



# SINGING A NEW SONG

*Tiny Singapore has always punched above its weight, and now it's making the most of the financial fumbling in the West. **Sophie McBain** reveals the secrets of its success*

Size-wise Singapore may struggle to live up to its name — *Singa Pura* means Lion City in Malay — but both economically and politically, the diminutive city-state can easily compete with the big cats.

It's all the more impressive given Singapore's early setbacks: in 1965 the newly independent country inherited a tiny population that was both linguistically and ethnically divided, with huge unemployment and almost no natural resources to profit from or squabble over — in the words of

one resident banker: 'Singapore shouldn't even exist.' When the odds are stacked against you in this way, success can often depend on the ability to find and exploit others' weaknesses, a point not lost on Singapore's founding father Lee Kuan Yew, whose skilful nation-building dragged Singapore 'from third world to first', to quote the title of his memoirs.

The government's strategy has paid off: the multicultural micro-state now has the highest concentration of HNWs of any country in Asia, with their ranks expected to double by

2015. Singapore's swampland has long been air-conditioned and concreted over, and its 660 square kilometres now house almost the same number of financial institutions, including all the major private banks. According to McKinsey, while private bank inflows dropped by 5 per cent in Luxembourg and 1 per cent in Switzerland in 2009, they rose by 7 per cent in both Hong Kong and Singapore.

When it comes to wealth management, the Lion City is looking beyond the Asian tigers to challenge Switzerland as the next global capital for the industry — and some would argue that it's already got there. Singapore still lags behind in terms of assets under management, says Angelo Venardos, CEO of Heritage Trust, but its wealth-management infrastructure can already match the aged leader.

The shifting power dynamic is playing out in interesting ways: Singapore's sovereign wealth fund, the GIC, is now the largest shareholder in Swiss banking giant UBS. UBS held its board meeting in Singapore in late September, and received a rare public rebuke from the GIC over the rogue-trading scandal.

In the long term, trends in global wealth creation are working in Singapore's favour. While the economies of the EU and US inch along the fine line between weak recovery and total economic meltdown, Asian economies are sprinting ahead. This is producing a new generation of wealthy Asians: Julius Baer predicts that between 2010 and 2015, the number of HNWs in Asia will grow from 1.16 million to 2.82 million, and the assets owned by these individuals will triple to \$15 trillion.

For Asian HNWs, Singapore is far more convenient than Switzerland, and not only because it's just a short flight away: the country's ethnic diversity is an advantage, too. Unlike in European financial centres, Indian, Malaysian and Chinese HNWs will have little difficulty finding a private banker who can speak their language, and because all three nationalities make up large proportions of Singapore's diverse population, the tiny island is a natural home away from home. 'Depending where you are in the world, you could argue that Singapore's already the current Switzerland,' says Barend Janssens, head of emerging markets at Royal Bank of Canada Wealth Management.

Although Singapore is an obvious choice for the wealthy, many of the Asian super-wealthy still prefer to keep a portion of their wealth in Europe. 'Asian UHNWs typically perceive a far greater political risk than actually exists in a place like Singapore, and so prefer to keep some of their assets outside the region, in London or Switzerland,' says Philip Marcovici, an independent tax policy adviser and former partner at Baker & McKenzie. 'But at the lower end of wealth, Singapore has absolutely established itself as the wealth management centre for Asia.'

It's not only wealthy Asians who are moving their cash to Singapore. 'There are a growing number of Russians coming, because they are increasingly viewing it as a more neutral place to have their money than Switzerland,' says Stewart

Paterson, co-founder of Riley Paterson Investment Management, a Singapore-based investment fund. The Russians are bringing some sparkle to the lacklustre Singaporean nightlife — this year, Singapore's Buyan Russian Haute Cuisine & Caviar Bar bought the world's most expensive bottle of champagne. Europeans are coming, too — some needing a base for their Asian businesses, others spooked by Europe's sovereign debt crises and changes to disclosure rules.

For a while, Europeans looking to keep wealth in Asia might have thought of going to Hong Kong instead, but 'it missed the train,' says Marcovici. While the Singapore government has focused on building up a regulatory framework that supports the wealth management industry, Hong Kong has focused more on investment banking — the result being a regulatory environment that is 'confusing at best in terms of the messages it provides wealth management firms,' he adds. And although Hong Kong is ideally placed to take advantage of Chinese growth, as Paterson succinctly puts it, 'Would you send your gold to a communist country?'

One school of thought is that when it comes to wealth management, Singapore is winning by default. 'Singapore is the next Switzerland, but at least as much as a result of other people's loss of competitiveness rather than the things that they are doing right,' says Paterson. There are a few small complications to this theory, however. First, an obsessive focus on Singapore's banking secrecy and the advantage this gives it over European wealth management centres sells the country short. In the long term Singapore has much more to offer, argues Marcovici, and with its wealth-management profile increasing, any undeclared assets in private banks are more of a liability than an asset. 'The reality is that a good part of these assets will not remain in Singapore once the owners "come clean" with their tax authorities, or choose to "hide better" by moving the assets to locations that have less of a high profile than Singapore does,' he explains.

Secondly, even if Singapore is winning the race to be the next Switzerland 'by default,' this shouldn't be confused with winning by chance. The Singaporean government has put in place what Angelo Venardos of Heritage Trust calls the 'four pillars' needed to hold up the wealth management industry: 'A well-regulated financial services industry, tax-friendly legislation, an English form of democracy [more on that later] and a strong English common law legal system'. It has also devoted large amounts of money to education, offering generous subsidies for training private bank employees, and setting up the Wealth Management Institute, part-funded by the government's sovereign wealth funds, GIC and Temasek.

While banks in the West face stricter and potentially expensive new regulation, Singapore is maintaining a light touch. Janssens of RBC praises the government's tendency to respond to banks' requirements, rather than impose cumbersome regulation unilaterally. They 'are really listening to the banks and financial institutions and taking a proactive role in

finding out what the banks really need to make their business work,' he argues. Paterson agrees, saying that the authorities 'have been very conscious about matching the regulatory burden to the size of the business, so if you're small, as long as you disclose you're not regulated you can operate there, subject to certain restrictions in terms of selling to the public. As you get bigger, you're expected to take on more regulation.'

If this makes some people nervous, others (especially bankers) argue that light regulation doesn't have to be dangerous. Paterson says Singapore is simply realistic about what regulation can achieve. 'Singaporeans have learned that things go wrong for two reasons: there's either a fraud, but you have a law against fraud, or it's because of a bad investment decision, against which you can't regulate,' he explains. As a result banks don't have to worry about a regulatory overhaul, because unlike in 'naïve democracies,' Singapore is not going to 'change the rules of the game when things go wrong,' he adds.

While democratic populations hope to exact their revenge on banks, democracy has rarely been more unpopular with financiers. The 'Singapore model' is often mooted as an artful third way between indecisive, short-termist Western democracies and Chinese authoritarianism. Although the country ostensibly has a parliamentary system, the People's Action Party (PAP) has dominated the political landscape since independence. Civil-service salaries are pegged to the private sector, so government is able to attract and retain the best talent. And, largely unencumbered by the distraction of genuinely competitive elections, it excels at advance planning: 'They build tube stations years before they have any inclination to build on the land around it,' says Paterson.

Despite Singapore's euphemistically named 'directed democracy,' there is little risk of a popular uprising, but the political system is nevertheless opening up. Last year the opposition made unprecedented gains, although it won only six out of 87 parliamentary seats, as Singaporeans expressed their resentment at soaring living costs and rising immigration. 'The whole process showed a maturing system and an awakening of the people, which from a business point of view is very good,' says Venardos.

Particularly given the volatility of many Asian countries, Singapore's stability and security are a huge draw for many HNWs. While the wealthy in neighbouring countries fear violent theft and kidnapping, on a tiny island with a lot of police, Western bankers don't bother with contents insurance on their homes. Unlike most Asian cities, Singapore is clean, tidy and unpolluted, and although property prices have been shooting skywards you can get more for your money than in Shanghai or Hong Kong. Also, there are signs that the historically fun-free island might be loosening up. Whereas long hippie hairstyles were once illegal, visitors are being

invited to let their hair down — subject to certain restrictions, of course. In 2002 the government began allowing nightclubs to open all hours and repealed an earlier law forbidding dancing on tabletops. You can even chew gum in Singapore now — if you have a doctor's note. It 2005 it ended a 40-year ban on gambling, commissioning two vast casino complexes. It is careful to limit the corrupting influences these changes could have on its own citizens, though — while foreigners can get in free, Singaporeans have to pay a hefty entrance charge.

There are more government-led initiatives designed to prove that Singapore can do fun. It has become a stop on the Formula One circuit and has completed its disco makeover with luxury waterfront developments like the Marina Bay Sands complex, Universal Studios Singapore and the Singapore Flyer (a lot like the London Eye but bigger). 'There are great restaurants, art festivals, music festivals, sports events. You really will not recognise the city as sleepy, it's very vibrant. If anyone comes here and says, "I can't find fun," I wonder where they're looking,' says Janssens. But not everyone is convinced that the government party lives up to its hype. 'It ticks a lot of boxes, but there's something missing,' says Paterson. 'Take music: it's very much the government making it financially worthwhile, a kind of "build it and they will come" approach, rather than the band saying, "I want to go to Singapore because it's such a fun venue."'

It's the kind of criticism that is often levelled at state-led cultural initiatives. What could make Singapore far more interesting is the home-grown cultural revival currently taking place. Arvin Lee, a Singaporean lawyer, has been struck by the number of small businesses opening up: funky shisha bars, cafés and restaurants that are adding a bit of colour to the local scene — it's a sign of a growing confidence and interest in Singaporean culture, he says. 'People used to think that these big, five-star Western institutions were the only way of doing high-end,' he explains, 'but now people are offering these new, trendy, well-packaged bars and restaurants.' Earlier this year, two local restaurant groups, Marmalade and Mimolette, merged, to help them take on Western chains, and disillusioned young Singaporeans are opting out of the well-trodden path to a financial or legal profession to set up businesses that give their countrymen more to do than work, sleep and behave themselves. It's important, because more than clever urban planning and government regeneration, organic movements like this can make good cities great.

Switzerland might have shown that global banking centres aren't built on a sense of fun, but if there really is more to Singaporean nightlife than the Singapore sling, that can only swing in its favour. When it comes to wealth management, the Lion City may yet again prove that it doesn't need size to claw its way up. *J*

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