

A Preview on the Asset Management Industry of Singapore* (First of Two Parts)

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Singapore's strategic location and infrastructure, government policy and efficient financial management have helped make it the trade and financial center of the Asian region.

Moreover, conservative fiscal and monetary policies have generated high savings, which, along with foreign investment, allowed Singapore to grow without accumulating debt.

The Singapore government in the 1970's identified financial services as a key source of growth, and provided incentives for their development. In the 1980's, the government promoted on further diversification, upgrading, and automation of financial services with emphasis on investment portfolio management, securities trading, capital market activities, foreign exchange and futures trading, and promotion of more sophisticated and specialized fee-based activities. By the mid-80's, Singapore was the third most important financial center in Asia, after Tokyo and Hong Kong.

Singapore has an exceptionally open economy, with the Singapore dollar allowed to float since mid-1973, tax and investment allowances extended by the government to attract new investment or facilitate expansion, special incentives for foreigners and, in 1985, extensive tax reductions to reduce business costs.

Singapore has about 580 local and foreign financial institutions, offering an array of financial products and services that include trade financing, loan syndication, foreign exchange trading, derivative products, securities trading and underwriting, fund management, and insurance services.

In 2002, IMF ranked Singapore as 4th in foreign exchange trading in the world and 6th in over-the-counter derivatives trading. Its equities market lists more than 550 companies. Its financial sector accounts for 11% of GDP and 5% of total employment (IMF, 2004). That sector is dominated by the banking industry with 85% of total assets in the financial system.

Asset management first emerged as an industry in Singapore when the Asian crisis hit in the late 1990s. During the first few years of recession, the country's financial institutions pursued numerous recovery programs that resulted in the proliferation of asset management companies (AMCs) and strong of regulatory principles.

However, post crisis measures did not necessarily address underlying behaviors and structural weaknesses. The insolvency measures focused on:

- i) Creating the legal basis for investment in distressed assets;
- ii) Bulk sales of non – performing loans (NPLs);
- iii) Establishing limited life, specialized asset management companies (AMCs);

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- iv) New rescue procedures to insolvency regimes (formal restructuring, often modeled on US Chapter XI) and
- v) Informal workout or restructuring practices.

Asset management companies have been used to address the overhang of bad debt in a financial system by expediting corporate restructuring or rapidly disposing of assets. Two main types of AMC's can be distinguished: those set up to expedite corporate restructuring, and those established to rapidly dispose of assets acquired by or transferred to the government during the crisis.

The AMCs' tactical goal was therefore to restructure NPLs and contribute to the broader strategic aims of financial and macroeconomic stability.

In Singapore's case, asset management focuses on managing and handling assets through stocks, bonds, or cash equivalents to ensure proper acquisition, utilization, lease, allocation, or disposal and increase in the return of investment.

The development of Singapore's asset management business can be traced to 1968, when an offshore market was established for non residents to manage non resident funds, providing mainly funding and exchange services. Competition became tougher by the late '80s, as countries attempted to become international finance centers. Singapore undertook a review of its financial sector, considering advances in communications and technology, the easing of restrictions, and borderless transactions.

By 1998, the Financial Sector Review Group developed a base for management of domestic and international funds that would include non residents like the London market. This move simultaneously boosted competitive strength of local banks while strengthening the capital market. The Financial Sector Review Group reasoned that the asset management business was important because:

- i) European and US investors would eventually reinvest in Asia after recovering from the crisis and
- ii) The region's emerging wealthy class would begin operating like global investors

At the same time, the government nailed down a series of concrete measures including:

- i) Entrusting management of government funds to Government Investment Corporation (GIC), set up to manage the government's foreign currency reserves and the Singapore Monetary Agency (MAS) to private sector managers.
- ii) Attracting of foreign management companies
- iii) Fostering of domestic boutique fund type fund managers (small scale and specialist) and
- iv) Accepting of hedge funds.

The MAS and the Government of Singapore Investment (GIC) Corporation placed a total of \$35billion with external fund managers over three years till 2000. This acted as seed money to grow the Singapore fund management industry. To attract more fund managers to operate in Singapore, the minimum fund requirement for an Investment Adviser's license was reduced from \$500 million to \$100 million. The minimum amount of global funds that the company must manage was lowered from \$5billion to \$1billion. Furthermore the

government introduced tax incentives which allowed fund management companies tax exemption for fees earned from investment management or advisory services.

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