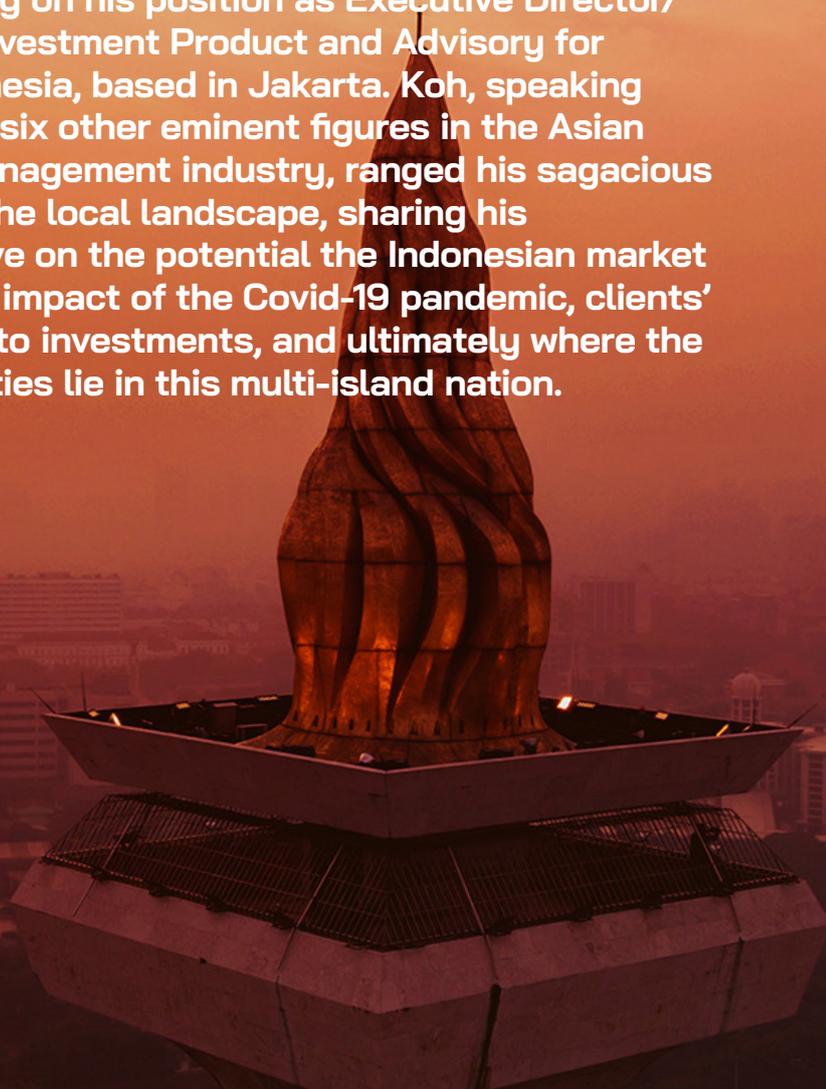


DBS' Koh on the Opportunities Aplenty to be found in Indonesia

In the twentieth edition of the Hubbis Digital Dialogue series, DBS Bank's Keng Swee Koh offered his learned insights into the state of the Indonesian wealth management industry, capitalising on his position as Executive Director/ Head of Investment Product and Advisory for DBS Indonesia, based in Jakarta. Koh, speaking alongside six other eminent figures in the Asian wealth management industry, ranged his sagacious eye over the local landscape, sharing his perspective on the potential the Indonesian market holds, the impact of the Covid-19 pandemic, clients' approach to investments, and ultimately where the opportunities lie in this multi-island nation.



Koh began by elaborating on his experience in Indonesia thus far compared to that of his previous posts in the regional hubs of Hong Kong and Singapore, where he was based for four and ten years respectively, noting the potential that can be found onshore in the world's largest island country. "I think the market in Indonesia was actually growing quite nicely prior to the pandemic," he reports. "In the market, which is very much dominated by retail products like unsecured loans and credit cards, there is actually quite a sizable segment of the population who are interested in wealth products."

Covid-19, however, reports Koh, has put a pin in the progress being made, with the local stock market spiralling down in March and not quite recovering to pre-pandemic levels even in September. As a result, clients and practitioners have turned risk averse, and favour fixed income solutions such as Indonesian government bonds. This was given a further impetus in 2020, where to fund government aid arising from the pandemic, the local government had ramped up bond issuance. At the same time, Koh noted that in 2020, there arose opportunities in overseas equity markets, e.g. US tech stocks and Greater China market. Thankfully DBS Indonesia had already in place a suite of offshore Shariah funds which enabled clients to tap into these opportunities. However for banks that only offer local unit trusts or for clients who only invest onshore, the prognosis may not have been entirely positive. "Unless you have products that allow you to invest overseas," Koh reports, "if you only have local products, then your mutual fund, unit trust business probably didn't do so well this year."

Playing the hand dealt

Koh then elaborated on how DBS has been supporting clients through what has been a thoroughly challenging year for all, and how the firm is positioning itself in the face of Covid-19. "Looking ahead for us, one of things that we're doing in DBS is to really continue to capture the opportunities in fixed income. That's important, and that really supports the business. At the same time, also we see there are moves by the regulators towards opening up the mutual funds and the unit trust area, where we could offer more offshore Shariah funds here."

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Koh then turned his attention to DBS ramping Shariah offering, noting the offshore opportunities that such products offer the firm's clients, enabling them to access offshore opportunities that otherwise would have been out-of-bounds due to the nature of current Indonesian regulations. "If you want to offer funds that allow the retail investors to invest overseas, in the US, in China, in Hong Kong," explains Koh, "they have to be in Shariah format. That is the regulation. So, we started the year with two such funds, and

we're tripling it by the end of the year and adding even more next year. And we've got funds from a range of providers, both local and overseas fund providers. I think that really allows us to capture all of the opportunities."

Ramping the digital offering

Further elaborating on DBS' priorities, Koh turned his attention to the bank's digital piece, an area which has come to the fore in the face of Covid-19, which he explained was something that the firm was approaching from an entirely holistic standpoint.

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Looking internally

Koh then spoke of DBS from an internal perspective, initially emphasising the importance of ensuring that staff are comfortable and catered to from a digital perspective, as this ensures that clients have the greatest possible experience on the back of employee positivity. “If you treat RMs and staff well, and they have a very nice seamless experience, to price the trade, to place the trade, and it goes all the way to the back office, I can guarantee you the clients will also have a good experience engaging with the RM. And that actually takes a lot of work, to rethink, to revamp and to invest money into it, to come up with a straight-through system. And that’s what we’re doing actively over the last 12 months to revamp our bond processes, our FX processes, our structured product processes.”

And the firm’s dynamic, holistic approach has paid dividends, he reports, with DBS Indonesia set to grow despite the tumultuous conditions witness throughout 2020. “The business for the year has actually gone pretty well. I

think we’re forecasting to grow by about 25% this year, and that’s on top of very strong growth last year; I think we grew up about 40% last year so in the last 2 years, we have doubled our business.” And that growth is set to continue into the future, says Koh, with more products to be launched in 2021, stepped up digitisation as well as improved client advisory. “Not to make light of the situation of course, but the opportunities that have been thrown up as a result of what has happened over the last few months has created really good opportunities for us, and we captured them. I think the future is, of course, unpredictable, but we think there are still opportunities and we’re happy to keep investing.”

“As we move up the continuum, we’ll take a more RM-led, less digital approach. And that actually allows us to capture all opportunities, because when you put investments into building systems and products, it only makes good business sense for you to spread it out across a wider segment of clients.”

Supporting every segment

Looking more closely at the make up of the Indonesian market, Koh reported that DBS is committed to offering services across the board, catering to the numerous segments that make up the growing general population. “We have a term that we use in the bank, which is the Wealth Continuum – looking at clients from the high net worth to the retail,” Koh explains. “In the bank, there are three segments. One segment is the TPC – Treasures Private Client, which caters to clients with IDR10 billion and above, which is about a SGD1 million in assets

under management. And the second segment is clients with IDR 500m to IDR 10bn (SGD 50k to SGD 1m) That’s the Treasures segment. And the below IDR 500m (SGD 50k) is the retail segment.”

And Koh reports that this multi-segment approach suits Indonesia down to the ground, namely due to the country’s vast population and shifting regulatory landscape. “With the deregulation that we’re seeing currently, and also with the tax amnesty program that was launched many years ago, we see many of our customers bring money back from overseas, and coupled with deregulations, so we see opportunity to offer a wider selection of products for the clients.”

Offering bespoke services

And the reason the bank breaks down its clients into various segments is to differentiate the experience between clients. “The approach to engage the clients cannot be a cookie cutter,” he says. He reports that for clients in the higher segment, the bank would offer a more human-led experience, whereas for those in the retail segment, the engagement would be more digitally driven. “As we move up the continuum, we’ll take a more RM-led, less digital approach. And that actually allows us to capture all opportunities, because when you put investments into building systems and products,

it only makes good business sense for you to spread it out across a wider segment of clients.”

Navigating the investment landscape

Zooming in more closely on the investment pursuits of DBS’ client base, Koh explained that Indonesian business echoes the themes of those in Hong Kong and Singapore, namely that its still very much transaction driven, trading-oriented, and yield-oriented, and this is spurred by the fact that Indonesian government bonds offer yields that could be as high as 8% and can be volatile (which means capital gains can be made without holding the bond till maturity). He reports, however that there has been increasing favour amongst TPC clients for products that parallel that of discretionary portfolio management, which is called KPD

in Indonesia. This product allows fund houses to manage a client’s portfolio into overseas unit trusts, into stocks, into bonds. There is a minimum placement amount of IDR 5bn (SGD 500k) which is a regulatory requirement. “The majority of funds that we see going into this KPD are placed into overseas mutual funds. For clients who do not wish to place such a large amount, they can certainly buy offshore unit trusts still, but these have to be in Shariah format, as required by local regulations. This means that the universe of stocks that you can buy into is more limited compared to pure offshore unit trusts bought through KPD.”

And although the interest in these offshore unit trusts is increasing, with DBS offering its clients access to these solutions through a number of select providers,

Koh reports that the sizeable ticket size means that this avenue oft angled towards the high net worth segment.

Increasing financial awareness

In his closing comments, Koh emphasised the importance of increasing the financial awareness of the Indonesian population. “I would say that the most pressing task at hand is financial education. I’m not talking about it from just a money-making perspective,” he says, “but about linking it back to the higher goals in life. So, whether you’re planning for retirement, whether you’re planning for your kids’ education, the bank can help and support you. I think financial institutions and banks have an important role to play and can really do its part to initiate and guide the conversation.” ■

