Formula for excess

Singapore's free-wheeling private bankers enjoyed the ride of their lives in the pre-crisis years, but with government intervention and a clutch of lawsuits looming, it looks as though many are finally running out of road. Eric Ellis **reports**

DESPITE ITS GLITZY new image as the latest hotspot to host a night-time Formula One race around glamorous casinos, Singapore – the tropical island republic dubbed South-East Asia's Monaco by private bankers – hides a post-global financial crisis secret.

It's a touchy subject at private banking heavyweight UBS, which at the market's pre-meltdown peak ran 1,000 client relationship managers hawking all manner of exotic investments to regional tycoons in a heady atmosphere one former operative described as a "zoo" and a "boiler room". Perhaps that's because UBS is still smarting from the loss of its '$30 billion man', the former head of wealth management Tee Fong Seng, who walked – with some clients and team members – in June to Credit Suisse to join his former UBS Singapore colleague Marcel Kreis. Or maybe UBS is still embarrassed by the industry sniggers at its flamboyant executive director James Tulley, known to friends as 'Tulley Tubby', whose photo spread in Singapore Tatler last March boasting about his sartorial self-regard – his 30 pairs of spectacles and 100 pairs of shoes, including a $4,000 pair from Louis Vuitton – came to symbolize the excesses of the suddenly sexy private banking sector.

Nor do they much like to talk about it about Deutsche Bank, it too having lost a key executive to a rival. At ING Bank, another big private banking player in Singapore, the bank's public relations department unconvincingly pleaded for two months that it couldn't raise executives to talk because they were forever travelling and were far too busy.

The Monetary Authority of Singapore, the central bank, is reluctant to talk about it, as government regulators from Europe make demands of Singapore that might challenge its position as an international financial centre. At private bank Clariden Leu, its leading relationship manager describes it as a "wrinkle", part of banking's rich tapestry. Citibank, its reputation under attack from a massive client lawsuit in Singapore's High Court, reluctantly admits it. Société Générale says clients are in "risk aversion mode" but not much more. Indeed, there's only one leading Singapore private bank – DBS – that is prepared to openly discuss something that it says "got out of control".

So what's the big secret? Well, there are a few, says Roman Scott, a former partner at Boston Consulting, who led its wealth management practice in Asia before heading up his own Singapore investment consultancy, Calamander Capital. But they start with Singapore's private banking industry itself, which Scott says is "in an acute state of denial about what has happened to it, pretending it's nothing serious, that client perceptions have not been damaged when they clearly have".

Call it, charitably, putting on a brave face in tough times – but the big secret, Scott says, is the degree of pain Singapore's private banking industry is suffering post-crisis. While markets have ticked up a little this year, Scott estimates that client assets under management in Singapore – which he measured in the hundreds of billions of dollars barely two years ago – are down around 25-30% on their peak. That's taken a big chunk out of the overall asset reserves held by Singapore-based banks and administered by Singapore. But the impact is

harsher still on the bottom lines of the dozens of banks that scaled up fixed costs and expensively suited staff in the roaring pre-crisis years, when Singapore officially decided it wanted to be the place where the world's wealthy parked their riches.

But more critical longer term, Scott says, is how the industry – and Singapore and other financial centres like it – adapts to the new degrees of international financial scrutiny they now find themselves under in the wake of the global meltdown. Earlier this year, as it slipped into a deep recession, Singapore was horrified to be threatened with placement on a blacklist of tax havens and financial shelters compiled for the G20 leaders summit last April in London. This was the meeting where Germany's Angela Merkel, Britain's Gordon Brown and France's Nicolas Sarkozy, joined by new US president Barack Obama in one of his first international outings after being elected to fix the US economy, linked arms to take aim at international tax havens and secretive financial regimes. These were places, they claimed, designed to keep money and miscreants well-hidden, and their rhetoric was spurred by a need for domestic political blood and by the sudden loss of state revenue as bankruptcies soared along with unemployment, the welfare burden skyrocketed and, not least, governments were forced to bail out bad banks and businesses. Scott says: "Once they tasted blood with their success in taking down Liechtenstein, they became emboldened to go after the rest of the world's top private banking centres."

Scott says that while Singapore "will probably have to play ball" with new international rules, it may be a victim of circumstances and of someone else's politics. The London G20 summit, Scott notes, was held as emotions in the US and Europe, particularly in Britain, were at fever pitch. Just weeks earlier the extent of Bernie Madoff's crimes had been revealed in New York, while in London a month earlier there had been a media frenzy over the $25 million pension arrangements for Sir Fred Goodwin, the ousted chief executive of Royal Bank of Scotland cast as one of the crisis's central villains after RBS posted UK Inc's biggest-ever loss of £24.1bn. A few weeks later, Scott notes, and with the financial markets in chaos, the G20 nabobs assembled at the Excel Centre in London's Docklands, pointing fingers and talking tough with their "global plan for recovery and reform".

Whatever the reasons, Singapore is faced with a dilemma. Analysts say it does not want to be forced to open its banking books to Western-demanded, G20-inspired 'fishing expeditions' aimed at exposing who banks in the republic and how much they have salted away there. And whatever it agrees to in its bilateral negotiations, it certainly doesn't want to be singled out among Asian financial centres while rivals like Hong Kong don't face the same new rules. But equally, Singapore cherishes a largely self-styled reputation as an exemplary international corporate citizen, operating under globally accepted norms and world's best practices of corporate governance. Whether it does, some analysts say, is open to debate. Singapore has long made a living playing banking host to the region's rich, however their money was made. The overwhelmingly majority of accounts hosted by Singapore are innocuous but Burma's odious military government, for example, also channels its wealth via the city-state – at least one minister in the Rangoon junta has a child at a posh Singapore school, delivered each morning by a chauffeur-driven Lamborghini – and it's believed North Koreans avail themselves of Singapore's financial discretion as well. Bankers whisper that Zimbabwe's Robert Mugabe has accounts there.

But the big financial fish that Singapore's bankers have landed comes from Indonesia, effectively Singapore's hinterland and long ranked by corruption watchdog Transparency International as one of the world's most corrupt countries. A study by Merrill Lynch noted that a third of Singapore's known millionaires are Indonesian nationals, controlling a cash hoard it measured at $87 billion and making Singapore an affluent northern suburb of the Indonesian capital, Jakarta. Some of that cash has helped fund a succession of property booms in Singapore, while keeping its world-famous services sector – as famously exemplified by Singapore Airlines – in clover. But despite being neighbours and co-members of Asean, Singapore and Indonesia share no extradition treaty. Just 80 minutes' flight from Jakarta, Singapore has long been a refuge for Indonesians in times of political turmoil, particularly for its ethnic Chinese business community, which is subject to periodic pogroms. But it's also where so-called black money gets spirited by dubious officials, and where crooked government business cronies flee to escape Indonesian dragnets.

But since the fall of the corrupt Suharto regime in 1998, and the arrival of the cleanskin Susilo Bambang Yudhoyono as president in 2004, Indonesia has pressured Singapore to return a number of alleged miscreants – and their money – to face Indonesian justice. Not much has happened so far, but Yudhoyono's recent re-election as president on an anti-corruption ticket, and with a stronger mandate, is expected to usher in new attempts to winkle long-sojourning Indonesians – and their cash – back home from Singapore.

And this is where, Scott says, the EU initiatives to pressure Singapore may be disquieting officials. He calculates that barely 3-5% of Singapore's private banking clients are from EU member states. "Singapore has very little hidden money from German dentists and French doctors – what Euro assets are tucked away here is mostly Russian money," he adds.

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That's largely incidental in the overall private banking picture in Singapore, which Scott says was the centre of Asia's private banking sector, managing as much as $600 billion at its peak. The sword of Damocles poised over Singapore, European diplomats and advisors say, is whether the government can reach agreement with the EU or component members in the bilateral free-trade agreements much favoured by Singapore, and on tax probes too, which would require Singapore agreeing to EU financial sector requests. Diplomats say Singapore is generally cooperative but it doesn't want EU 'fishing expeditions' in its banking sector. And nor do it clients.

There's much diplomatic arm-wrestling in all this but Scott says Singapore could be concerned that, in agreeing to a bilateral disclosure regime with the EU nations, it could prompt other nations such as Indonesia, where the money stakes are higher, to seek similar agreements. Scott uses a restaurant metaphor, in which various regulators are dining and, unfamiliar with the menu, the Indonesians look over to the European table and chorus: "We'll have what they're having."

Complicating the picture is a swathe of potential lawsuits from grumpy clients being prepared for Singapore's lawcourts. According to a, probably apocryphal, story doing the rounds of Boat Quay, Singapore's boozy bar quarter next to the financial district where bankers swap tall stories after work, one case concerns a wealthy Indonesian who lost about $20 million in wrong-way foreign exchange bets that

he blames on bad advice and negligence from his private bankers, as seems to be the common complaint among disgruntled clients. But, the story goes, his legal room for manoeuvre is limited because his official salary in Indonesia is only around $500 a month.

But one big case has been aired and, as bankers and their lawyers look on in fascination, it is wending its way through Singapore's High Court. It's a S$1 billion ($692 million) claim by one of Singapore's richest men, Oei Hong Leong, against Citibank, where he has been a client for three decades. Court papers say Oei took the massive hit trading foreign exchange, US Treasury and bond options because Citi allegedly gave him "inaccurate" and unreliable information. Oei had banked with Citi for more than three decades and is a "sophisticated and experienced investor". But, he alleges, he was given conflicting details of his margin position in the market turmoil of last October, after the late September crash of Lehman Brothers. He claims he traded on this conflicting information and took a S$518 million loss. Oei further claims that a corrective order in November for US 30-year Treasury bonds was accepted by Citi but not executed at his specified price. For its part, Citi says: "We fully intend to defend our position vigorously. We have acted professionally in managing Mr Oei's account." Citi claims to have "comprehensive and robust systems and processes in place to handle client orders and transactions and for monitoring and control".

Anxious bankers privately concede the Oei case is being watched carefully in offices around Singapore for any precedent it sets and messages it sends. As one banking identity put it to Euromoney: "It will play out as it plays out on the evidence but this is a case that Singapore would not want to have. A win for Oei would not go down well among the banking community, but if Citi wins what message would all the whales [regional tycoons] take from it?"

But its not just Singapore's mega-rich who have been impacted by what were once trusted private banking relationships. Typical is the case of a Singapore publisher who lost a big chunk of his fortune in wrong-way forex transactions in his account with a big international bank, where he had been a client for almost 20 years. The publisher claims the bank made unauthorised transactions and was negligent in handling his account. The timing of the transactions are intriguing, he says, coming as the Lehman collapse was crippling markets, exposing all asset classes and panicking bankers. "I suspect there was a pattern here," he says, as he hunts for others to join him in a class action. The bank involved says it can't comment, but threatened legal action if it was named.

The Oei case, in particular, opens a window into the ills that afflict Singapore's private bankers. Publicly they are keeping up appearances but the industry knows times are tough, and opportunities not as sexy as they once were: the margins have evaporated, and the glamorous weekends in fine hotels touting a suitcase of high-spread exotic derivatives are largely a thing of the past.

Kwong Kin Mun, DBS's veteran managing director of private banking, welcomes an industry shake-out, saying it heralds a return to basic values and banking service, and is refreshingly frank about the travails of private banking in Singapore. "Just selling a couple of products from the platform doesn't make you a private banker," he says. With an entry level of $1 million net worth, homegrown DBS began its priority banking operations in the late 1990s. But as foreign competitors arrived extravagantly on its patch, DBS scaled up significantly from 2003, servicing clients who operated family-owned companies that already banked with DBS, South-East Asia's biggest bank. "Our value proposition was clear," he says. "Typically the Asian family has a portfolio of private banks. We were telling clients, 'Use us as your Asian private bank, this is where the real action in the world is economically. We strictly serve Asia'." Kwong says DBS's private banking client list is broadly split 50/50 from North Asia – China, Hong Kong and Taiwan – and South-East Asia, the Asean nations. Of the latter, about half are designated as Singaporean, although this includes those from, say, Indonesia with dual residency.

Kwong, who started his private banking career in 1986, says history will record 2007 as the record year for private banking in Asia, the industry's highwater mark. "It was the height of the excesses," he says. "Everybody knew it was a bubble but everybody continued to put on aggressive products. It was clear… but no one was prepared to stand up and make a call. Everybody just flowed along.

"One of the best indicators of the excesses was the way salaries blew up [compared to] the quality of the people they were trying to get, which was so different from the 1990s. Today people are shell-shocked that big banks [globally] are technically insolvent. To me, this is a real shake-up of the mind."

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Kwong says client assets managed by private banks in Singapore have fallen "quite easily by 30%", although he says not by as much at DBS itself. Other banks canvassed by Euromoney refused to quantify how much assets under management (AUM) had fallen through the crisis. UBS came closest to an answer when it offered a waffly "in the wake of the financial crisis all parts of the financial services industry, including wealth management, will operate in an environment significantly different to that which existed before the crisis. We believe that uncertainty in the near term will result in only a temporary interruption to the strong secular trend". UBS claims AUM inflows were "positive" in Asia-Pacific in the six months to June. Deutsche Bank said it "does not disclose individual country-level assets under management", but adds that at March 31 2008 DB Private Wealth Management in Asia had €22 billion in invested assets, and had that same figure at June 30 2009. It claims to have "recorded net new money inflows in Asia in both 2008 and 2009". UBS says: "We do not break the AUM figures down for specific countries", but admits it was managing SFr130 billion ($122 billion) in clients' assets in Asia-Pacific at the end of 2008, down from SFr203 billion in 2007.

Similarly, on relationship manager headcount Deutsche Bank says: "We do not comment on the number of relationship managers we have in Asia or other regions." UBS says it doesn't break down staff numbers by country but that it ran 1,000 relationship managers in Asia in December 2007 and now employs 900 regionally. As to the impact of the defection to Credit Suisse of its relationship manager Tee Fong Seng, UBS insists it "retains one of the higher asset-retention rates in the industry following the departure of a client advisor". It adds: "UBS maintains one of the largest and most highly regarded wealth management teams in the region. While the departure of any senior executive is regrettable, the business has, over many years, assembled a management team of both breadth and depth that is structured to insulate – as far as possible – our clients and the business against the impact of any staff departure."

~~“Petronas was a repeat client, but this was their first sukuk deal in the global market and a benchmark transaction”~~

Roman Scott

According to data compiled by Reuters, Credit Suisse’s Asia AUM was SFr48.5 billion in the region at the end of 2008, down from SFr68.4 billion at the end of 2007. Citigroup says the assets of its wealth management business in Asia-Pacific fell to $260 billion at the end of 2008 from $312 billion at the end of 2007. Société Générale’s Pierre Baer, who heads SG Private Banking in Singapore, says: “Investors have gone into a risk-aversion mode although we believe that a risk-management mode is most appropriate.” SG Private Banking also refuses to break down numbers.

DBS’s Kwong says private banking is going through a major shake-out in Asia. Over the past six years, the industry in Singapore had come to be dominated by UBS, Citi, Credit Suisse, HSBC and Merrill Lynch, followed by Deutsche Bank – a “premier league within the premier league”, as he describes it. “They had pulled away because of strong brands and the sheer size of the institutions… but the crisis has moved them back to the crowd.”

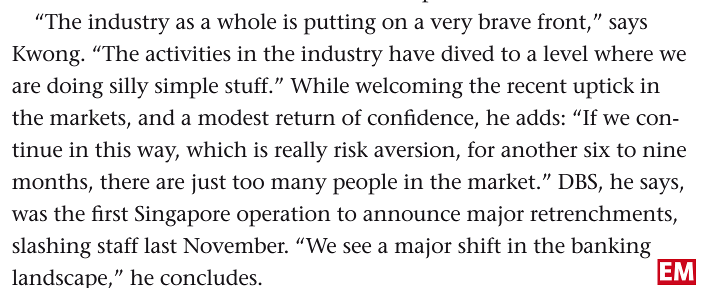
“Success would breed success,” says Kwong. But he adds that now “every time new AUM [comes to DBS], it comes from Citi and UBS”. That might be because of the innate confidence the region’s rich have in Singapore as a sturdy financial centre, guaranteed by the government. DBS’s controlling shareholder is the government-owned Temasek Holdings. As Kwong says, prior to the sub-prime crisis in world financial markets, there was virtually no such thing as bank risk. But as governments bail out banks across the world, a move to a bank long owned by the Singapore government could be seen as a flight to safety. As the big, albeit chastened, players come back to the pack, newer entrants with fewer legacy liabilities are emerging in more conservative times: Standard Chartered, ANZ – on an Asian spending spree – and Barclays, while Credit Suisse continues to take aim at its ailing fellow Swiss bank, UBS. For its part, UBS retreats to corporate-speak to explain the state of the industry: “The current challenging economic environment will result in a much-needed consolidation. The wealth managers who will remain are the ones that are prepared to commit resources for the long-term. The restoration of investor confidence and trust is an overriding priority for the wealth management industry.”

Kwong says the era of the ‘briefcase banker’ in Asia is virtually over. This was when private bankers would hop on planes to visit clients in Jakarta, Bangkok and Rangoon, jurisdictions with lesser sophisticated banking regulations, carrying so-called exotic investment options in their attaché cases. Often, it was technically illegal to sell such products in these lesser centres. Today, Kwong says, as global regulations tighten and national systems adjust accordingly, no bank will take the risk of doing such business. Indeed, Singapore’s bankers gossip about colleagues falling foul of foreign authorities that have been investigating their clients’ finances, or business rivals seeking to intimidate each other.

Another new development, says Kwong, is that of the networking client event. In the past, when Asian client-banker relationships were discreet and anonymous, “it was a cardinal sin to ever hold a client event because you just don’t bring the people together”. Kwong first saw the client event in earlier posts at UBS and Citibank, and was taken aback. “I was seriously challenged… I asked why they did so many events. Now the clientele want to be seen as part of the crowd, so that has been a shift.”

Industry analyst Roman Scott believes that the private banking shakeout, along with sharp suits and sometime sharper practices, has affected customer “trust perceptions”. Kwong agrees: “Confidence has been shattered, trust has been broken and we need to rebuild it.” He thinks the term ‘trusted advisor’ has often been abused in the industry. “Trust is not a badge, it has to be earned and maintained because you can lose your trust.” Scott’s Calamander Capital group has coorganised a mid-September, closed-door seminar of all stakeholders in Singapore private banking to get together and air the industry’s issues in a Chatham House Rules format.

Kwong says relationship manager compensation has changed dramatically and that bonuses have been slashed. At brokerage-based firms like Merrill Lynch, the practice of relationship managers pocketing commission points on the spreads of investment products sold to clients has been curtailed in the retreat to plain vanilla investment.



“The industry as a whole is putting on a very brave front,” says Kwong. “The activities in the industry have dived to a level where we are doing silly simple stuff.” While welcoming the recent uptick in the markets, and a modest return of confidence, he adds: “If we continue in this way, which is really risk aversion, for another six to nine months, there are just too many people in the market.” DBS, he says, was the first Singapore operation to announce major retrenchments, slashing staff last November. “We see a major shift in the banking landscape,” he concludes. EM