COMMENTARY Commentary

Commentary: Singapore's game plan to court more billionaires to come here is paying off

Besides low tax rates, Singapore's regulatory changes are attracting more family offices to set-up here and that could have a multiplier effect on the economy, says David Kuo.

From left to right: James Dyson (Photo: AFP/Christophe ARCHAMBAULT), Sergey Brin (Photo: Tim Mosenfelder/Getty Images for Breakthrough Prize/AFP) and Eduardo Saverin (Photo: Mediacorp).

David Kuo
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SINGAPORE: Singapore is a magnet for millionaires.

The ninth richest person in the world, Sergey Brin, with an estimated net worth of US$88.1 billion, is the latest in a growing band of high-profile billionaires to have opened a family office in Singapore.

The co-founder of Google will reportedly set up his Bayshore Global Management company in the island state.

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There are many more apart from these well-known names.

In October 2020, Singapore's senior minister, Tharman Shanmugaratnam, said there were about 200 family offices – including those owned by locals as well - in Singapore, with around US$20 billion of assets under management. That's an average of US$100 million per family office.

It cannot just be coincidence that these wealthy individuals have flocked to Singapore. There must be other reasons for their decision.

Some of the more obvious explanations could include the country's low tax rate, a stable and convertible currency, and a sound legal system.

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These probably figured highly in their assessment of Singapore – family offices here are subject to a corporate tax rate of 17 per cent while the top marginal rate on personal income taxes is 22 per cent.

But competitive tax rates alone are, perhaps, still not quite persuasive enough. There are other jurisdictions that have favourable tax treatments too. Some countries, such as Bermuda, Bahamas, and Bahrain don't even levy income taxes at all.

For these ultra-rich individuals, it could also be about being in Asia, which has been touted as the next centre of global economic growth.

WHY DO THE RICH COME TO SINGAPORE?

So, Singapore is not just a playground for the rich and famous. There must be other reasons why wealthy individuals have parked their funds in Singapore.

It could be because Singapore is an efficient place to live and work. The country is also almost unmatched in personal safety and political stability.

Apart from that, Singapore also has low corruption levels. Transparency International has ranked Singapore as the world's fourth least corrupt country out of 180 countries. It is the only Asian country that is positioned in the top 10.

But even those attributes are still unlikely to be enough to convince billionaires to set up shop in Singapore.

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Admittedly, the main purpose of a family office is to preserve wealth, which can be achieved through attractive tax rates. Another, and perhaps equally important, objective of family offices is to generate more wealth for future family members.

Consequently, the right conditions need to exist to achieve both those objectives.

And Singapore has made a conscious decision to ensure that its ecosystem is conducive for family offices to thrive. It wants Singapore to be a destination of choice rather than just an afterthought.

FAMILY OFFICES THE NEXT BIG THING

Therefore, an important consideration for family offices is wealth-friendly regulations.

With that in mind, Singapore has launched a new tax-efficient structure, namely, Variable Capital Companies (VCCs), to make it easier for family offices to operate by enabling its investors to either subscribe or redeem their investments easily and ensuring the privacy of its investors is protected.

FILE PHOTO: Ray Dalio, Founder, Co-Chief Executive Officer and Co-Chief Investment Officer, Bridgewater Associates attends the annual meeting of the World Economic Forum (WEF) in Davos, Switzerland, January 18, 2017. REUTERS/Ruben Sprich

In December, the media also reported that the Monetary Authority of Singapore is looking into the possibility of "widening the scope of permissible fund managers to allow SFOs (single family offices) to manage VCCs", which will attract more family offices to set-up here.

Singapore's strategy appears to be working and has caught the attention of other financial centres in the world.

In a recent interview, the CEO of Barclays, Jes Staley, urged the UK to focus on competing with the US and Asia rather than wrestle with Paris and Frankfurt. He singled out Singapore and New York as two places that London needs to pay close attention to.

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It is understandable why Singapore has chosen to go down this route, given the rapid growth of wealthy individuals. In 2020, Swiss bank UBS said there were more than 2,000 billionaires globally with a combined wealth of US$10.2 trillion.

Asia accounted for 831 or 40 per cent of the super-rich. In the US, there were 762, whilst 596 came from Europe, the Middle East and Africa.

Apart from the super-rich, the number of ultra-high net worth individuals has also grown. Property agent, Knight Frank, reckoned that Asians with a net worth of US$30 million or more had outpaced other world regions in 2019.

Meanwhile, the number of high net worth individuals - people with at least US$1 million in investable assets - has also grown. According to Capgemini's The World Wealth Report 2020, the number of people who are classified as high-net-worth individuals grew 9 per cent globally.

WHAT THESE FAMILY OFFICES BRING TO THE TABLE

FILE PHOTO: A luxury yacht is berthed at the One Degree 15 Marina Club at Sentosa Cove in Singapore April 25, 2012. REUTERS/Tim Chong

These individuals inevitably want access to a suite of services that include talent in private banking, competitive legal services, and experienced accountants.

For instance, the family offices they establish have a multiplier effect on the economy. It is not unreasonable, for instance, for a $100 million family fund to spend around $1 million a year in expenses.

In return, family offices will want access to investment managers with knowledge of the Asian venture capital market.

On that front, Singapore is home to more than 150 venture capital and private equity companies. These could be fertile hunting grounds for family offices looking to grow their funds for future generations.

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According to Enterprise Singapore, start-ups closed 353 financial deals worth US$10.5 billion in 2018, compared to 160 deals worth US$0.8 billion in 2012.

This could suggest that there is not only a strong supply of local start-ups looking for funds but a source of funds looking for talent.

One without the other is akin to a potential thoroughbred without an experienced jockey. Together it could be the makings of future champions.

Moreover, the presence of these billionaires who set-up their physical and financial roots here gives a fillip to Singapore's entrepreneurial and start-up ecosystem.

Many of those here, such as Saverin and Bansal, already invest in and mentor several start-ups in Singapore. The former has invested in and mentored the likes of local property start-up 99.co, among others.

Binny Bansal, Group Chief Executive Officer of India's largest e-commerce firm Flipkart, poses at the company's headquarters in Bengaluru, India. (Photo: REUTERS/Abhishek N. Chinnappa)

Additionally, family offices tend to be more patient than other types of investors.

Having done it before, they have a greater appreciation of the amount of effort that is put into start-ups. They could even help with making connections with other family offices and strategic partners.

Consequently, the more family offices that choose to come to the Singapore the stronger the network of wealthy individuals that could benefit Singapore's budding entrepreneurs.

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Singapore is in the right place at the right time.

With considerable political uncertainty elsewhere in the world, and the growth in the number of wealthy people, Singapore is not just a convenient port in a storm.

It has the potential to be the financial capital of Asia, if not the world, which would not only benefit ultra-high-net-worth families but the Singapore economy, too, as he number of family offices grow.

With changes to the VCC framework, expect more of the world's ultra-rich to come to Singapore.

David Kuo is the co-founder of The Smart Investor and previously the CEO of the Motley Fool Singapore.

Listen to David also break down how different players powered the recent GameStop surge and which listed company could see copycat attacks in CNA's Heart of the Matter podcast:

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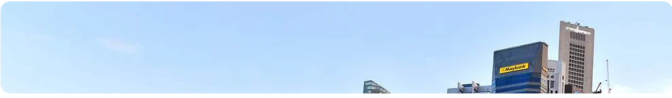
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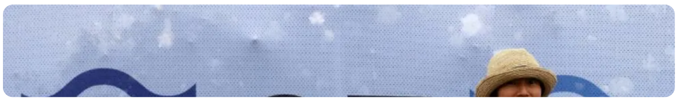
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