boston Consulting Group Global Wealth Report 2013.

As an indication of the scale of potential for family offices in the coming years, Richard Straus, head of Citigroup Private Bank, expects the number of Asian family offices to rise to 1,500 by 2015.

"More $100m and $1bn wealthy families will be created in Asia in the next 10 years than anywhere else," says Richard Wilson, chief executive of Family Offices Group.

Currently, Asia is estimated to have only around 100-120 single family offices in contrast to some 2,000 in Europe and North America, according to research company Campden Wealth.

However, such figures are to be taken with a grain of salt as they are measured under Western standards and do not reflect Asian context, cautioned Bernard Fung, head of family offices at Credit Suisse Private Bank.

"The family offices that we work with will most likely not be in the survey but they have significant pool of capital," he says. "We are creating the family offices of tomorrow."

In fact, Credit Suisse's Singapore family office hub was established in December 2010 with this in mind: to help clients establish a family office as well as facilitating an open architecture for existing ones.

"The family office has to be run by a person they trust and we work with that person who has been tasked and identified to us," Fung says.

## Asian Next-Generation changing needs

The aftermath of the global financial crisis has eroded much trust in several large private banks as wealthy clients became wary of their sales culture.

"When the crisis came in 2008, banks suffered and were ranked very lowly in the area on whom to trust," says Professor Koh.

"Although trust levels remain low, they have improved. Many families do recognise the need for trusted advisers because they have certain expertise that adds value," she adds.

According to a recent joint report by Deloitte and BFI, trusted non-family advisors are growing in importance to facilitate leadership turnover. Successive generations are also more open-minded to accept non-family member management in the business. A sobering study by Capgemini revealed that about 30% of Asian family businesses survive into the second generation and only 10% into the third.

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As the new generation of the ultra-rich gets increasingly well-educated and worldly, the needs of family offices have also grown more complex. The next generation demands a more holistic international approach to meet their diverse needs such as tax compliance in different jurisdictions, philanthropy and lifestyle management. They also have the tendency to major in fields outside their traditional family business.

"They come back with new ideas and they might be the one who are saying to the family that we really need to be thinking about succession and family governance," says Singh.

Daniel Harel, head of UBS Global Family Office for Southeast Asia backs the sentiment: "This is where Asian clients find the need for proper structures for orderly control, management and transfer of wealth and businesses over multiple generations."

Apart for the growing desire for a sophisticated structure, Asian family offices are also purported to have a larger risk appetite compared to world averages.

"I find that in Singapore there is an expectation to see double digit returns by some family offices whereas most family offices elsewhere are happy with 6-9% returns overall in their portfolio," says Wilson.

"I do think it is partially a generational thing and partially due to the real estate valuations ramp up in Singapore but those expectations may have to come down over the next 20 years," he adds.

Harel agrees: "Asian clients are likely to look at their investments from the point of view of building up their wealth and are seeking higher returns (and risks)."

However, this may largely be the case for the newly affluent. Credit Suisse, for example, sees wealth preservation as a dominant concern for its clients as most are transiting from the second to the third generation.

### Pull and Push factors

As an economic engine for global growth, Asia's prospects are alluring to European and North American family offices in economic doldrums.

"They [non-Asian family offices] say in order to access to Asian opportunities, we need to be in Asia, we are no longer satisfied managing risk or returns simply through a Bloomberg terminal half-way across the world," says Fung.

Stricter regulations such as the Dodd-Frank Act and Securities Exchange Commission Family Office Rule in the United States together with the eurozone crisis has also pushed many family offices there to consider expanding into emerging markets.

Backed by a robust financial infrastructure, sound regulations and political stability, Singapore has emerged as an attractive base for the ultra-affluent.

Meanwhile, the private banking landscape in the city-state is also rapidly changing along with major consolidation. Societe Generale is in the process of selling its Asian arm, with DBS as the front runner to acquire the business. If successful, the deal could bridge significant geographic and segment gaps that benefit clients.

### A synergised ecosystem: Big and Boutique

With growing numbers of elite clients finding the alignment of interests by private bankers problematic, some large private banks have responded by ramping up dedicated family services tailored to their needs.

In 2010, Swiss banking giant UBS established a Global Family Office in the Singapore. Other major players include Credit Suisse, HSBC, Citi Private Bank and Singapore-based DBS Private Bank. The move underscores the long term commitment some private banks have in place for clients.

However, such move "is a trust call and only banks with very deep pockets can do this," says Professor Koh.

"Private banks must consider what exactly are the family needs right now and it may not lead to new money being given to you. So, there may be a pressure but those who do it right know it is beyond managing money," she adds.

Some of the main adjustments private banks have taken included using a different set of financial matrix for the family office unit.

"The unit and the management recognise that for the long term families that we work with, measuring something on a daily, weekly or monthly basis doesn't make sense at all," says Fung. "I'd rather get the big picture right."

The alliance of private banks with independent advisers of family offices helps to gel synergies that yield mutually beneficial results. For example, relationship managers could now better perform advisory work underpin by a deeper understanding of the family office's ecosystem of a family lawyer and accountant.

As custodians to execute trades coupled with the much needed lending capabilities, private banks will always exist to offer investment bank services and serve the backend of family offices. The facilitation of an open-architecture can also help family offices to conduct due diligence as well as investing directly in a private equity fund.

Fung believes an open architecture benefits clients as no provider can be an expert of everything and the platform offers the ability to work with the best class providers of funds, services and products. The view is echoed by Professor Koh: "They each have a role," reflecting a synergised ecosystem.

### Sharing the economic pie

As the global shift in wealth continues, private banks which are able to look beyond the traditional cantons of banking are set to benefit in times of featherbedding and excess.

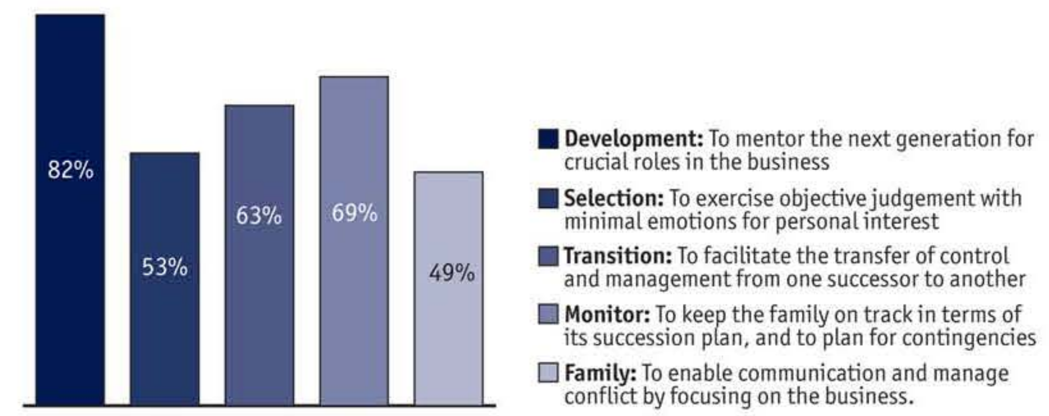
While boutique may retain a certain cachet of exclusivity in a close-knit family business, their collaboration with private banks could help boost the family legacy through sophisticated expertise, including accessing global deals in the debt and equity markets.

Against the backdrop of Asia's economic growth trajectory and scope for investment portfolio diversification, Singapore appears to be well placed for family offices to grow given the support of a robust government-backed ecosystem.

The Monetary Authority of Singapore says: "Family offices have cited our deep pool of fund management expertise (particularly in the area of Asian investments), the relative ease of setting up businesses and our cost-competitive environment as reasons why they have set up operations in Singapore."

**US PREMIUM**

**What are the benefits of including non-family advisors in a succession plan?**




Source: Deloitte/SMU 'Asian Business Family Succession', November 2013