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Headline: Asia plays catch-up in planning for the future

Asia plays catch-up in planning for the future

By Jeremy Grant

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Barely a week goes by without a new study showing the growth of wealth in Asia, and how the region is creating it faster than any other in the world.

One of the latest, by consultancy Capgemini and RBC Wealth Management, the Canadian bank, says that since 2007 the population with $1m in easily investable assets in Asia has grown by 31 per cent, with their combined wealth expanding by 27 per cent. That is well in excess of increases of 14 per cent and 9 per cent respectively for the rest of the world.

Although so much investable wealth exists in the region, the family office remains in its infancy. Campden Wealth, a research company, estimates that between 100 and 120 single family offices operate in Asia, with 75 per cent of them in Hong Kong and Singapore. That compares with an estimated 2,000 such companies in Europe and North America.

Many entrepreneurs still prefer to plough wealth back into their business, where they can get double-digit returns, rather than turn to a family office that might only generate single-digit growth. “Wealth creation in the region is still very much tied up with the family business and family offices have yet to capture the imagination of the region’s wealthiest families as they have done in Europe and North America,” a report from Campden Wealth and UBS noted.

Anuj Kagalwala, family office leader at PwC in Singapore says it can cost between $500,000 and $1m a year to run a family office with two to four staff.

“The people we meet say they have never had a family office and have grown their wealth from almost nothing to $1bn and, if they have done so well without a family office, it’s not an easy thing to convince them of it,” he says.

Evidence suggests the pace of adoption is picking up in Singapore, a state with one of the highest concentrations of wealthy people in the world. It is a hub for wealth management in southeast Asia, with Indonesians and Malaysians attracted by its political stability, sound common law legal system and strong financial regulation.

Anuj Khanna, chief executive for south Asia wealth management at Pictet, the Swiss private bank, says very large clients “noticed the weaknesses of the traditional private banking set-up in servicing their needs, including conflicts of interest for bankers driven by weekly revenue targets and investment banking products where the bank may have its own interests”.

Singapore has done much to attract family offices, offering tax and other incentives. “We are looking to Singapore as one of the top emerging hotbeds for family office activity,” says Richard Wilson, chief executive of Family Offices Group, a networking association based in Oregon. The number of hedge funds setting up shop to service family offices has increased. Mr Wilson cautions, however, that few hedge funds “have a clear strategy for targeting family offices and even fewer have a specific plan for raising capital from Singapore investors”.

One recent initiative may help. A year ago, Singapore Management University launched the Business Families Institute (BFI) to educate family-owned businesses in governance and management.

“Some of the bankers have asked us specifically how they can learn more about family offices and that’s something we have in mind to do,” says Clare Lee, BFI business development manager. Still, the UBS/Campden report finds that hedge fund investing by Asia’s wealthiest families fell by nearly half in the last year.

Wealthy investors have been shifting money out of capital markets and hedge funds and into direct investments such as property, which accounted for 16 per cent of allocations this year, compared with just under 9 per cent in 2012.

Kathryn Shih, chief executive of UBS wealth management in Asia-Pacific says it may take a generational shift for the family office to take off as it has in Europe and North America. “As the second and third generation assume roles of leadership within the family businesses, we are going to see the concept of family offices changing to focus more on planning for the future and putting strategies in place to ensure the continued success of long-lasting family legacies," she says.