How to increase fund penetration in Thailand

Market practitioners at leading banks and asset managers in the country highlight some of the ways to encourage greater take-up of mutual funds views.

Thailand suffers – in a similar way to many emerging economies in Asia – from a relatively low penetration of mutual funds.

However, in this South-east Asian country, in particular, the potential for this to change is very real.

Low levels of financial literacy have been one roadblock to date, despite a growing population of HNW individuals.

As a result, the preference of many wealthy Thais seems to be to opt for cash or cash equivalents, and low-risk fixed income products.

However, to make the idea of using mutual funds as an investment or savings vehicle more widespread, a combination of adviser and client education, greater collaboration between regulatory and industry players, and a focus on solutions rather than products is the name of the game for Thailand.

EDUCATION, EDUCATION, EDUCATION

There is a consensus among senior market practitioners, however, that to increase fund penetration, a concerted effort is required to educate investors. They need to understand the benefits of investing in mutual funds, as well as embrace investment concepts such as portfolio approach, asset allocation and diversification.

In this way it becomes more realistic to break the more traditional channels for getting advice – such as through conversations with brokers, friends and relatives – but which are still prevalent in Thailand.

This highlights the need for more professional – and therefore rational – ways of learning about investment opportunities and then making decisions with the guidance of advisers. Yet seeking professional investment advice in a country where the pool of qualified advisers is shallow is another challenge.

And even most of the graduates emerging from Thai universities lack sufficient financial knowledge, according to market specialists.

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A well-needed and accepted solution, therefore, is for the industry to come together in creating training programmes to ensure client-facing advisers have the required education and knowledge to give clients suitable advice.

BUCKING THE TREND

Some institutions have managed to be successful to date in Thailand in driving up penetration rates.

Standard Chartered, for instance, is one of the few banks which says it has been able to increased sales of funds from 10% of client AUM to roughly 50%. Another key player that has been successful in this way is Kasikornbank.

Starting with offerings on the credit/funding side, The Thai household banking name has built up client relationships that have since extended to privilege banking relationships.

Its clients have subsequently shown the value of their trust in the bank by adding more mutual funds to their portfolios.

MORE COLLABORATION NEEDED

Wide-ranging conversations with senior management and also gatekeepers on the investment side of the business also highlight the importance increased co-ordination between the Securities and Exchange Commission and the Bank of Thailand in driving product awareness.

This is just the start. More collaboration between the authorities and the industry would ensure faster or more effective implementation of new regulations, says practitioners.

In addition, some executives feel the securities watchdog could reduce the time it takes to approve new funds.

On the other hand, in recent years, the regulators have been easing capital controls and facilitating more offshore investing.

While these changes make it easier for local Thai individuals to diversify and look beyond the domestic border, this again underlines the need for greater awareness of the risks involved in investing.

In the local market, meanwhile, increased diversity in fund selection would go a long way in improving fund uptake.

Although HNW clients with offshore accounts can access a vast range of products from Singapore, for example, when they come onshore, product platforms suffer from a scarcity of products.

This calls on investment managers to either create their own offerings or find other ways to bulk up the product suite.

FROM PRODUCTS TO SOLUTIONS

Simply pushing product is not considered a viable way to build up a sustainable funds industry.

Most market practitioners point to the need to urge clients to look at investing from an asset allocation and portfolio diversification point of view.

This will also enable investors to start to focus on their long-term investment goals – not continued to be swayed by short-term performance.

Wealth managers need to play their part. It is incumbent on them to build into their repertoire needs-based conversations in order to arrive at solutions.

This way, they won't have to fall back on just offering another product to their clients.

Inevitably, mutual funds will then form part of the offering package.

This would reverse some of the past selling tactics within the wealth and asset management industries which – through the self-admission of practitioners from such firms – have been overly short-sighted.

A ROLE OF SORTS FOR FINTECH PLAYERS

Amid the talk generally within global wealth management about the potential for digital disruption, technology has a role in Thailand too.

Industry players acknowledge the need to harness its potential to encourage deeper product penetration via improved access and knowledge.

In particular, online platforms are expected to gain traction in the coming years. These will allow investors to be more self-directed in activities such as switching funds.

Yet the challenge is to ensure clients are financially-sophisticated enough to use such technology to their benefit.

Further, easier and faster access does not necessarily mean improved investment decisions. ■