

# Establishing an Independent Wealth Management Firm in Singapore - The Big Picture

The first of two detailed virtual discussions, undertaken in preparation for a guide to be created in partnership with Swissquote and the Association of Independent Asset Managers in Singapore (AIAM), took place on July 8, when the invitees – all leaders in their particular segments of the Asian wealth management industry – analysed a wide variety of topics surrounding the establishment of a new independent wealth management business in Singapore. Many key topics were covered, focusing on what the independent sector offers and what ‘magic ingredients’ are required to establish and then grow an independent model, right from original concept through to attaining the relevant licenses and beginning operations. The experts considered the capitalisation required, the time horizons for achieving revenues and profitability, how the independents can cope with the myriad of compliance requirements, what roles must be filled at the outset, and how the industry attracts talent, especially client-facing relationship managers to draw them away from their comfort zones at the established private banks. How do the independents navigate through to sustainable and predictable revenues in terms of advisory and discretionary mandates, rather than being subject to transactional flows? Should they offer open architecture and work through external digital/online platforms, and if so, for execution only, or also for custody? How do they handle the technologies required to be competitive, from the perspectives of internal efficiencies, for boosting RM and advisor capabilities and productivity, and to offer the end clients a pleasant, seamless user experience? These and many other topics were discussed in what was an illuminating and lively virtual gathering.

## The Key Findings & Observations

### You must adopt the right strategy and approach from the outset

Anybody wanting to establish a new IAM, EAM or multi-family office (MFO) must define their objectives, identify their key strengths and adopt meticulous planning, as regulations and requirements are now increasingly complex compared with some years ago, and competition is tougher, while costs are higher than before.

### Be truly independent

It might sound clichéd, but independence is the key to being an independent firm. Such firms are not beholden to any form of bank or custodian organisation, they are totally objective when offering products and solutions, and they place the client above anything else, free from the pressures of working for private banks.

### Complexity is ever on the rise

The world of regulation and compliance makes the lives of the founders and leaders of the IAMs and MFOs ever more complex, technology is increasingly vital to any business model, and there is no longer room for the talented amateur, as HNW and UHNW clients expect genuine expertise and experience from the firms they place their trust in.

### Be prepared to weather adversity early on

The founder(s) of any IAM need enough money in the coffers to ensure that the firm can survive for some time, as clients will not necessarily follow them, or at least if they do, they will likely not bring all their assets at stage one. Moreover, they need to be mentally resilient, and only take the leap into founding a new firm if they are truly entrepreneurial, and entirely confident they will be able to quickly attract clients.

### Become the trusted partner

The IAM offers complete client centricity. It is not enough to be simply a good advisor, or a smart investor for your clients. The IAM must live and breathe the ethos of client centricity, and to be those client's trusted advisor.

### Offer the clients a truly holistic perspective on wealth management

The true power and value of a high-quality, independent firm should be far more than as just investment advisors, but to become trusted advisors offering a proactive, holistic, integrated approach to wealth preservation and accumulation. The vision the IAM offers clients should there span the full 360 degrees, from investments to succession planning.

### Be transparent from the get-go

The IAM model is all about customisations, so be entirely transparent with the clients from day one, strike a fair agreement regarding fees, and be adaptable to ensure that the firm and the client are both fully aware of the arrangements, and satisfied that they represent an alignment of interests.

### Leverage resources, partnerships - do not try to be all things to all clients

No small independent firm can offer the exact solutions and the best advice throughout the client journey. Working with the right partners, adopting skills and solutions by outsourcing, and being utterly honest with the clients as to their capabilities.

**Investment advisory is core to the proposition, so adopt open architecture**

As the investment advisory piece of the EAM proposition is core to the model, whether it is self-directed but based on support or advice from the EAM, or whether it is fully discretionary and thereby managed by the EAM, it is essential to demonstrate that advice and product selection is based on open architecture and total objectivity, and in this way, the IAMs can achieve and maintain a constant alignment of interest between themselves and the client.

**Build a partnership ecosystem to achieve best-in-breed solutions and services**

No smaller independent firm can offer all the services and expertise in-house that wealthy clients expect these days. IAMs need to build an ecosystem of experts and quality in each field, including legal, accounting, auditing, compliance, investments, insurance, wealth and estate planning, technology, succession planning and so forth. HNWIs and UHNW families work with IAMs in order to obtain access to best-in-class solutions and advice, so the IAM must be trusted to filter all those elements for the clients.

**Make sure you understand the licensing process to succeed in the applications**

Any would-be IAM must obtain the necessary licenses to operate from the Monetary Authority of Singapore (MAS). You must know exactly what you are aiming to achieve and follow each step assiduously.

**Compliance is a vital matter to address**

With regards to compliance, an expert advised that the MAS is quite progressive, taking a very risk-based approach and understanding that the IAM will have limited resources. The IAM must be thoroughly diligent, maintains all the right records, and be transparent with the clients and regulator, and make all the filings on time. To do so, this can be handled in-house if the IAM reaches a certain scale or can be outsourced to experts.

**Get a COO type professional from the outset – the IAM's internal 'glue'**

The experts advised that from day one it is highly advisable to combine the client-facing banker-founder role with the professional manager COO type role, in order to ensure that what the clients and the regulators are promised is actually delivered to a high quality and on a timely basis. One expert called this the internal glue that holds each IAM together.

**AML is high on the regulatory priorities**

As to early compliance requirements, an expert noted that AML compliance is the vital first requirement of any new EAM. Get this right, and other compliance issues should flow fairly smoothly, but get it wrong, and the regulator will be keeping a close watch on events.

**RM/advisor talent – a tricky issue to get right**

The experts all agreed that attracting the right RM and advisory talent away from the private bank breeding grounds is remarkably tough. It is very often the case that the new hires will not quite work out as planned, so the IAMs must be realistic and patiently build towards the best possible ratio of successful hires to failed hires. But there is no secret ingredient here – it is a matter of luck as well as experience and judgement, and can often take several years to get right.

**Technology is a game-changer, so be on your game**

Getting the technology right is also vital in today's world and in the years ahead, and this has been further reinforced during the current pandemic. The new IAM must assess how and where it will invest in-house and outsourced technologies. This is not easy and much time, and money can be wasted, so make sure you know what you are aiming for before pressing the green buttons.

## Define your relationships with the banks and/or with the digital platforms

Any IAM must provide clients with seamless execution and custodian arrangements. To do so, they will need to work with the private banks, and they might also or alternatively choose to work with the digital, online platforms that today offer a wide universe of products, as well increasingly as custodian arrangements. The clients themselves might prefer the relative perceived safety of the private bank model, but that predilection is gradually changing as the platforms become better known and more established in Asia.

## Striving towards truly open architecture

A speaker highlighted how the private banks say they offer open architecture, but all too often do not. The IAM must assess what the banks actually offer and truly deliver, compared with what the platforms provide and the relative costs thereof.

## The road ahead starts with one simple step

In the old adage, the journey begins with a single step, so too for IAMs wanting to open shop and become successful. It is not an industry that requires anyone to be a rocket scientist, but it is an industry that requires great attention to detail, a clear understanding of your unique skills and advantages, total client centricity, and dogged, determined patience. Anyone thinking that this is an easy business to complete in is fooling themselves. But for those that get it right, a quality of business life and appealing financial rewards await.

## Finally, don't put all your eggs in the same basket

A final perspective came from an expert who warned against relying on that one big client who has said they will follow a banker to his or her new IAM. Firstly, they might get cold feet anyway, and secondly, if they do become a cornerstone client, make sure they are exactly that, a pillar but not the entire foundation of the firm. In short, diversify the client base as soon as possible.



## The Discussion

The first word went to the head of a successful EAM in Singapore, who observed that it is essential to know the precise objectives if anyone wants to establish a new firm. He explained that this requires clear thinking and meticulous planning, as regulations and requirements are now increasingly complex compared with some years ago, and the competitive environment is constantly challenging. "One of the biggest mistakes new EAMs make is to try to do everything for everybody," he cautioned, "but success depends more on focusing on what you are really good at."

"Independence is the key," came another opinion. "Perhaps IAM expresses this better than EAM or multi-family office. Independent means independent, it means not belonging or being beholden to any form of bank or custodian organisation, not belonging to anything whose methodology is selling products. In fact, we are really on the buy-side. Alignment of interests is vital too, and entrepreneurial thinking is essential. In my view, you must have the majority of your revenues from the practice of truly independent asset management."

An expert warned that things only become more complex as time moves on. "I never thought that I would be attending operational risk committee meetings in our EAM, I thought that was just for the private banks, but now we have the same thing in our company, regularly. I think you need to have the experience to understand everything under the EAM, from investments to technology to operational procedures. But you do not need to be an expert in all

these areas, as my colleague stated at the outset, as nobody can cover all these areas alone. However, as founder and presumably CEO, you need to understand what boxes to tick and how to organise all this professionally and effectively."

## Taking the holistic viewpoint

"The true power and value of a high-quality, independent firm," said another panel member, "is you are not just investment advisors, you are actually holistic advisors, you are trusted advisors, and this more proactive, holistic, integrated approach is what wins and retains clients."

is less about products and more about the holistic solutions, as that is what clients and their families truly value. RMs and our independent firms must know the clients intimately, and work towards a holistic plan for the entire family. Either that, or they will be replaced by robo-advisory, but in my view, the IAM model is all about the big picture, the holistic approach and solutions."

## Be resilient

He added that the founder(s) also need enough money in the coffers to ensure that the firm can survive for some time, as clients will not necessarily follow them, or at least

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"Agreed," came another voice, "the elimination of that one potential source of conflict of interest – the private bank and its demands – is the vital element for any EAM. Matching the client with the right products and solutions is what matters most. There are motivations to go alone but remember that a more flexible life also has some negatives, and you must be resilient enough to weather adversity."

Transparency is also essential. "These days," said one expert, "it

if they do, they will likely not bring all their assets at stage one.

Another guest debunked the theory of standardised fees, arguing that each client wants customised solutions and customised fees. "At our core, we are family offices and the core of that is investments, so that is the piece we must first ensure we do well, as if we get that element wrong, you will fail in all the other areas," he stated. "Right from the outset, you must let the client know your strengths in terms of asset classes and make sure the

clients know that there is no conflict of interest, as we want to stand apart from the obvious pitfalls that a lot of the banks continue to suffer from. And you must be realistic with yourselves and the clients about what you can achieve, as you cannot afford to suffer reputational risk."

He also advised those who might be considering the EAM formation route to rigorously analyse who they are and their key qualities. "Are you truly entrepreneurial, or perhaps are you actually buoyed by the brand name of the private bank on your card? Will your clients really move with you, or are they actually wedded to the brand name you currently represent?"

We all like to believe that the clients deal with us because of us," he continued, "but big names give big credence, and you must understand whether you are an investment advisor, or a trusted partner, and only take the EAM step if you are really in the latter category. Additionally, can you handle life without corporate perks for some years, flying economy, staying in budget hotels while you establish your business? Or will you get agitated, irritated or egoistic? In short, are you genuinely an entrepreneur?"

### **Use the resources at hand**

Another expert commented on investment skills, noting that much of that is somewhat commoditised and that nobody can claim to have any particular secret ingredients when it comes to asset allocation or constructing portfolios.

"And open architecture and the right platforms offer a selection of products and solutions, as well as due diligence," he observed,

"so the EAM can outsource, or go directly to the institutions themselves for some more esoteric products. The advisory side is also enabled by outsourcing or using certain sites and apps, which for a certain modest budget can screen thousands of different products."

Another speaker commented that there is no doubt that the investment advisory piece of the EAM proposition is core to the model, whether it is self-directed but based on support or advice from the EAM, or whether it is fully discretionary and thereby managed by the EAM.

"The point here," he said, "is that there are today many tools available for the aggregation of the market data, product or asset information, analysis, general research and so forth, to support our advice or asset selection. Clients value the opinions of the EAMs they join, they do not expect you to produce the stellar returns, year on year, or to be right all the time, but they value objectivity, lack of conflicts of interest, and constant alignment of interest between advisor and the client."

Another expert observed that from his extensive experience, partnership with experts is essential. "You need the right connections in each field," he stated, "from the legal aspects, accounting, auditing, compliance, investments, insurance, wealth and estate planning, technology, succession planning and so forth."

"Teaming up with the right partners, in my opinion, does not diminish our importance but instead offers the client the best that we can select from the wider market," he added. "We cannot be the best at everything, but we can





lean on our experience to sort the best from the others and put those in front of our clients. This takes time, experience and objectivity. The Singapore Association of Independent Asset Managers (AIAM) is an excellent starting point, due to its deep connections, and very considerable experience."

Partnerships should be determined by best of breed as well as compatibility, an expert explained. "You must then build close and enduring relationships that create a synergistic ecosystem through which you can project yourselves as trusted advisors," a guest explained.

### **Getting the application right**

From the regulator's viewpoint, an expert observed, an EAM or IAM is a firm formed to advise a client or some clients on portfolio investments personal to them and based on the individual client's circumstances, preferences and expectations. It may or may not have custody solutions. This is different from a managed account because a managed account or hedge fund will be a strategy, whereas the EAM advises on or manages a portfolio of investments with no particular strategy, but defined by the needs of one client in mind. With this in mind, the application for the license to operate is fundamental to the whole equation, as, without it, there is no IAM in the first place.

A guest explained that the early conversations with the MAS in Singapore for would-be new EAMs often centre on the capital required and the minimum headcount required to get off the ground, because of course, they have rightly picked out their salaries and rent as the biggest ongoing expenditures.

"I often say that for the purpose of their applications, the magic number is two, because this is the minimum number of full-time Singapore resident employees both in the front office with minimum five years of experience that you need to get off the ground with. You can then have a director who is non-resident, non-executive, or if that director is resident, they can be executive, and count as one of the two for the application. There can also be a very junior person, someone who does not need that five years of experience."

She added that everything else, technically the MAS will allow the IAM to outsource, be it your mid or back office or technology or risk management or finance or HR or IT, admin, bookkeeping and so forth, everything else like that can be outsourced, including compliance as well.

"But the key message," she said, "is that actually, you will very quickly need more than just the quantitative minimum of two people, so you should think about hiring others rapidly, as we know that it is vital to service the clients properly, so operational support is vital."

She explained that her advice to the EAMs is to get a minimum two front-office people, full-time Singapore residents, on the application and employed, and then quickly hire other support staff as soon as clients come onboard.

### **Understanding the compliance obligations**

The IAM must first fully understand compliance obligations but need not panic to address all these concerns in-house, as they can then outsource the execution of those obligations.



"With regards to the realities of compliance," an expert commented, "the MAS is actually quite progressive, taking a very risk-based approach. For a small EAM, they know you won't have the systems of the major banks, so they focus on some key requirements, such as filing with the MAS on time, maintaining an adequate base capital at all times, making sure your AML is in place the moment you have your clients, but pretty much everything else like BCP, technology, risk management, outsourcing, all of that you can handle later."

She added that while EAMs can outsource compliance, she advises them to have the internal glue – a COO type role – to liaise with the external service providers.

"If you do not have anybody within the firm capable of liaising closely with your outsourced service provider, you risk a lot because those systems sometimes break down, or fail to delivery 100%. In short, there is no such thing as pure outsourcing, so the MAS says if you outsource you must still have the responsibility of overseeing that the outsource service provider actually delivers on time and correctly. I cannot emphasise enough that besides having the right partners, you have to have very good communication with the service providers and the internal glue."

Another expert agreed, adding that the COO type function will also enable the EAM to deliver on its chosen areas of focus and expertise. "You must also be careful not to over-step the license you obtain," he stated, "for example if you also want to distribute third party products, because your licence may not cover you for that, and that will hinder the development of your business model. So, you need to know if you just want to sell products or if you actually want to act in the best interest of the client in the asset allocation."

He added that the MAS also strives for stability, so does not really want to see people coming and going and little continuity. "You need to really bring a team to the table who will stay, so you should not be seen to be switching people around soon after the application goes through, as if you had only brought them on to get the application through."

As to early compliance requirements, another expert agreed with an earlier comment that AML compliance is the vital first requirement of any new EAM. "There are ongoing regular filings or surveys that the MAS will send out to you, and beyond that, there are also ad hoc obligations to notify the MAS upon any sort of trigger event, for example, a move to a new office, new senior staff, if your directors take on external

directorship, new shareholders, the transition of employees from employment pass holders to permanent residents, capital requirements changes, and so forth. You need to keep an eye on all these areas and submit to the MAS on a timely basis."

## Talent – acquiring and retaining

The first requirement, according to one EAM founder, is strong operational support because clients might enrol, but they demand and expect service standards. "My colleague from a major private bank joined me early on to get the house in order. Then as you build, you must also hunt new clients out, so a strong investment professional is also very important. "I tried to be the hunter and farmer together for the initial years," he recalled, "but that was not the right approach, I had to deliver for those that I had hunted to come to the firm, so having that support internally, for example, the CIO, is vital. The rest of the key areas can be outsourced, including compliance, technology and other areas."

The next step, he advised, once the business begins to move ahead is the RM, and this is problematic, as the evidence in his experience is that most hires fail, and only when the ratio of successful hires rises to 60% or more does the firm actually begin to make money. "That can take a year, it can take five years,

and realistically, some of it is luck, as there is absolutely no perfect way to judge a person through an interview or even through references. Moreover, the banks the RMs come from do have a different approach to the EAM model. In short, you will all make mistakes, but you will learn through experience."

Another expert agreed that identifying and hiring RM talent is tough. "We try to mitigate this with the right structure of revenue sharing agreements," he explained, "and we recall the example of at least one EAM in Singapore who disappeared, as they hired RMs on fixed contracts, that really does not work in this EAM environment."

## Technology

Getting the technology right is also vital. An expert observed that much of the digital software had been focused on compliance challenges, with the independents seeking tools to handle all these regulatory issues from KYC and onboarding onwards through FATCA, CRS, MiFID, BEPS and so forth. "As more regulations came out across the globe, regionally and locally, more solutions and subsets have been required," he said, "and this is internal as well as external as the regulators need to be able to prove you have taken the right steps, kept the right records, and so forth."

And he added that there is far greater trust these days of digital solutions, more use of the cloud, and far better security protocols. "Nobody trusted the cloud before," he explained, "as there was so much concern over client data, but this has also changed significantly. You must also only work with those technology solutions providers that can truly deliver what you actually really need, so you need to

assess in advance what you need, and then find the right partners to help achieve that. For us in the technology business, it is very much easier to help a potential client when we fully realise where they want to go."

that is with a bank we have not been banking with? No. Of course not. We will do whatever we can to onboard the bank and keep the clients happy but beware that it can become a nightmare. Accordingly, at the outset, I think IAMs should work

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## Working with the banks or the digital platforms?

An expert observed that any IAM would always need a custodian and execution platform. "The question then is whether you want to make it as easy as possible," he said, "and just work with one or perhaps two banks, or whether you want to win whatever accounts you can from whatever clients, then leave the accounts there with their original banks, which, frankly, is a lot easier than trying to move those accounts, as we all know opening new bank accounts in these days can take anything between three and six months."

"But," he added, "finding the right partner and platform to actually consolidate some accounts, or finding the right system that allows you to consolidate various custody platforms in your own system is pretty crucial. From a back-office point of view, we know that the more banks you are dealing with, the more headaches. Does that mean we say no to a big account

with only two or three banks, as you will also need IT investment costs for direct interface with those banks."

The Catch 22 effectively is that the more variety offered in terms of banks, the more choice for the clients. "But over time, it is helpful to encourage the clients to consolidate their assets amongst fewer banks," he added.

The CEO founder of an established IAM commented that his firm had started with two private banks more than a decade ago for custody and execution, but over time was driven to expand the network of banks and custodian banks to cater to more clients and different needs.

But he said that in the longer-term view, there is a question as to whether to custodise with some other platforms such as Pershing, Swissquote or others. He indicated that it was quite feasible to see more of the larger clients moving to such platforms for execution and custody and reducing or eliminating the custody fees of the

banks. "I think that will be a trend over the next decade, at least for the larger clients," he predicted.

### Striving towards truly open architecture

Another speaker highlighted how the private banks should offer truly open architecture, but all too often effectively force clients that custodise with them to subscribe to funds through that bank. "Essentially when you sign a subscription form with a bank," he said, "you are telling the bank debit your account and send the money to the fund manager, and they charge you 0.5% or 1% for it, whereas if you just remit the money directly to the fund manager, you would pay far less, a very modest fixed fee. This needs to be better understood by clients, but it is all too opaque and actually, I think the regulator should step in to take remedial action."

A guest indicated that there might be a tipping point arriving for the independents in the form of technology, which can remove much of the friction. "You might imagine how our businesses might operate with open architecture and plug and play, so definitely some kind of universality would be incredible – the client would benefit from some kind of standard interface, but obviously it is not in the interest of the banks. In short, some sort of technology-enabled panacea is ahead, it does not exist yet, but surely the direction we are going in will see technology deliver this type of help."

A fellow panellist agreed, noting that he sees this approach toward open banking evolving, even in Singapore, with the Monetary Authority of Singapore (MAS) promoting APIX, the API platform, across ASEAN and forcing Singaporean banks towards participating in it. "I think there can be additional data flow between banks and any type of other financial service providers, be that for custody or be that for any other types of data that you actually need and this will also be for the benefit of EAMs ultimately because it is easier to get the information we need," he explained. But another guest conceded that while this might be a goal in the long run, this is still a long way from becoming a reality.

The panel also agreed that the difficulty of working for execution, booking, custody and data across different systems at different banks is a major impediment to efficient, user-friendly connectivity. "What we need is three interfaces combined to one, so we can deliver the data to the asset managers," said one expert.

### The road ahead

The panel was asked to comment on the market evolution for IAMs in Singapore. An expert highlighted how more and more parties have been applying for licences in Singapore, specifically from amongst Hong Kong or Chinese parties who would typically have booked their Chinese private

clients through Hong Kong. "They simply want an independent booking centre as they see Hong Kong moving closer to China," she explained. "They want more options, and it is easier to plan ahead by having that second base in Singapore."

The discussion closed with a guest reiterating the importance of being organised and focused in advance. "You need the core team to pull the cart in the right direction, and if you have a strong core, you can quickly expand, add RMs, and so forth. It is like building a house, from the foundations upwards, and you must make sure those are sound and well-established. Once you have that in place, everything else is scalable, be that compliance, be that portfolio management, be that whatever functions such as IT and so forth. If you have this foundation, you can truly express your entrepreneurial spirit and character, and you can develop apace, all being well."

The final comment went to an EAM head who explained that client diversification is a key factor in success. "If you start with one big client who is basically underwriting everything at the outset, that might be a necessary element as a cornerstone client who acts as the catalyst, but you need to diversify as soon as you can, or you are terribly exposed. Nobody wants to be in a situation where you lose one client, and everything goes down." ■

