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External asset managers set for growth

Room for rise in Asia of non-bank players with complementary ties to banks: UBS

Wong Wei Han

External asset managers have become a growing force within Singapore's wealth management industry, with significant growth expected over the next few years.

External asset managers are non-bank operators, ranging from independent management firms to family offices to individual advisers.

Their relationship with the big banks is more cooperative than competitive as they remain reliant on the expertise and resources of a strong custodian bank to service clients.

Mr Stefano Veri, global head of UBS' financial intermediary business, told The Straits Times: "Right now, I'd say about 5 per cent of Singapore's total assets under management (AUM) are with external asset managers, and I think that can double in the next three to five years if the regulatory conditions are accommodative."

The Monetary Authority of Singapore put the total local AUM at around $2.36 trillion, which means $100 billion to $150 billion is managed by external asset managers.

One such firm is HP Wealth Management, set up in 2009. Its AUM has grown to the "second billion", said founder and managing partner Urs Brutsch. "Our community has definitely been growing. When the Association of Independent Asset Managers was founded in 2011, we struggled to find 10 founding members. Today, we have some 30 members," he noted.

"Clients are becoming more sophisticated and perhaps more cynical - rightly or wrongly - to what a bank offers. In comparison, external managers are viewed as aligned with clients' interest.

"We don't get retrocessions or kickbacks from fund houses, for instance. So our investment thinking is not poisoned by revenue consideration, unlike banks, which are often constrained by conflict of interests."

But the growth of these potential competitors is actually good news for UBS, which draws around 10 per cent of its global wealth management profit from the financial intermediary services it offers as a custodian bank to external managers.

Without a banking licence, an external manager must park a client's assets with a custodian bank.

Mr Reto Marx, head of Asia-Pacific financial intermediary business at UBS, said: "There are some 800 to 900 licensed external managers. Most of them offer niche services, and only 100 to 150 of them are firms with a holistic wealth management approach. We service about two-thirds of them.

"Our partnership goes beyond just the buy-and-sell execution. They also have access to all the products on our open platform, our one- bank solutions, our experts and our research capabilities to help them manage their clients' wealth."

Mr Brutsch said custodian banks are important partners of external managers. "We work with a number of custodian banks - UBS included - and their people and systems are a really important part of our proposition. I don't see us as the banks' competitors. The relationship is complementary."

UBS, which brought its financial intermediary services to Hong Kong and Singapore eight years ago, said its Asia-Pacific business has more than doubled in the past five years.

While 60 per cent of UBS' financial intermediary business is still in its home market of Switzerland, Asia is where the growth potential is, said Mr Veri.

"Given the 3 per cent to 5 per cent AUM penetration right now, there is a lot of room to grow. You also have a completely different gross domestic product dynamic in this region; the growth is much higher than the mature markets. We expect the Asia-Pacific to become a larger piece of our global pie in the coming years."

But the growth will be calibrated by the structured regulations here, Mr Marx noted. "Unlike Switzerland, where there are close to 4,000 external asset managers due partly to a more open regulatory regime, Singapore has a more prescriptive set of regulations with very little grey area.

"I see healthy growth here, but mainly in terms of assets. I don't think there will be a mushrooming of new external managers."

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