

ACCOUNTING FOR THE FUTURE



RAISING THE BAR, ACCOUNTING FOR THE FUTURE

A note from Indranee Rajah S.C., Senior Minister of State for Law and Finance

WHITHER THE LAWYERS AND ACCOUNTANTS?

Anyone who's been paying attention to what's happening in the world can't have missed the sense of change in the air. Politically there have been seismic shifts in the US and with Brexit. Less dramatic but even more pervasive are changes impacting the economy - changes in how business is being done, how old models are being up-ended (think Uber, Airbnb) and how technology is going to revolutionise pretty much everything.

How is this going to play out? How are we going to secure our future in the face of imminent change? These are questions that preoccupy this government.

With no crystal ball to foretell the future, we took the more practical step of setting up the Committee on the Future Economy (CFE) led by Minister Heng Swee Keat and Minister S Iswaran instead. The CFE Report, released on 9 February 2017 identifies 7 strategies to help us navigate the future economy. These are:

- Deepen and diversify our international connections;
- Acquire and utilise deep skills;
- Strengthen enterprise capabilities to innovate and scale up;





- Build strong digital capabilities;
- Develop a vibrant and connected city of opportunity;
- Develop and implement Industry Transformation Maps; and
- Partner each other to enable innovation and growth.

The CFE report can be found at www.gov.sg.

As part of the CFE work, a Working Group (WG) co-chaired by Mr Chaly Mah and myself was set up to identify strategies to position Singapore's legal and accounting professions for the future.

The WG consulted widely – we had input from more than 120 legal and accounting professionals as well as clients, businesses, government, and international organisations. The culmination of this work are the recommendations in the WG Report released on 7 April 2017 which can be found at www.mlaw.gov.sg.

This Note summarises the WG recommendations and outlines the roadmap ahead for the legal and accounting sectors.

WHERE WE ARE TODAY

Our legal and accounting sectors start from positions of strength. Both sectors have grown in the past few years.

- The legal sector's nominal value added grew from S\$1.5 billion in 2008 to S\$2.2 billion in 2016. Over the same period, the value of legal services exported from Singapore more than doubled. Legal services exports increased by about 110% from S\$363 million in 2008 to S\$760 million in 2016.¹

¹ Department of Statistics.

- Similarly, nominal value added of the accounting sector grew from S\$1.1 billion in 2009 to S\$1.7 billion in 2016. The sector's operating receipts have grown from S\$1.3 billion to an estimated S\$2.1 billion in 2016.²

While firms in both sectors are doing well, some are doing better than others. Small and medium-sized firms in particular face challenges. Issues like costs, manpower and growth prospects are uppermost on people's minds.

The good news is that there is plenty of opportunity for growth. The real question is how firms in every tier of the two professions can access these opportunities to do better.

WHAT WE HAVE GOING FOR US

We have several things going for us. First, we are where the growth is. We are right smack in the middle of the biggest upcoming demand for professional services.

Asia is the world's fastest growing economy and ASEAN is the world's seventh largest economy. With a combined GDP of US\$2.5 trillion in 2016³, ASEAN is projected to rank as the fourth largest economy by 2050.⁴

The global legal services market is expected to grow at a compound annual growth rate (CAGR) of 3.3% from 2014 to 2019.⁵ The Asia-Pacific legal services market is expected to grow at a higher CAGR of 5.5% in the same period.⁶

The CAGR of the global accountancy market is forecast to grow at a rate of 3.7% from 2016 to 2021.⁷ Similarly, the Asia-Pacific accountancy services market is expected to grow at a higher CAGR of 6.5% in the same period.⁸

All these figures add up to one thing - huge potential demand. Given our small numbers relative to this potential demand, there is plenty of opportunity for all our lawyers and accountants. There is no need to chase the same work. There's more than enough to go round. It's more a question of how firms and individuals in our legal and accounting professions can position themselves to secure their own pieces of the pie.

² Department of Statistics.

³ ASEAN Secretariat, ASEAN Economic Community.

⁴ IHS Global.

⁵ 2015 MarketLine Report, Global Legal Services.

⁶ 2015 MarketLine Report, Asia-Pacific Legal Services.

⁷ 2016 MarketLine Report, Global Accountancy.

⁸ 2016 MarketLine Report, Asia-Pacific Accountancy.



Other important factors in our favour include the following:

- Singapore's trusted brand, buttressed by a strong judicial system, low corruption and rule of law;
- Hub status - we are a hub for many things, including finance, transport, infrastructure, intellectual property and professional services to name but just a few. This helps to aggregate and pull in demand;
- Connectivity - geographically, logistically and digitally, Singapore is the best place from which to connect with people and places in Asia;
- Strength of our legal and accounting professions - Singapore lawyers and accountants are highly regarded for their professionalism, strong substantive knowledge and skills, and reputation for quality, honesty and integrity.

These are precious assets which have taken years to bring about. Our legal and accounting sectors now need to build on these to advance to the next level.

WHERE WE WANT TO BE

How do we see ourselves in the future? Where do we want to be? No doubt each firm and individual has their own plans and ideas. Without detracting from that in any way, this is how the WG envisages the future of our legal and accounting sectors.

Against the backdrop of the burgeoning growth of Asia, we see Singapore as a trusted global exchange for financing, brokering, structuring and dispute resolution for international transactions.

We see our legal and accounting professions at the heart of this - moving beyond the domestic market to provide professional services to the region and Asia. We see our legal and accounting practices being transformed - larger ones becoming regional and global in practice, medium-sized ones breaking into the next tier or developing niche specialisations and smaller firms becoming more productive, leveraging on shared resources to grow their businesses.



We see our professions developing new areas of practice, acquiring new skills and capabilities to meet new needs. Across the board we see widespread technology adoption for greater productivity, cost reduction and time savings. We see more business innovation and our firms leading professional practice in Asia.

It's a big vision. Can we get there? We think so. It won't be easy. There will be the inevitable challenges. But everything starts from a vision of where we want to be. Then we work out how to get there and do it.

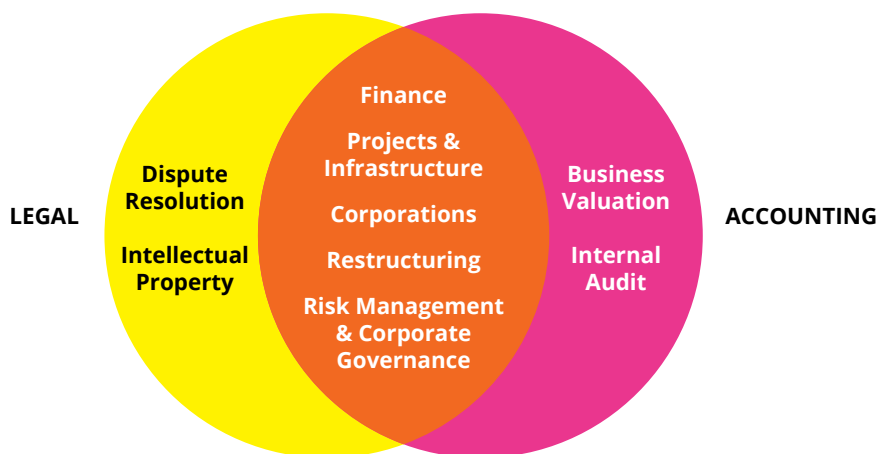
GETTING THERE

To achieve this vision, the Working Group identified four key thrusts in alignment with the CFE strategies, namely:

- Strengthening our global market position;
- Transforming our legal and accounting sectors;
- Equipping legal and accounting professionals to be future-ready; and
- Building thought leadership.

Strengthening Our Global Market Position

The WG identified nine high growth practice areas (see the Venn diagram below). These are by no means exhaustive but they give guidance on important directions in which law and accounting firms should channel their energies.



It can be seen that legal, accounting and financial services intersect in many of the nine areas. Coordination will be needed to fully exploit opportunities and optimise use of resources. Private sector and government will need to collaborate with each other and inter se. To catalyse this, MinLaw, MOF, EDB and MAS will be setting up a new inter-agency office, the Professional Services Programme Office, to develop and promote high growth areas which straddle legal, accounting and financial services. It will work closely with other agencies, develop integrated strategies to strengthen the linkages between legal, accounting and financial services, and reinforce the relationship between professional services and businesses.

Our legal and accounting firms will need to develop their own strategies to internationalise. Some already undertake regional work but we are nowhere near our full potential. The private sector

must invest in this effort. This does not necessarily mean setting up offices in other countries, though that is one model. What it does mean however is having the capability to provide services to the region and Asia. The actual modality depends on individual businesses' preference.

The government will work in collaboration with private sector to support such internationalisation efforts. Firms are encouraged in particular to work with IE whose mission is to bring Singapore business abroad and EDB whose mission is to develop globally competitive industries in Singapore. IE will know where the opportunities overseas are and can help make connections. EDB can support you in understanding the demand drivers, connecting to business partners here and building new capabilities.

Transforming Our Legal and Accounting Sectors

We need to transform our legal and accounting sectors. Every firm, large or small should have a strategy for transformation in order to move up the value chain.

Our top local firms should move to become regional or international leaders. Our medium-sized firms should develop niche specialisations or move into higher value work. Small and medium-sized firms should leverage technology to stay competitive and build sustainable practices.

To help legal and accounting entities get started on using tech to transform, we have introduced support schemes for adoption of baseline technology.

- In February 2017, MinLaw and the Law Society launched “Tech Start for Law” to help Singapore Law Practices (SLPs) leverage technology. Qualifying SLPs can get subsidies of up to 70% of the cost of adopting three types of pre-qualified technology products and also use the PIC for the balance cost. More information can be found at www.mlaw.gov.sg.
- Under the Local Enterprise Association Development (LEAD) programme, SPRING is partnering the Institute of Singapore Chartered Accountants (ISCA) to drive industry transformation in the accounting sector. Under LEAD, accounting entities that adopt the approved audit software can defray 70% of the adoption costs for two years. More information can be found at www.isca.org.sg.





Beyond adopting baseline technology, there is a need to foster a culture of innovation. The Working Group identified two areas to develop a culture of pervasive and collaborative innovation – technology innovation and business model innovation.

Technology will not replace lawyers and accountants but it will change how lawyers and accountants work, client expectations of their professional advisors, and what clients are willing pay for. More importantly, it will differentiate law and accounting firms. Those who do not embrace it will be left behind. Legal and accounting firms must make technology work for them.

Firms are also encouraged to think innovatively on how to grow your business. Business model innovation is taking many new forms. For example, Allen & Overy collaborated with Deloitte to launch MarginMatrix, a digital derivatives compliance system to help banks deal with new regulatory requirements.⁹ The way you do business must evolve in order to meet client needs.

Equipping Legal and Accounting Professionals to be Future-Ready

Singapore's lawyers and accountants are already known for their high integrity, and strong domain and technical knowledge. While these must definitely remain core attributes, they are no longer enough.

Clients say what is needed over and above such core attributes are lawyers and accountants with:

- multi-jurisdictional capability who can provide cross-border advice, project management and coordination;
- ability to provide integrated cost-effective solutions (i.e. solutions which are cheaper yet better. It's a big ask, but that's what the clients say they want and they will go to the ones who can deliver it);
- strong industry knowledge, who can see round the corner, and anticipate and advise clients on new trends.

In short, the clients want more value-add.

- We must build capability and competencies to meet demand. We will do this in a variety of ways:
- Cross-disciplinary and practice oriented curricula and internships in universities;
- Executive programmes for professionals who are already working; and
- On-the-job training through secondments to clients and other industry players.

⁹ Allen & Overy, Allen & Overy and Deloitte tackle OTC derivatives market challenge, 13 June 2016.

The private sector is also strongly encouraged to come up with their own ways of building such capabilities and competencies.

BUILDING THOUGHT LEADERSHIP

Singapore can be a thought leader in standards and research by pioneering and setting standards and frameworks in legal and accounting services for the region. The WG has recommended that the Government take the lead in developing and strengthening Singapore standards and frameworks and promote their use internationally.

We will continue to work with the Singapore Academy of Law to promote the use of Singapore law and Singapore dispute resolution offerings and the Singapore Accountancy Commission to promote and market certification frameworks such as the Chartered Accountant of Singapore and Chartered Valuer and Appraiser.

The private sector has a big role to play in this too. Practice puts you at the forefront of developments. Participation in international conferences and showcasing your experience will help to put Singapore on the map for professional services.

CONCLUSION

As you can see, the WG's recommendations are not lacking in ambition. But that is because we have faith in our local legal and accounting sectors. You have tremendous potential which has not yet been fully unleashed.

The path ahead will not be without challenges. Some things we can do immediately. Others will be years in the making. This is a shared endeavour. Whether we succeed in achieving our vision or not will depend greatly on mindset, attitude, execution and implementation.

However this is a journey worth undertaking. It is our hope that the plans and strategies outlined by the WG will get us started on what promises to be a very exciting journey - to achieve our goal of being a world leader in the provision of professional services.

*– Indranee Rajah S.C., Senior Minister of State for Law and Finance
2 May 2017*