

Ravi Menon: A competent, trusted, and clean financial centre

Welcome address by Mr Ravi Menon, Managing Director of the Monetary Authority of Singapore, at the WMI (Wealth Management Institute) Connection, Singapore, 27 October 2011.

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Mr Ng Kok Song, Chairman of the Wealth Management Institute, distinguished guests, ladies and gentlemen, good evening.

I am delighted to join you tonight, to celebrate the 8th anniversary of the Wealth Management Institute (WMI). And I want to add a special word of congratulations to the 258 graduates who have recently completed WMI programmes ranging from the Master of Science in Wealth Management to the Advanced Wealth Management Programme.

Explosive growth in Asian wealth

Across the world, we are seeing strong growth in the creation of wealth.

- Globally, the wealth held by high net worth individuals¹ has increased by 63 percent over the last ten years.²
- As at end-2010, there were nearly 11 million high net worth individuals, compared to 7 million ten years ago.

Wealth is growing most rapidly in the Asia-Pacific region, accounting for more than half of the increase in global wealth last year.

- There are 3.3 million high net worth individuals in the Asia-Pacific, 18 percent more than the pre-crisis peak. In fact, there are now more high net worth individuals in the Asia Pacific than in Europe and almost as many as in North America.

Notwithstanding the challenges facing the global economy and the recent increase in market uncertainties, the ranks and fortunes of the wealthy are expected to continue growing rapidly.

- Global wealth is assessed to have the potential to rise 50 percent over the next five years, spurred by a surging middle-class in the Asia-Pacific, Latin America, and Africa.
- The Asia Pacific region in particular is forecast to have the highest projected compound annual growth rate of 11.4 percent for assets under management from 2010–2015. Eight of the twenty fastest-growing high net worth markets are in the Asia-Pacific.

Wealth management – the Singapore advantage

As John Rockefeller once asked “The only question with wealth is, what do you do with it?” Those of you who manage wealth have a key role to play. You are at the heart of this explosion of wealth in Asia and in serving the needs of your clients, you help to intermediate

¹ Merrill Lynch – Capgemini World Wealth Reports and Global Private Banking and Wealth Management – The New Realities, by David Maude. Market defined in terms of individuals with financial wealth of more than US\$1 million.

² US\$42.7 trillion as at end 2010 as compared to US\$26.2 trillion as at end 2001 – ML-Capgemini World Wealth Reports.

this growing pool of wealth and put it to productive use. And Singapore has a compelling value proposition in helping to make this happen.

What makes Singapore attractive as an international financial and wealth management centre? Wealth desires stability. Singapore's political and economic stability, transparency in governance, and sound and predictable regulation, are often cited by private bankers and clients alike as the fundamentals underpinning its attraction. Efficiency, connectivity, and sound infrastructure are added advantages. Singapore has been ranked by the World Bank, for the sixth year running, as the easiest place to do business in the world.

Perhaps the decisive advantage is the larger financial eco-system that exists in Singapore. Strong capabilities in asset management, foreign exchange and derivatives trading, coupled with deep and liquid capital markets – these are the ingredients that make Singapore the ideal base for the intermediation of wealth in Asia.

But to use a common phrase in the industry, past trends are no guarantee of future performance. Whether Singapore continues to do well in wealth management will depend critically on three imperatives.

- First, we must raise competencies in the industry.
- Second, we must enhance market conduct.
- Third, we must keep the financial sector clean.

Strong competencies

Let me begin with raising competencies. The wealth management industry in Asia is facing a shortage of talent. Private banks are rapidly expanding to meet the needs of a growing affluent class. If Singapore is to sustain its growth as a wealth management centre, there is an urgent need to raise competency levels in the industry and to build a strong pipeline of talent. We need qualified professionals to fill not just front office jobs like relationship management and investment advice but also mid to back office functions in risk management and compliance.

There are two reasons why we cannot be complacent. One, the markets have changed. Average investment returns are likely to be lower over the next decade than they were in the last, as the developed economies deleverage and global demand rebalances. The wealth manager can no longer sit back and let a buoyant market do the job. He needs to chart clear strategies and manage his clients' portfolios amidst a more uncertain and volatile environment.

Two, the clientele has changed. Post-Lehman, the client is more cautious and less trusting. He wants better service and clearer value. Asian clients with different backgrounds and needs will demand more tailored solutions. The wealth manager must be well-attuned to their social, cultural, and generational considerations, and be able to provide advice on not just wealth accumulation and preservation, but also wealth transfer across generations.

MAS is committed to working with the industry to help expand the talent pool and to enhance capabilities and skills in the industry. The Financial Industry Competency Standards, or FICS, is a good example. Supported by MAS, but developed by the industry, and for the industry, FICS provides a practice-oriented approach for finance professionals to attain the competencies they need to do their jobs well. In wealth management, competency standards have been established for the full range of job families – from relationship management to product development to trusts and estate planning. More than 1,500 wealth management professionals have been trained to-date.

A key partner is the Wealth Management Institute, set up by GIC and Temasek in 2003, to expand and develop the pool of talent and expertise for the wealth management industry in

Singapore. More than half of the wealth management professionals trained under the FICS framework came through WMI's programmes.

A more recent initiative to raise competency levels for the private banking industry is the introduction of the Client Advisor Competency Standards, or CACS. This industry-led initiative provides an independent mode of assessing the private banking professional's competency before he is allowed to provide financial advice to clients. I am pleased that WMI has given strong support for CACS. The Institute of Banking and Finance (IBF), which administers the CACS, tells me that there is already steady interest by private banks and individuals. The CACS, despite not being a regulated examination, is now being seen as a requirement for those interested in getting into the wealth management industry. This is a good sign.

As Chairman of the Institute of Banking and Finance, let me set a target. In three years' time, let us aim for all new entrants in the wealth management industry to have gone through either the industry-endorsed CACS or some formal certification programme under FICS. This is the most tangible way to ensure a high level of competency in the wealth management industry.

Sound market conduct

Competency without integrity is useless at best, and dangerous at worst. A second imperative for successful private banking is therefore to strengthen market conduct. At its core, private banking is about trust. This means acting with integrity, putting the interests of the client first and safeguarding the confidentiality of the client at all times. Let me highlight two areas for improvement.

First, we are seeing increasing cases of mis-selling and mis-conduct in the private banking space. Such practices are ultimately self-defeating. Wealth managers must move away from a transaction-driven approach of pushing products to a client-centred approach that focuses on customised advice to meet long-term needs. Private banks must move away from remuneration structures that rely primarily on commissions, or which are biased towards rewarding staff for recommending certain investment products. Dealing fairly with customers must be made a priority. The Private Banking Code of Conduct developed by the industry sets out principles for proper business conduct by private banks and their staff, and seeks to enhance transparency to clients. MAS' Guidelines on Fair Dealing emphasise the responsibilities of the Board and Senior Management of financial institutions to deliver fair dealing outcomes to customers and instill a culture of fair dealing that goes beyond compliance with regulatory requirements.

Second, the aggressive poaching of private bankers and rapid churning of professional staff are not healthy for the industry. They cause instability and unsustainable wage escalation in the industry, not to mention, increased operational risks. Worse still, there have been a few cases of unauthorised leakage of customer information accompanying such moves. Constant change in wealth advisors and porting over of client information from one bank to another is not the sort of service or behaviour a client expects. The wealth manager or private banker must respect the trust placed in him by his client as well as his employer and focus on building long-term relationships.

A clean financial centre

Let me now move to the third imperative for growth – keeping the financial centre clean. I want to spend a bit more time talking about this issue, in view of the growing risks to the industry on this front.

Singapore's financial centre is built on a bedrock of trust and integrity. But there are risks – both real and reputational. Cross-border crimes have become increasingly sophisticated.

Like any international financial centre, Singapore is vulnerable to being used as a conduit for illicit funds. And given our growing prominence as a centre for wealth management, the vulnerability is greater. We need to guard against financial flows relating to corruption, terrorism, politically exposed persons, and weapons proliferation. More recently, efforts by various governments to strengthen tax enforcement have increased the risk of undeclared monies flowing to Singapore.

In response, the international community has strengthened considerably the frameworks for anti-money laundering (AML) and counter financing of terrorism (CFT) and exchange of information on tax-related crimes. These developments will have implications for the wealth management industry globally.

MAS is fully committed to safeguarding the integrity and reputation of Singapore as a clean financial centre:

- One, we have a strong legal and regulatory framework on AML and CFT, in line with international standards.
- Two, we have a rigorous regime of supervision to monitor compliance by financial institutions.
- Three, we will strengthen cross-border co-operation to fight trans-national financial crime.
- Four, we will step up vigilance against suspicious flows of funds arising from external developments.

Let me give you an update on what MAS has done and will do in each of these areas.

A robust legal and regulatory framework

Singapore has a robust regulatory framework on AML/CFT. The key legislation is the Corruption, Drug Trafficking and Other Serious Crimes (Confiscation of Benefits) Act, or CDSA. The CDSA makes it a crime to engage in the money laundering of benefits from a total of 417 so-called predicate offences, ranging from criminal breach of trust, to dealing with property of terrorist and market manipulation. The CDSA makes the reporting of suspicious transactions mandatory for all persons who become aware of such transactions in the course of their work.

MAS gives force to the CDSA by requiring all financial institutions in Singapore to have in place an effective AML/CFT framework. Our coverage is comprehensive – banks, merchant banks, finance companies, insurance companies, capital market services licensees, licensed trust companies, financial advisers, insurance brokers, exempt fund managers, moneychangers, and remittance houses. Financial intermediaries are held to rigorous client due diligence requirements. They are required to verify the bona fides of their customers and assess their risk profiles. Where particular customers, business relationships, or transactions present a higher risk of money laundering or terrorism financing, enhanced customer due diligence is required.

Singapore's AML/CFT regime was evaluated three years ago by the Financial Action Task Force or FATF, the global standard setter for AML/CFT. FATF assessed that Singapore operates a strict and rigorous AML/CFT regime, centred on a comprehensive and sound legal, institutional, policy, and supervisory framework.

Can we do more? Let me cite three areas.

First, MAS is considering a tougher penalty regime for violations of AML/CFT. In a recent announcement, the Attorney General has stated that Singapore will seek tougher penalties for white-collar criminals. MAS is in full alignment with this. We will ensure that financial crime

does not pay in Singapore and that those who jeopardise Singapore's hard-earned reputation as a financial centre of integrity face severe consequences.

Second, Singapore intends to make criminal the laundering of proceeds from tax offences. This is a pre-emptive move. In February next year, FATF is expected to take a decision on this matter. Singapore will fully align its regime to FATF's new requirements; not only because we are a FATF member, but more importantly, we want to discourage tax evasion monies from attempting to enter our system. As other jurisdictions tighten their regimes and tax evasion monies seek cover, Singapore is sending a clear message that it neither wants nor will tolerate these illicit inflows. This being a significant policy move, we will conduct public consultations and welcome stakeholder inputs to shape a regime that is practical to implement and effective in outcome.

Third, Singapore will step up its enforcement resources to deal with suspicious transactions reported by financial institutions. The Commercial Affairs Department will double the manpower of the Suspicious Transaction Reporting Office and enhance its analytical and reporting systems to detect criminal activity and illicit funds.

Rigorous supervision

Having a good AML/CFT framework is not enough. It is necessary to ensure compliance with the framework through supervision. Since MAS' supervisory activities are not as visible, let me say more about this.

MAS uses a risk-based approach, evaluating the money laundering and terrorism financing risks of each institution by taking into account its business activities; types of customers, products and services; its geographical areas of operation, as well as the quality of the institution's internal risk management systems and processes in mitigating the risks.

MAS conducts both off-site surveillance and on-site inspections to check institutions' compliance with AML/CFT requirements. This ensures that policies and procedures set out in the institutions' manuals are adhered to on the ground. Institutions deemed as having higher risk are subject to more frequent onsite inspections.

Let me cite some outcomes from our inspections. Institutions that have failed to meet our requirements have been warned or reprimanded in writing. A few have been required to appoint external consultants to conduct a thorough review of their AML/CFT frameworks; others have been asked to increase the resources devoted to this function. In a couple of cases, where the frameworks and procedures were adequate but ineffective management oversight resulted in inadequate implementation, we have asked the senior management to be replaced. In all cases, MAS informs the institution's parent supervisor of our findings and concerns.

Our supervisory approach aims to be preventive in nature. This means that sanctions can be taken against financial institutions for weak AML/CFT controls, even if no predicate offence has occurred. Having reviewed our regulations and our supervisory and enforcement actions, the FATF assessors concluded, "Singapore's AML/CFT sanctions regime is effective, proportionate, and dissuasive".

In a nutshell, while a lot has been done, our institutions can always do better. MAS is reviewing whether we need to increase our supervisory intensity and is considering if we should make public, sanctions against persistently or egregiously errant institutions.

Strengthened cross-border co-operation

The third prong of our efforts is international co-operation. Given the cross-border nature of illicit financial activities, it is not enough that we have strong regulation and supervision in

Singapore; we must be able to co-operate effectively with supervisory authorities and enforcement agencies abroad.

Singapore contributes actively to the work of the FATF, the Global Forum on Transparency and Exchange of Information for Tax Purposes, and the AML/CFT Expert Group under the Basel Committee, to shape well-balanced international standards that are effective and proportionate. MAS co-operates with our international counterparts, through sharing inspection reports, participating in supervisory colleges, and facilitating home regulator visits. We also co-operate with home supervisors to enhance AML/CFT controls and standards not only at the branch but at the group level for financial institutions operating across borders.

Internationally, the new emphasis is on co-operation in pursuing cross-border tax offences. Singapore has endorsed the internationally-agreed standard, known as Article 26 of the OECD Model Tax Convention on Income and Capital, for the exchange of information upon request, and is committed to supporting the effective implementation of this global standard. Singapore amended legislation in 2009 to lend effect to its obligations and has since signed 30 Avoidance of Double Taxation Agreements incorporating the new standard. This ensures that we are able to assist in foreign requests for information on a person's tax position, so long as the request is clear, specific, relevant and backed with good reason.

Some people think that Singapore's banking confidentiality regime fetters such international cooperation. Let me stress that banking confidentiality is not absolute. It is intended to protect the legitimate privacy needs of investors. But we will not allow banking confidentiality to be used to shield criminal activities. Where there are sufficient grounds to indicate that a crime has been committed with wilful intent, then confidentiality is no bar to co-operation. MAS will review the Banking Act to ensure that this continues to be the case, as new modalities on cross-border co-operation evolve.

Enhanced vigilance against suspicious flows

Let me move on to my fourth point on enhanced vigilance against suspicious flows. Some people have alleged that Singapore is benefiting from an inflow of hot monies, especially from Europe, supposedly following the adoption of enhanced exchange of information provisions among EU countries.

Tales of large inflows of funds from Europe into Singapore are vastly exaggerated. According to the Boston Consulting Group, European wealth is estimated at just 10 percent or US\$90 billion of the US\$900 billion offshore assets under management in Singapore and Hong Kong.³ This is corroborated by anecdotal feedback. As one banker puts it, the emergence of Singapore and Hong Kong as wealth management hubs has to do with more Asian wealth being retained in Asia rather than a flight of new funds to Asia. The growth of Singapore's private banking industry has been and will continue to be spurred largely by the wealth created from the strong economic growth in Asia.

Nonetheless, we must remain vigilant against potential negative spillovers of illicit funds triggered by external developments. Recently, when Switzerland signed bilateral treaties with the United Kingdom and Germany on tax-related matters, MAS issued a set of guidelines as a pre-emptive step to guard against any potential inflows of illicit funds. The guidelines remind financial institutions that they have a key role to play in preserving the integrity of our financial system, and safeguarding it from being used as a haven for illegitimate funds or as a conduit to disguise the flow of such funds. This vigilance should be extended to all forms of suspicious flows, be they from tax evasion or corruption.

³ Boston Consulting Group's Global Wealth Report 2011.

Don't get me wrong. Legitimate funds from Europe, or anywhere else, seeking to be managed out of Singapore for the stability and infrastructure we provide, the depth of our markets, the quality of our service, and the conducive ecosystem that has taken root here, are most welcome. But not illicit funds seeking shelter from scrutiny.

Working with industry

In our efforts to uphold Singapore as a competent, trusted, and clean wealth management centre, MAS will abide by a key guiding principle – to work hand in hand with industry players like you. We want to leverage off your knowledge and perspectives on the ground, to ensure that initiatives translate to meaningful regulations.

The industry has to take charge of the issues, actively debate them, and advocate solutions. The Private Banking Code of Conduct introduced earlier this year, is an excellent example of this. It has been described as the world's first set of professional standards written for private banks by private banks.

I am pleased that the group which formulated the Code has now organised itself as the Private Banking Industry Group, or "PBIG". Besides overseeing the implementation of the Code, the PBIG will look at initiatives to grow the private banking industry in a sustainable manner and to enhance Singapore's reputation as international responsible wealth management centre. It is co-chaired by the Chairman of Citi Private Bank Deepak Sharma and MAS Assistant Managing Director, Ng Nam Sin, signifying an industry-MAS collaborative effort.

Another laudable example of industry-MAS collaboration is the Governance and Compliance Standing Committee under the Association of Banks in Singapore (ABS). This Committee has been working closely with the industry and MAS to promote compliance with AML/CFT measures. They have organised seminars to raise awareness, conducted training programmes, and issued industry guidelines to level up AML/CFT standards.

Conclusion

Let me sum up.

First, competence. The wealth management industry is growing rapidly amidst a tight labour market. Standards must not slip. We must maintain strong competencies. Let us commit to all new entrants to the industry going through the requisite industry certification before admission.

Next, trust. The global financial crisis has given the financial industry a bad name. This need not be the case. We must bring back to the centre of finance the notion of ethics – doing the right thing for customers, dealing fairly, and acting with integrity at all times. We must foster a culture in the industry that looks beyond the question of "is this legal?" to the larger question of "is this right?".

Finally, staying clean. Confidentiality of customer information will continue to be protected: it is a basic right and underpins confidence in Singapore as a wealth management hub. But confidentiality cannot and will not be used to conceal financial crime or the flow of illicit funds. Neither will confidentiality stand in the way of cross-border exchange of information for investigating crimes. There is no conflict between high standards of financial integrity and our attractiveness as a centre for managing wealth. On the contrary, Singapore will continue to be a vibrant wealth management centre only by having a clean regime that safeguards legitimate funds and weeds out tainted money.

Only a competent, trusted, and clean financial centre can be a successful financial centre.

Thank you.