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Is the Indonesian Wealth Management Offering Evolving Successfully

A panel of eminent financial market professionals sat down to give the audience at the Hubbis Indonesia Wealth Management Forum their insights into why and how the wealth management industry should develop, and how the needs of Indonesia's privately-held wealth can be better managed both onshore and offshore.

These were the topics discussed:

- *Where will the continued growth come from and what are your priorities?*
- *How is regional wealth management developing?*
- *How are private banks changing their proposition?*
- *What does the private banker of tomorrow look like?*
- *Whats the role today of regional financial centres like Singapore?*
- *How do the different players - wealth management, insurance and banks compete or complement each other?*
- *How is the insurance market developing - especially for HNW?*
- *How important is digital today?*
- *Offshore / onshore. Where is the long-term opportunity?*
- *Is there a hybrid model where international banks can work with onshore banks?*
- *What changes are we seeing in client expectations and behaviour?*

PANEL SPEAKERS

- **Carolyn Leng, Regional Head of Sales, CIMB Private Banking**
- **Ranjit Khanna, Head of South Asia and NRI Asia & Middle East, UBP**
- **Simon Lints, Chief Executive Officer – Singapore, Schroders Wealth Management**
- **Kimmis Pun, Managing Director, Head of Private Banking, VP Bank**
- **Steven Suryana, Head of Wealth Management, Retail Banking and Wealth Management, HSBC Bank**
- **Chris Bendl, Chief Executive Officer & Country Manager, Zurich Topas Life**

hubbis

STEVEN SURYANA
HSBC Bank

EXECUTIVE SUMMARY

Indonesia's already huge population and its private wealth are both on the fast track of growth. By one estimate there is an estimated USD1 trillion of high-net-worth individual (HNWI) wealth onshore and also offshore, the latter handled largely via Singapore, which has long been favoured by Indonesia's elite. But is the country's onshore wealth offering on track to fulfil the growing needs and are regulators receptive to the offshore market, as well? A panel of experts met at the Hubbis Indonesia Wealth Management Forum to give their views on the evolution of the industry and what needs to be done for it to develop more robustly.

Greater regulatory creativity is needed, with the regulators working more closely with the private sector. There is a huge conservatism amongst those with money, with deposits the preferred option for more than 90% of the investible money, so market education surrounding investment products must expand rapidly. The same applies to the insurance market, where there are enormous protection gaps throughout the entire population. There is a dramatic shortage of talent to cope with the population of more than 273 million and the rapidly expanding HNWI market. Digital will provide significant advances for the wealth sector, but Indonesian HNWIs want to have a human interface, so the hybridisation of the sector is both vital and strongly encouraged by industry experts.

KIMMIS PUN
VP Bank

CAROLYN LENG
CIMB Private Banking

"WE BELIEVE THAT INDONESIA is an immense potential market for the onshore business, despite the fact that Singapore is so close and is heavily banked," said a senior regional banker. "Indonesia today has roughly 55,000 households that belong to the HNW category, and we estimate that around 36% of that wealth is onshore and 64% offshore; of that total, about 30% is with a wealth manager, splits mostly between one trusted manager, with the rest vested with multiple managers."

What does this all mean? There is a vast opportunity and Indonesian clients are already quite sophisticated. Moreover, with the Common Reporting Standard (CRS) and Automatic Exchange of Information (AEOI) more of the offshore money will be repatriated onshore. Moreover, the Indonesia government has a variety of initiatives in place to allow it to reconcile the onshore and offshore data.

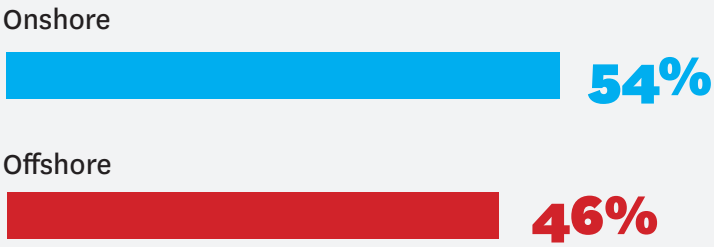
Adding value, becoming trusted advisers

"But the question for us here today is how we add value to clients onshore and how can you become a trusted adviser. The answer is to push the limits of what you can offer onshore, offering as board an array of products and services as possible."

Another guest remarked on the huge population

RANJIT KHANNA
UBP

DO YOU THINK THE BIG WEALTH MANAGEMENT OPPORTUNITY IN INDONESIA IS



Source: Indonesian Wealth Management Forum 2018

of 273 million people, the rapidly growing mass affluent segment and a GDP growth rate north of 4.5%. "I think Singapore will continue to play an important role in the future of wealth management industry for Indonesia and I believe that onshore will eventually become much more sophisticated, working very closely with the regulators."

He sees three models evolving. "The regional and local banks are expanding and consolidating, catering to the onshore needs," he reported. "The major universal banks continue to focus on the wealth sector, as their private banking units remain important to them. Then we have the focused wealth players. The clients, therefore, have a wider choice than ever and with the advent of much tougher regulations it is critical to differentiate their offerings; we believe the wealth transference into the second generation, legacy planning and wealth planning have all become vital elements."

SIMON LINTS
Schroders Wealth Management

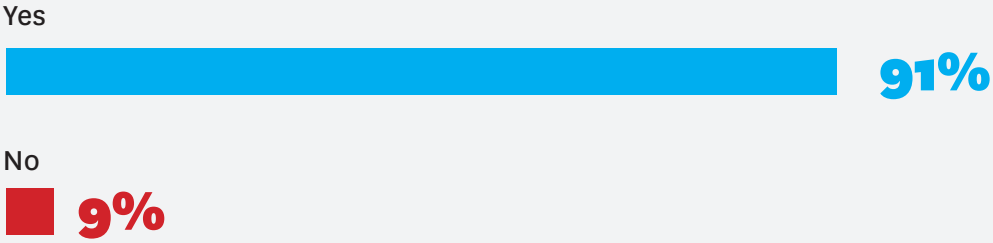
Rolling out DPM through partnerships

A banker from a leading boutique name noted that the firm is planning to soon boost its presence in Asia, focusing on both asset management and discretionary portfolio management. "We won't try to be all things to all men, and we recognise that Singapore is somewhat saturated in terms of private banks, so we are structuring strategic partnerships in the Southeast Asia region. One of my purposes in being here today is to work with my colleagues on finding suitable local partners. We are not a big player in Indonesia, but we are a big name globally on the asset management side, so we can leverage that in the world of private banking, we feel."

Moving money out of cash and deposits

"The industry here is relatively young," observed another banker, "so there is great growth potential in many areas. The penetration of the wealth management product suite is relatively low, and we can see that some 90% of the money in the wealth sector is still in cash or deposits. Lots of opportunities are also matched on the other hand by many challenges, especially educating the market. We have seen strong growth in mutual funds in the last two years, including large offshore Shariah mutual funds, and insurance is also growing well, particularly unit-linked products,

DO YOU WISH THE REGULATOR WAS MORE PROACTIVE IN HELPING BUILD THE WEALTH-MANAGEMENT MARKET?



Source: Indonesian Wealth Management Forum 2018

while bonds, especially government bonds in Rupiah, have been in demand. We have been growing our footprint from five cities in the country to 29 cities in only one year."

Another expert commented that he is disappointed with the growth trajectory on the insurance side, with a lack of innovation and weak distribution. "This is reflected in the numbers, for example, a fraction of one per cent of locals own a mutual fund. However, we have made progress and there is a world of opportunity. There is a lot of caution due to the regulatory environment, but where else in the world can institutions earn such high fees for selling an equity mutual fund?"

Insurance lags the region

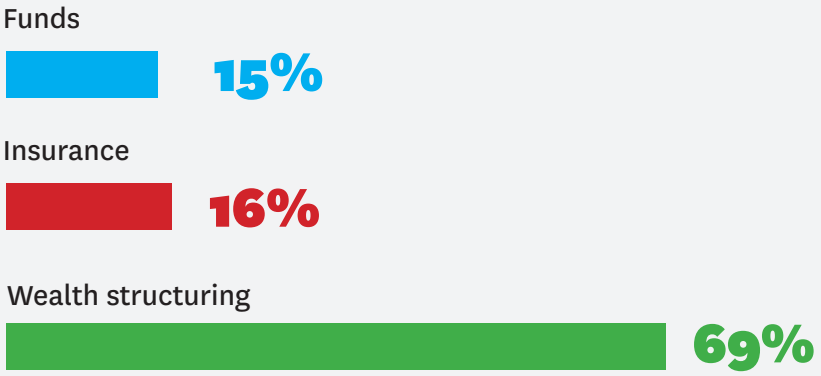
He also highlighted an acquisition his firm was making globally that will boost their digital capabilities dramatically at the same time as fast-tracking their presence. "Combined with a digital distribution deal we are carving out with a leading Indonesian bank, we will boost our market share dramatically through these moves," he relayed. "We see a very exciting couple of decades ahead helping Indonesians protect their wealth; it is necessary on so many fronts, look for example at the recent spate of natural disasters. Wealth accumulated must be protected, it must later be transferred to other generations. Efficient insurance solutions that are elegantly packaged will offer the market a great opportunity. In brief, there is a huge protection gap in Indonesia that the government fully understands, and they are struggling to fill, for example in the area of healthcare amongst others. Education is vital for this growth to materialise."

CHRIS BENDL
Zurich Topas Life

What can the regulators do?

The discussion turned to what the regulators can do to boost the wealth market. "Bring in more private sector involvement," opined one expert. "The regulators need to deeply understand the industry,

WHERE IS THE BIGGEST OPPORTUNITY FOR YOU TO ADD VALUE AND MAKE HIGHER EARNINGS?



Source: Indonesian Wealth Management Forum 2018

they need to share ideas and expertise, to see what works globally and incorporate those ideas here."

"Improved access and clarity regarding the offshore market and offshore products and access will also help," said another guest. "I agree," said a fellow panellist, "and I would like to see greater segregation by the regulators, to accept that there are clear segments in the wealth sector, from those who fully understand products and need less protection, to the far less aware mass wealthy segments and below."

"Creativity comes from within," said an expert, "and we see a lot of reluctance to change and evolution from within banks and other firms here. The regulators can help, of course, but senior management here have a fear of sort of 'rocking the boat' by bringing in new ideas and products. We need to see the limits pushed in order to see progress. To help achieve that I would like to see more of the industry working with the regulators in a mutually encouraging and creative manner, as we have seen for example in Malaysia."

People need people

Lack of talent is another impediment. "In many of the smaller cities we operate in there is a real shortage of expertise," reported one guest. "We have to try sourcing mostly from Jakarta or from Surabaya, but the competition, of course, is fierce for good people. We have an accredited development programme, as we know we must build the internal talent for the wealth sector, so we look at the best universities and best institutions for our future wealth experts."

"Somewhat cynically, but also realistically, if I were to advise the younger generations today," said another panellist, "it would probably be to go into compliance because that is the growth sector in our industry where earnings are being driven up by great demand."

Technology expertise is another facet in the weaponry of any future banker or wealth management expert, opined a digitisation expert. "The private banker of the future needs to be compliant and advice-driven, and digital will enable both of those developments," he noted. "Sales and product pushing is not going to cut it anymore. We have had the winds in the sails of the industry for almost a decade now, but people have been too focused on the bottom line and not really looking at this in terms of what really makes us a sustainable industry in the long run."

Waving the banner of client-centricity

"Being client-centric is also essential," another panellist reported. "I truly believe that as a good private banker my client, digital will certainly help, but at the end of the day robo-advisory will not take over the role of a banker, providing you are good at what you do. What the Indonesian HNWIs want is a hybrid model, a great balance between digital and human capabilities. And the clients want to deal with trusted advisers, people who know them and who they know and trust." ■