Wealth management in Asia: Rapid growth amidst regulatory proliferation

Irene Lee, Business Development Director, Intermediary and Partnership at Hawksford in Asia, shared some of her deep insights into wealth management trends in Asia, as the market faces the challenges of tightening tax regulations and intensifying global and local oversight.

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LEE MADE A PRESENTATION AT the Hubbis Asian Wealth Management Solutions event in Singapore on May 10. Hawksford has a more than 60-year history working with private clients and their families from its headquarters in Jersey and more recently in Singapore having secured a trust license in 2017.

Lee knows that there are immense challenges facing wealth advisers and their clients as both seek to incorporate the new regulations such as the Common Reporting Standard (CRS) and the Automatic Exchange of Information (AEOI).

The recent and projected evolution of both Singapore and Hong Kong as private client wealth man-

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hubbis

agement centres in Asia is also closely linked to regulatory demands, both globally and locally.

The creation of tax compliant tools for estate planning can only be achieved with professional advice and services from reputable jurisdictions and by paying close attention to the new world of regulation and compliance.

Asia's wealth management assets outstripping historic centres

Lee noted that the IMF has recently highlighted its projection that Asia will contribute two thirds of global growth this year. However, she also acknowledged that there are always uncertainties ahead. "What is certain is that change is coming," she cautioned. "Asia's HNW individuals and their advisers must adapt strategies and plan ahead. For those who do not, failure beckons."

Lee highlighted the huge growth in the region that is propelling Asia's wealth management industry. Asia's position as the largest and most populous continent in the world, with the second largest nominal GDP of all the continents. And looking at the world's total offshore wealth, the numbers look very encouraging, especially for Singapore and Hong Kong. "The world's offshore total wealth stands at US$10.3 trillion," Lee noted, "with Switzerland at the top with $2.4 trillion, but with Singapore already at $1.2 trillion and Hong Kong at $0.8 trillion. Both are set to grow at more than twice the pace of Switzerland in the next several years."

The China Effect

The massive wealth generation in China is playing a role in shaping the future of Asia's wealth industry. Traditionally, China's HNW individuals have preferred Hong Kong as their overseas conduit for investments. "However, due to changing banking practices, tax transparency agreements, synchronisation of internal systems between China and Hong Kong resulting in greater transparency of the Chinese clients using Hong Kong entities to the mainland authorities, resulted in these clients looking more towards Singapore.

Lee reported that whereas two years ago 71% of mainland Chinese HNWIs preferred Hong Kong, it had decreased to 53%. Concurrently. Singapore now has 20% of Chinese HNWIs preferring Singapore, up from around 15%. "The wealthy Chinese are gravitating towards Singapore, in part, out of fears of China's tightening grip on Hong Kong," she said.

Whatever you can do, I can do better...

Singapore has certainly focused on boosting its appeal in so many ways. Singapore's excellence is on so many levels, Lee observed. It has been achieved through great infrastructure, smart government policies, a competitive and skilled labour force, and the culture of innovation. Singapore is pro-business, with a stable government and over 70 tax and trade benefits.

"These factors and many more have helped create the deep and diverse expertise in the financial and wealth management services here today," Lee observed. "It is also seen as a tax compliant, safe haven by Asia's HNWIs."

Lee then briefly reviewed Singapore and Hong Kong as wealth management centres. The similarities are many, Lee explained. Both are reputed financial centres with sound economic and monetary governance, strong, stable financial markets and both have strong legal frameworks based in English Common Law. Their infrastructure is excellent, both have zero capital gains, and both have zero withholding tax on dividend distribution.

More pluses than minuses

Some of the Singapore tax is based on remittance, while Hong Kong is purely territorial, Lee noted. Singapore has a 10% levy on gross royalties and 15% gross interest paid to non-residents with no business operations in Singapore while Hong Kong has no gross interest but may charge 16.5% tax on either 30% or 100% of gross royalties depending on conditions.

Hong Kong may be far ahead in terms of its capital markets expertise and a far larger listed equity market worth more than $4 trillion, its pure 'territorial tax' system may seem attractive where tax is levied only on Hong Kong sourced taxable profit from a business carried out in Hong Kong, and offshore profits are tax exempt. However, Hong Long's main negatives include possible political unrest, fewer business incentives, fewer tax and trade treaties, and the knowledge that it will revert to China within 30 years.

Singapore's equity market is only worth about $800 billion, and its main disadvantages on the other hand, include tax levied on foreign sourced income if remitted to Singapore; unless it is foreign sourced dividends, foreign branch profits or foreign sourced service income subject to stipulated conditions. And there is withholding tax on some income classes on non-residents or non-resident companies, as well as 7% GST.

Lee then highlighted the key requirements for company incorporation and ongoing filing and compliance needs in both jurisdictions.

And the (likely) winner is...

"But looking at all these pluses and minuses, Singapore has in some re-

spects now overtaken Hong Kong," Lee concluded. "Singapore is still top of the World Bank's 'Ease of Doing Business Index' and is clearly the preferred company incorporation and investment destination in Asia. With no estate duty or capital gains tax and one of the lowest corporate tax rates in the world, with rapid incorporation, and a wide array of entity structure options, as well as welcoming foreign company rules, Singapore cannot be overlooked as one of the first choices in the region. And this is aside from all the other logistical, technological and infrastructure advantages."

Whichever wealth management centre Asia's HNWIs are drawn to, regulation will affect them, especially as local and global regulation rises, and as compliance requirements intensify.

Regulation and its impact on Asia's HNWIs

Lee noted that Singapore and Hong Kong are both keeping closely in step with global regulatory developments and both are signatories of the Organization for Economic Cooperation and Development Multilateral Competent Authority Agreement (MCAA), a multilateral framework agreement that provides a standardised mechanism to facilitate the automatic exchange of information for tax matters and avoids the need for bilateral agreements to be concluded.

She then focused on a central piece of global regulation, namely the Common Reporting Standard. "CRS guidance is formally in place to prevent tax evasion, combat money laundering and improve tax transparency," Lee commented, "but many also feel they are being watched by 'Big Brother', and in some sense this is quite accurate."

Lee highlighted that CRS, AEOI and MCAA reinforce the trend towards tax compliance. "Most clients do not want to evade tax, they do not mind to some extent being scrutinised, but, they are concerned about their safety and security," she said. "Private clients should note that the confidentiality of taxpayer information is a fundamental cornerstone in all exchanges, using internationally required confidentiality and data-protection safeguards."

Lee highlighted that according to the OECD, as of April 2018, there are now over 2700 bilateral exchange relationships activated for 80 jurisdictions committed to the CRS. Jurisdictions may alternatively rely on a bilateral agreement, such as a double tax treaty or a tax information exchange agreement.

The best intentions might be hindered by practical matters

"What does this all mean?" asked Lee rhetorically. "All these countries have signed up and agreed to exchange information, but it remains to be seen whether they can fulfil the obligations."

"For example," Lee said, "Singapore and Indonesia were due to start an exchange in September this year, but the Indonesian authorities have admitted they were still preparing regulations, infrastructures and human resources for the implementation of the agreement."

She also noted that CRS is based on tax residency, which has encouraged more private clients with businesses in their own country to consider setting up operations in Singapore and thereby becoming tax residents there, and simultaneously enjoy the quality lifestyle and services that Singapore offers.

Lee concluded by reminding the audience that there are three certainties in life: death, taxes and change. "If you fail to change, you will fail, so offer your clients advice to make certain they are tax-compliant and not evading tax knowingly or unknowingly, and ensure they have all the information they need to make informed decisions." ■