Changing the Philippines investment mind-set

Robert B Ramos of the Union Bank of the Philippines explains why investor education and formal training for front-line bankers can make a wealth management offering more compelling. This will change how the country's emerging affluent think about investing.

When it comes to the concept of wealth management in the Philippines, most investors still seem set in their old ways. With the mentality of 'savers', they prefer to hold most of their liquid assets in time-tested fixed deposits, rather than investing in mutual funds that offer the promise of higher returns and also more diversification.

A major appeal of time deposits is the 2.5% fixed return on offer. Yet while high enough to beat inflation, what they earn is significantly lower than the average 8% from equities on the local stock exchange.

As a result, it is difficult to see how most of these individuals can achieve their long-term financial objectives.

"There is much greater comfort with time deposits," explains Robert B Ramos, first vice president and trust officer within the trust and investment services group at the Union Bank of the Philippines. "People don't talk about investments based on their current objectives, their time horizon, or their needs. What they do know is that equities are volatile."

Tied to this mind-set is also a preference for holding investment assets in the form of a trust.

Though these are widely-accepted structures in the Philippines, they make the process much more cumbersome.

"A trust is a complex structure," adds Ramos. "It integrates the US asset management and custody businesses into one service. It serves its purpose here but we need to learn from what is happening in other countries."

EDUCATION TO PAY OFF

Being able to deepen the understanding among investors generally of the value of wealth management relies on proper education about products.

ROBERT B RAMOS
Union Bank of the Philippines

Only then, says Ramos, will they be able to objectively evaluate the risks as well as returns trade-offs associated with investing – without getting disheartened by short-term influences, such as market volatility.

In line with investor education, advisers too need to increase and widen their knowledge, he adds.

The common approach in the Philippines at the moment – not dissimilar to what happens in many Asian markets – is to sell products which are front-of-mind. And in the Philippines, this tends to mean a time deposit. "If we try to provide more in-depth training to advisers to enable them to understand what might be suitable for a client, it will allow them to offer different products and services that will fit the needs of these clients," explains Ramos.

But prioritising financial education for investors rather than advisers may result in a bigger bang for the buck.

It will, says Ramos, deter advisers from taking the easy road by trying to recommend products for a client without first taking the time to understand what is suitable for them.

The win-win will come when advisers embark on the road towards needs-based selling at the same time as investors look beyond short-term gains towards building long-term wealth.

Meanwhile, to ensure that any initiatives can have the most impact, the regulator is likely to need to step in to make it compulsory. At present, with bank staff able to take or leave these courses, few advisers lack formal certification and training.

STANDING OUT

Beyond the quality of their advisers, a big challenge for banks in the Philippines is to differentiate themselves, as fees and products are broadly similar. "Often, clients pick one bank over another based on just one criterion: location. Clients go to a bank that's nearest to them," explains Ramos.

The surest way to make an impression on the client, therefore, is to enhance the customer experience. This comes back to the importance of quality of advice. "Products are standard, so you can't really be exotic in your offering. So you have to compete on experience."

Those banks which are able to offer a broad array of products and services under one roof will also have a greater chance of success. But to achieve this, institutions need to change the way they sell products, to integrate various aspects of the wealth management process into a single function.

"If you create alliances that allow you to do different investments through one account, you are in a better position to succeed," says Ramos. "Wealthier clients are short on time, so they want a one-stop shop." ■

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Building the right wealth proposition for the Philippines

Union Bank has identified its target customer segment as the emerging mass affluent – meaning individuals with between USD80,000 and USD500,000 in investible assets.

The appeal of these individuals is clear, says Ramos.

They have the potential to generate more business as they grow in wealth and stature; they can also serve as a good source of referrals for the bank.

In contrast, the relatively few HNW and UHNW individuals in the Philippines present less potential for many local bankers; these clients like to place some of their assets in more mature markets such as Singapore and Hong Kong.

It is also perhaps more realistic for local banks to target the affluent segment given the limited amount of product innovation.

"While there are different types of fixed income and equity funds to offer short-, medium- and long-term investment choices, the strategies adopted by different funds are more or less similar, if not identical," says Ramos. "There is a need to bring in more variety."

One way of adding variety to the product mix is to have an open architecture model, where banks can sell funds from other providers, says Ramos.

Union Bank is adopting this approach, he reveals, but this is at an early stage.