

Wealth Management in Asia-Pacific: An Overview

23 Sep 07

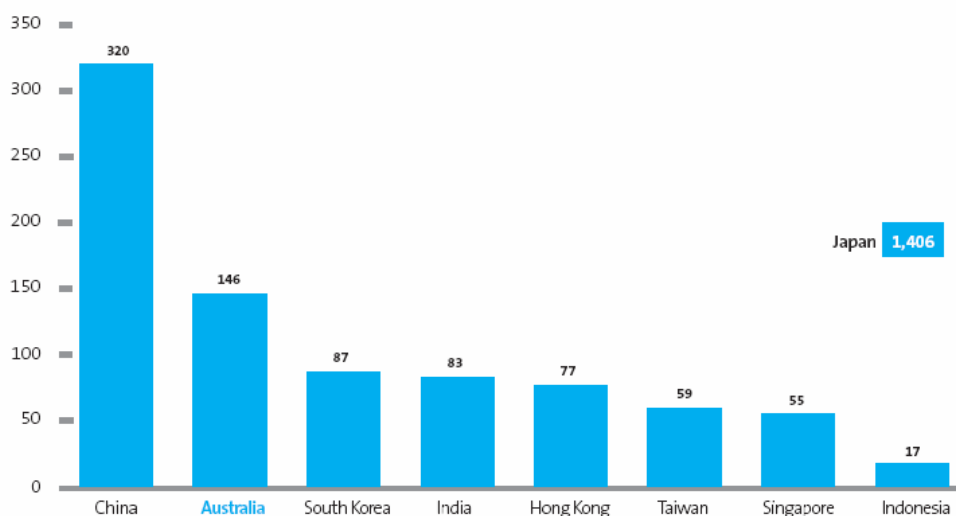
By Sherman Tan

China's Gross Domestic Product grew by 10.7% in 2006, the fastest in 11 years. This year, the World Bank predicts that China's economy will grow by 10% and industry observers noted that the nation has a good chance of becoming the 3rd largest economic power by 2008. Earlier this year, Goldman Sachs indicated that if India can sustain an annual growth rate of 8% till 2020, it will overtake the UK as the world's 5th largest economy by 2010.

With such high growth in the region, Asia-Pacific remains one of the largest and fastest growing markets for private banking. It is estimated that over a quarter of the world's 9 million high-net-worth individuals (HNWI), who possess at least US\$1M in net assets are located in the Asia-Pacific region.

In addition, Australia has over the last decade become the 3rd largest private wealth market in the Asia-Pacific and the 11th largest in the world. In 2005, it was estimated that there were more than 146,000 HNWI (see chart below).

Number of High Net Worth Individuals in the Asia-Pacific (ex Japan) by Country ('000)



Source: Merrill Lynch Caggemini, Asia-Pacific Wealth Report, 2006. Data for Australia is from the World Wealth Report, 2006

The emergence of Wealth Management

Although the number of HNWI continued to grow at a healthy rate, the strong economic growth across the Asia-Pacific has also led to the accumulation of wealth over a wider population and across every social stratum over the past 15-20 years.

While some institutions continued to focus on servicing the HNWI, some retail banks and brokers have decided to extend their services to meet the new demand of the growing sophistication of certain segments of the banking clients and the arrival of the mass affluence who are increasingly becoming more actively involved in the management of their money.

Before we continue, let's establish a common understanding of what is "Wealth Management".

According to the Online Free Dictionary by Farlex, "**Wealth Management**" is a term that originated in the 1990s in the US within brokers, dealers, banks, and insurance Companies.

Wealth Management has generally evolved from high net worth financial consulting for persons who are top clients of any firm to an advanced type of financial planning that provides individuals and even families with private banking, estate planning, asset management, legal service resources, trust management, investment management, taxation advice, and portfolio management.

For the purpose of this article, we define wealth management as encompassing asset management, client advisory services, and the distribution of investment products. While Private Banking targets HNWI with US\$1 million in investible assets; wealth management in contrast targets clients with assets as low as US\$100,000.

Rising wealth in the Asia-Pacific

It has been a decade since the Thai baht triggered the infamous Asian financial crisis in Jul 1997 resulting in the overnight massive flight of foreign capital from the region. 10 years now, the 1997 Asian financial crisis seems to have been forgotten by many until the recent market turmoil caused by the US sub-prime mortgage market.

While the US sub-prime issue raised some concerns, the region continued to be inundated with capital inflows and foreign direct investments. In fact, the balance of payment surpluses are growing twice as fast compared to the 1990s. Material wealth has been enhanced by rising asset prices supported by these capital inflows.

The capital inflows constitute a significant part of the growth in the Asia-Pacific, but there are three key contributing factors that supported the growth and these are the young and productive populations, high saving rates and the entrepreneurial spirits.

Small and medium-size enterprises are the lifeblood of most economies in Asia. In Hong Kong, for instance, small and medium size enterprises make up almost 98% of all the business enterprises. Across the region, there are some 500 million people that are employed in non-agricultural sectors and of these, about 60% work in small and medium enterprises.

The ethnic Chinese population stands out as being particularly successful in accumulating wealth. This community is often noted to be able to consistently manage to turn adversity into prosperity. However, most Asian assets are still primarily held in cash with equity exposure at less than 30% of their total assets.

On the other hand, Indian wealth has been driven by high economic growth since 1995 which is supported by very high personal savings rate. Of the estimated 20 million non-resident Indians (NRI) around the world, there are about 150,000 millionaires.

Servicing the Asia-Pacific Clients

The varied composition of the client base ranging from entrepreneurs of various types, corporate executives, professionals, inherited wealth, retired people; just to name a few is becoming much more challenging to the wealth managers.

Moreover, clients are increasingly more sophisticated, partly due to the fact that there are now vast varieties of financial news, data and even in-depth market and instrument analysis that can be available either free or at modest monthly subscriptions. In addition, these clients are also seeking greater aggregation and control of their wealth including playing an active role in the wealth management activities together with their wealth managers.

On top of these demands, clients are also seeking consistent and high-quality advice and want more value for their investments.

Compared to other countries, clients in the Asia-Pacific region tend to hold a higher proportion of their wealth in cash, real estates and privately held businesses in the region. Arising from their entrepreneur background, these clients also require more integrated private and corporate banking services that meet both their personal and business needs.

Confidentiality is an area of importance for the Asia-Pacific clients and given that many of these clients are seeking to establish a more trusted relationship with their wealth managers, they tend to have relations with multiple banks or financial institutions.

Looking Ahead

With better prospects in sight, Asian wealth will grow ahead of the global average; thereby creating opportunities for many banks and institutions that offer financial advisory services and solutions.

However, there are many challenges that wealth managers are facing as clients are demanding the wealth managers to offer a broad range of products that can be tailored to meet their specific needs (rather than off-the-shelf products), holistic advice, transparency in pricing, propositions that provide both performance and flexibility as well as high and consistent service standards.

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