

NAVIGATING THE FUTURE: A HUBBIS 'TASTER' SURVEY ON THE KEY OPPORTUNITIES AND CHALLENGES FACING INDONESIA'S WEALTH MANAGEMENT MARKET



INTRODUCTION

This Hubbis 'Pre-Event Survey' was designed as an 'appetiser' in anticipation of the main event, namely the upcoming Hubbis Malaysia Wealth Management Forum on May 8. We have aimed at collecting actionable insights and expert perspectives on the trends and challenges in the Malaysian wealth management sector. The mission is to help inform, align and enrich discussions at the Forum, where wealth management professionals, investors, lawyers, consultants, regulators, and digital/tech innovators will explore the future of the industry in Malaysia, thereby facilitating a collaborative environment for sharing experiences and strategies for the sector's growth and transformation. We hope in some small way, this review offers a roadmap for banks and firms as they navigate the complexities of an increasingly mature, competitive, diverse, digital and client-focused future.



KEY FINDINGS AT A GLANCE: INSIGHTS FROM INDONESIA'S WEALTH MANAGEMENT SECTOR

Market Growth and Diversification

» The survey respondents report that growth is encouraging, with 48% of firms reporting a 10%-20% expansion of either AUM or profits, and 15% exceeding 20% growth. The backdrop is positive - Indonesia's economy and wealth creation are on an upswing, providing a strong foundation for wealth management services targeting an increasingly affluent population, with especially rapid growth amongst the urban mass affluent.

Digital/Technological Transformation

» A major focus on digital transformation is still evident, with priorities distributed across enhancing customer experience (22%), leveraging data analytics/AI (15%), automating internal processes (17%), scaling investment offerings (24%), and boosting RM/advisor productivity (22%). The digital proposition of the onshore industry is predominantly seen as improving (77%), though not yet widely regarded as incredibly sophisticated (12%).

Elevating the Client Experience

» A majority of professionals (59%) believe their clients are becoming more knowledgeable and sophisticated regarding investments and financial planning, signalling a need for wealth management services that cater to a more informed investor base with diversifying needs and expectations.

Evolving Investment Preferences and Trends

» There is a gradual shift towards international portfolio diversification, especially as wealth rises, with 44% expecting an increase in overseas asset allocations. Interest in ESG and sustainability is growing, with 54% noting greater interest. However, actual allocations face hurdles due to confidence and clarity issues, indicating the wealth industry needs to do more to communicate, provide interesting opportunities, and generally build confidence.

Regulatory and Compliance Challenges

» The Indonesian wealth management landscape is navigating through a complex regulatory framework, with the survey replies often calling for further liberalisation to enhance market development and competitiveness.

Talent Management for Industry Growth

» The widely highlighted scarcity of talent in the domestic market is a significant challenge, with 74% of respondents indicating difficulty in finding, training, retaining, and motivating the right professionals, spotlighting a critical area for industry attention.

Estate & Succession Planning - Critical

» Estate and legacy planning is deemed crucial by 87% of professionals, reflecting the increasing importance of comprehensive planning in today's regulatory environment and amidst globalised family and asset dispersion. This is especially true as 51% of replies indicated that clients lack organized plans for wealth transition, underscoring a vital area for advisory services.

Developing the Onshore Proposition for HNW/UHNW Clients

» The onshore wealth management proposition is evolving to better serve HNW/UHNW clients, with a focus on diversifying product portfolios, enhancing digital offerings, and meeting the sophisticated demands of a growing wealthy and uber-rich class.

KEY FINDINGS IN MORE DETAIL

Incorporating the rich market insights from the 'open' questions that Hubbis asked as well as from the 'closed' questions, the survey respondents paint a picture of a fascinating landscape of opportunities and challenges shaping the future of wealth management in Indonesia. Their insights offer a valuable overview of the sector's evolution, strategic priorities, and the path forward amidst a rapidly changing economic and regulatory environment.

Robust Economic and Private Wealth Expansion

The Indonesian economy's resilience and robust growth trajectory, underscored by the Asian Development Bank's projections of robust GDP growth and modest inflation rates, provide a fertile ground for wealth creation and expansion. This economic vitality, coupled with a demographic boon of a vast and youthful population, sets the stage for a rapidly expanding wealth management sector aimed at catering to the evolving needs of an increasing number of high-net-worth individuals (HNWIs) and the growing ranks of mass affluent investors.

The Indonesian wealth management market has been experiencing significant growth, largely driven by the country's strong economic momentum and a marked increase in stock market valuations – up around 50% from the five-year low set in the early weeks of the global pandemic.

However, investible wealth is held in relatively few hands, opening the door to great growth potential as private wealth clients expand apace and as they shift more of their wealth to risk-based financial investments. The market is still heavily skewed towards deposits, estimated to account for over 70% of the overall balances in Indonesian retail savings and investment.

With deposits remaining the most popular investment avenue, reflecting a preference for safe-haven asset classes, the mutual fund market is small but offering huge growth potential - mutual funds accounted for less than 5% of retail and mass affluent investment portfolios last year, according to some replies, indicating a relatively cautious approach to more volatile risk-skewed investments.

Nevertheless, replies indicated the expectation of a significant shift in the retail savings and investments market, which is expected to record a compound annual growth rate of 6.9% from 2022 to 2026. This growth is predicted to be primarily driven by bonds, forecasted to expand at a CAGR of approaching 13% during the same period. Meanwhile, the replies indicated a slightly less robust but still encouraging growth rate ahead for equity-focused mutual funds.

Digitally Savvy and the Demographic Dividend

Indonesia's huge and rapidly expanding population, youthful demographics and high internet penetration rates present unparalleled opportunities for digital wealth management solutions to help promote the distribution of investments and advice across the country's vast landscape.

The replies we received underscored the critical role of digital tools in enhancing advisory services, improving operational efficiencies, and expanding market reach, particularly among the younger, tech-savvy generations and the growing ranks of mass affluent customers.

Indonesia, the world's largest archipelago, spans over 1.9 million square miles and comprises more than 17,000 islands. It's a country of immense diversity, not only geographically but also culturally, with over 300 distinct ethnic and linguistic groups.

The Javanese are the largest and most politically dominant ethnic group, representing over 40% of the population. Indonesia is also the world's most populous Muslim-majority country, with Islam being the religion of approximately 87% of its population as of 2022. Other religious groups include Christians (10.5%), Hindus (1.7%), Buddhists (0.7%), and a small percentage adhering to folk or other religions.

With a population exceeding 279 million in 2023, Indonesia is the fourth-most-populous country globally. The capital, Jakarta, is not only the largest city but also one of the most populous urban areas worldwide, reflecting the country's significant urbanisation and economic growth.

This demographic dynamism underpins Indonesia's economic and social fabric, influencing everything from market trends to digital innovation and policymaking. The fast-growing younger population, in particular, drives the demand for new technologies, education, and employment opportunities, shaping the country's future in the Southeast Asian region and beyond.



Faced with such appealing dynamics and growth ahead, the Indonesian wealth management landscape is becoming more sophisticated, with a broader array of financial products, services and distribution power.

This diversification, coupled with a growing interest in estate planning, alternative investments, and global portfolio diversification, opens new avenues for wealth managers to offer comprehensive and tailored financial solutions.

Digital Transformation – Major Momentum Driven by Genuine Demand

All of these developments will be supported and enhanced by the widespread and highly significant digital transformation underway, aimed at democratising wealth management and catering to a wider array of Indonesian society, as well as elevating the proposition and experience for all types of clients, from retail to HNW/UHNW clients.

But while digitalisation offers numerous opportunities for innovation and better staff experiences and client engagement, it also brings challenges related to cybersecurity and data privacy. The replies therefore also stressed the importance of more robust digital infrastructure and cybersecurity measures to protect client information and ensure trust in digital wealth management platforms.

Customer-Centric Innovations

Hand in hand with widespread digital transformation, there is a massive strategic focus on wealth

management adopting more customer-centric approaches, but for the higher segments of wealth also emphasising the importance of human relationships alongside digital interfaces. This balance between personal interaction and technological efficiency is seen as crucial for engaging with clients across wealth segments, especially the HNW and UHNW categories.

The Development of Islamic Wealth Management

Significant strides forward characterise the development of Islamic wealth management in Indonesia, which itself is embracing digital technologies to enhance distribution, aligning with regulatory advancements, and offering a fascinating focus on sustainable and ethical financing and investing. With Indonesia's Islamic Economic Masterplan 2019-2024, the nation aims to capitalise on its status as a country with the largest Muslim population in the world to advance its global Islamic finance proposition domestically and globally.

The regulatory landscape in Indonesia has been evolving to support the growth of Islamic finance. For example, respondents point to the harmonisation of tax rules across the mainstream and Islamic financial landscape, as well as incentives for wealth structuring and the establishment of single-family offices based on Sharia principles. These regulatory changes facilitate a more transparent and structured environment for Islamic wealth management.

Recent awards and recognitions in the Islamic finance sector highlight Indonesia's active participation and innovation. For instance, the Republic of Indonesia has been

recognised for its green sukuk issuance, emphasising sustainable finance within the Islamic finance framework. Awards to institutions like Maybank Islamic as the Islamic Bank of the Year in Asia-Pacific and Standard Chartered Saadiq in the Middle East showcase the growing prominence and success of Islamic banking and wealth management across the region and, indeed, on a global scale.

These developments signal Indonesia's commitment to fostering an Islamic finance ecosystem that not only caters to the financial needs of its Muslim population but also positions itself as a leader in the global Islamic finance market. The emphasis on digital solutions, regulatory support, and sustainable finance within the Islamic finance sector aligns with broader global financial trends, offering unique opportunities for growth and innovation in Islamic wealth management.

The Regulatory Landscape & Compliance – Opportunity Amidst Challenges

Navigating Indonesia's complex and evolving regulatory framework remains a significant challenge for wealth management firms. While regulatory liberalisation efforts are underway, the replies highlighted the need for further reforms to facilitate market development and enhance the competitiveness of the Indonesian wealth management sector, meaning there are both challenges and significant opportunities ahead.

For example, while there is a growing interest in offshore investments among Indonesian HNW and UHNW clients onshore,

regulatory restrictions hamper that activity. And amongst the mass affluent level investors, a preference for local investment opportunities due to familiarity and perceived safety continues to influence the market dynamics. All this means the local market's development is hindered by regulatory and legal constraints, particularly for wealthier clients, limiting its competitiveness against established offshore financial hubs like Singapore and Hong Kong.

Talent Acquisition and Development

A recurring theme among the replies was the challenge of sourcing and retaining high-quality talent within the wealth management industry. With the market's rapid growth, there is a pressing need for skilled professionals who can navigate the complexities of wealth management and deliver exceptional client service.

Focus on Financial Literacy and Product Relevance

There is a clear eagerness to enhance financial literacy among clients and focusing on product relevance tailored to different client segments are identified as key areas for further development. The industry is looking at ways to provide more sophisticated products and international investment opportunities, albeit within the constraints of local regulations.

ESG and Sustainable Investing

Sustainable investing, particularly in ESG-focused products, is gaining traction among investors, aligning financial goals with broader societal



and environmental objectives. But if interest is to translate to investment activity, the wealth management industry recognises it needs to better educate its clients about the benefits and impacts of ESG investments to drive allocations towards sustainable assets.

Collaboration and Competitive Dynamics

The Indonesian wealth management market is witnessing increased competition from traditional banks, fintech startups, digital platforms and insurers. The replies we received often advocated for greater collaboration between incumbent players and new entrants to leverage each other’s strengths, enhance service offerings, and better serve the diverse needs of Indonesian investors. They noted that the rising competitive diversity offers clients a broader range of options

for managing their wealth and accessing financial planning services but also challenges incumbents to refine their approaches and future strategies.

The Road Ahead: Evolving Strategies for a Dynamic Market

Looking to the future, the replies generally expressed optimism about Indonesia’s wealth management industry, driven by strong economic fundamentals, digital innovation, and an increasingly discerning and large investor base. However, achieving sustainable growth will require firms to address the key challenges through evolved strategies and strategic investments in technology, talent development, product diversification and regulatory compliance.

The evolution of wealth management in Indonesia will also

be shaped by the industry’s ability to adapt to changing consumer preferences, embrace digital transformation, and navigate the competitive landscape. As firms vie for market share in this dynamic environment, those that can offer personalised, technology-driven solutions while maintaining a commitment to client service and regulatory excellence will likely emerge as leaders in the field.

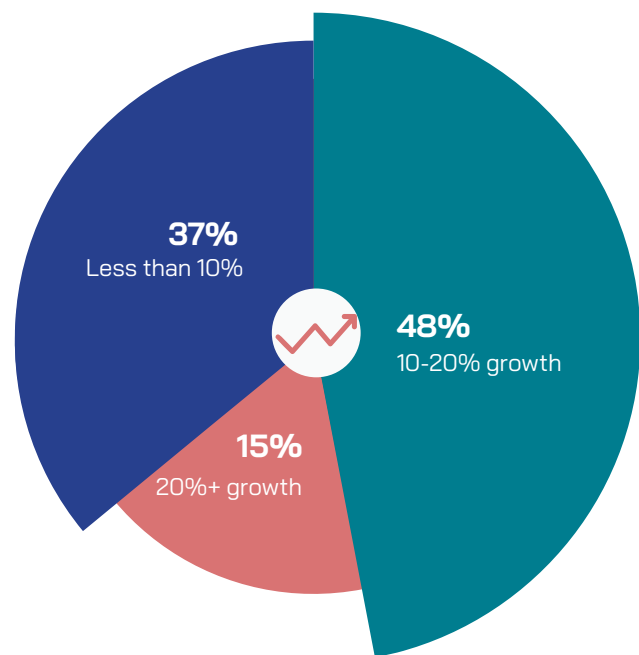
In conclusion, the Indonesian wealth management market stands at a pivotal juncture, with vast opportunities tempered by significant challenges. The insights from the respondents underscore the need for a collaborative, innovative, and client-centric approach to capitalise on the very genuine opportunity that Indonesia represents for the wealth management industry. ■

THE KEY FINDINGS IN NUMBERS

Growth: Did you grow your AUM and/or profits last year?

AUM and Profit Growth: The majority of respondents reported positive growth in assets under management (AUM) and/or profits last year, with **48%** experiencing a 10-20% growth and 15% surpassing the 20% growth mark. This indicates a robust wealth management sector in Indonesia, despite global uncertainties.

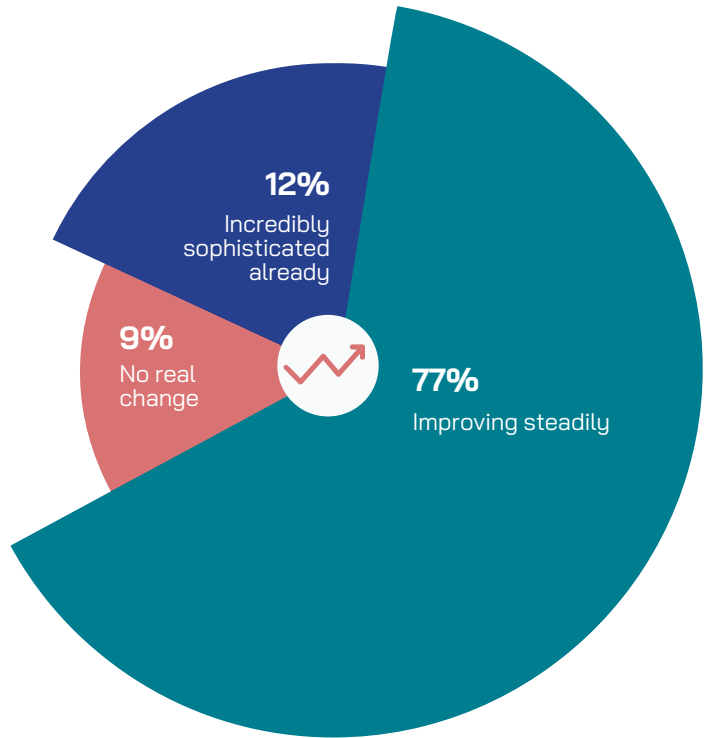
Digital Sophistication: The digital proposition of the onshore wealth industry is viewed positively, with **77%** of respondents observing steady improvement. However, only 12% consider it to be already incredibly sophisticated, highlighting room for further enhancement in digital offerings.



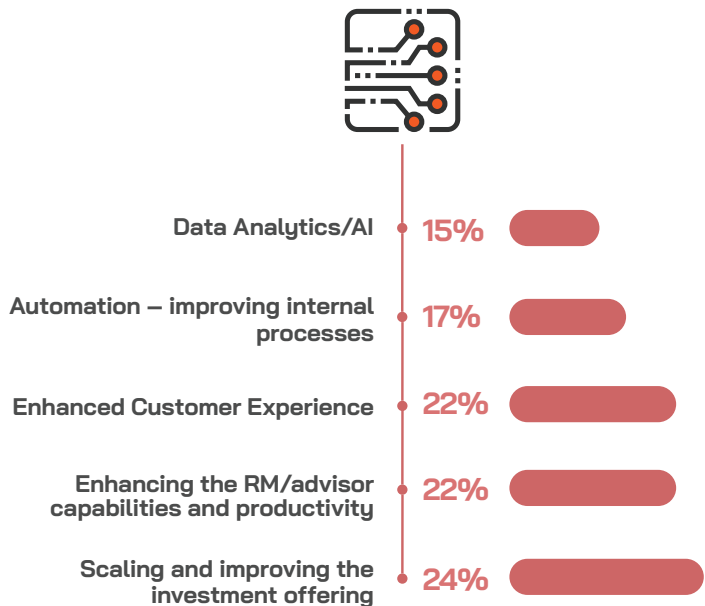
DIGITAL TRANSFORMATION PRIORITIES

Priorities for digital solutions and technology are varied, with the highest emphasis on scaling and improving the investment offering (24%) and enhancing RM/advisor capabilities and productivity (22%). Enhanced customer experience and automation of internal processes also remain key areas of focus, demonstrating a balanced approach to digital transformation.

How would you characterise the digital proposition offered by the onshore wealth industry?



Digital Transformation: Where are your priorities regarding digital solutions and technology?

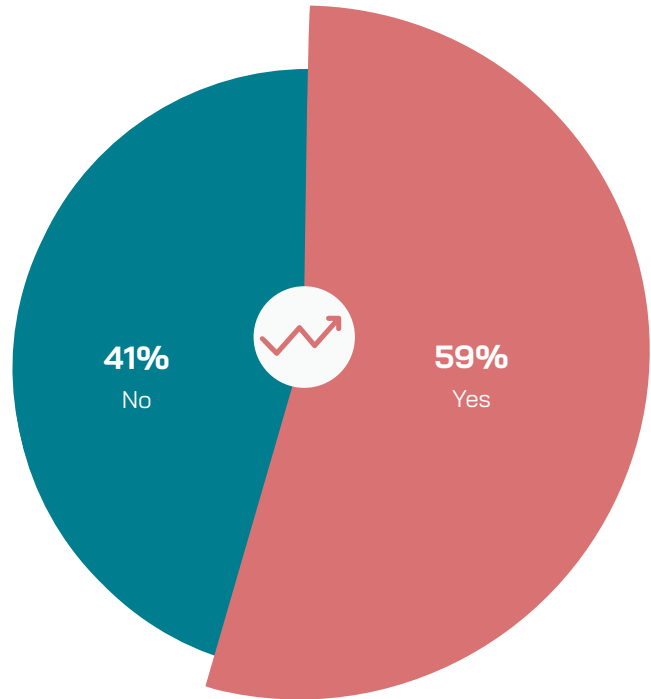


INVESTMENT KNOWLEDGE AND GLOBAL ALLOCATION

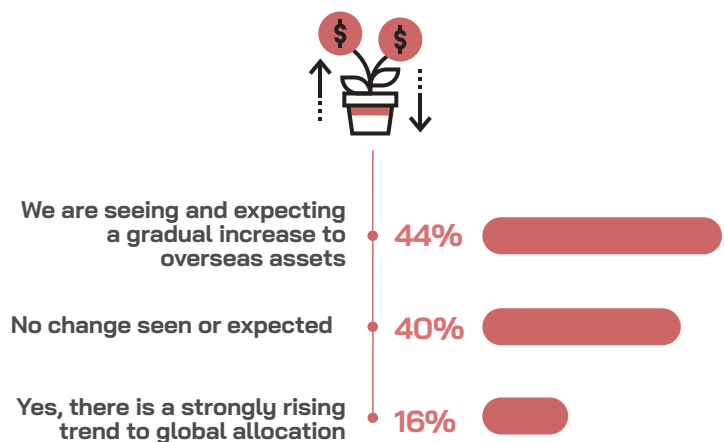
Investment Sophistication: A significant majority (59%) believe their clients are becoming more knowledgeable and sophisticated in investments and financial planning, suggesting a shift towards more informed decision-making among Indonesian investors.

Global Allocation: A gradual increase in overseas asset allocations is expected, with 44% of respondents observing this trend. However, 40% anticipate no change, and only 16% foresee a strongly rising trend towards global allocation, indicating cautious optimism about international diversification.

Investing for wealth preservation & growth: Do you think your clients are getting more knowledgeable and sophisticated in relation to investments and financial planning?



Looking ahead over the next 2-3 years, will your HNW and UHNW private clients' investment portfolios be increasing their international/global allocations?

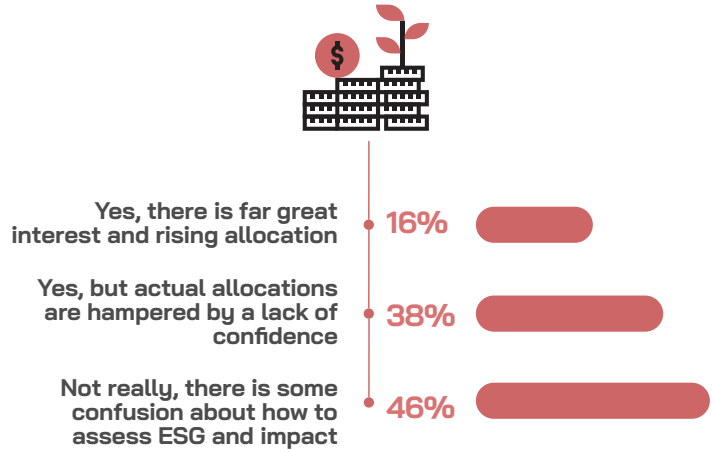


ESG AND ALTERNATIVE INVESTMENTS

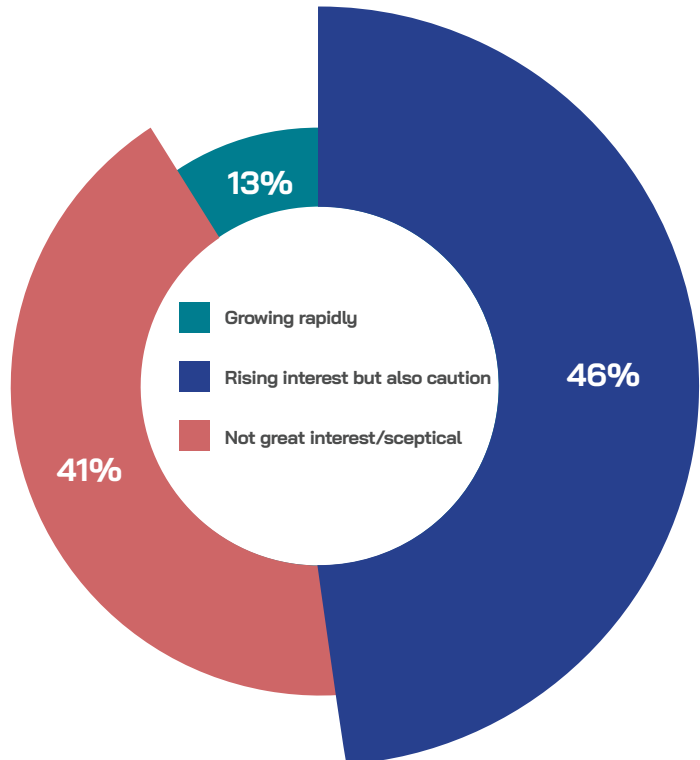
ESG Interest: Interest in ESG and sustainability is growing, with **54%** of respondents noting greater interest and rising allocation, though actual allocations are often hampered by a lack of confidence in assessing ESG and impact investments.

Alternative Assets: The demand for alternative and private assets shows a cautious increase, with **46%** citing rising interest but also caution. This reflects a growing appetite for diversification, albeit with a careful approach.

Are more of your HNW and UHNW clients interested in ESG, sustainability and impact?

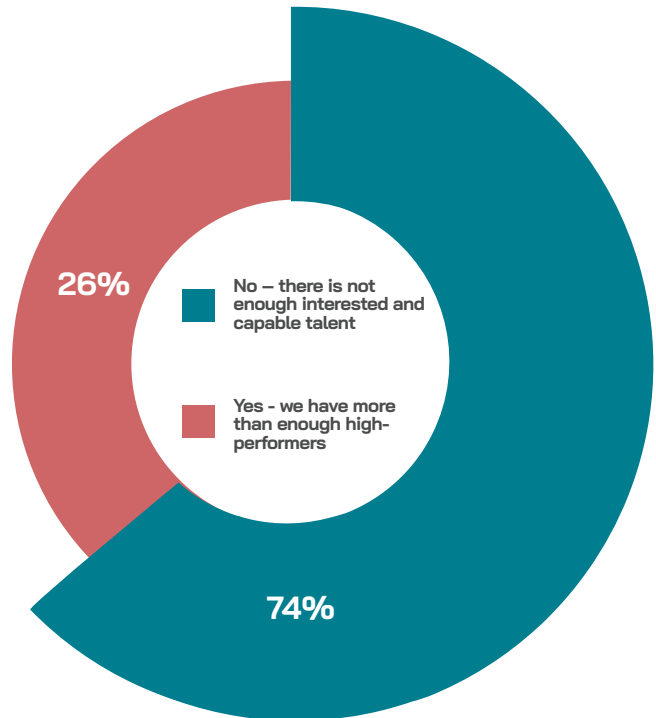


How would you characterise interest/demand for alternative/private assets amongst the HNW/UHNW investors?



Talent Challenges: A significant challenge in the industry is the shortage of interested and capable talent, with **74%** of respondents highlighting the difficulty in finding, training, retaining, empowering, and motivating suitable professionals.

Talent: Finding, Training, Retaining, Empowering and Motivating. Is there enough talent available in the local wealth management market?

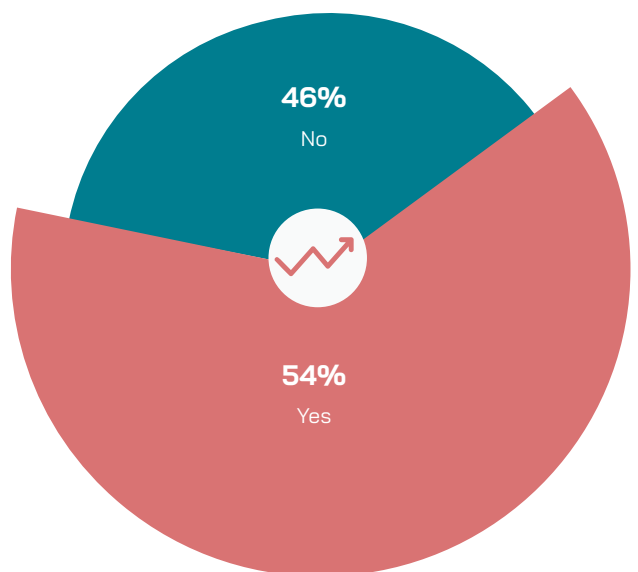
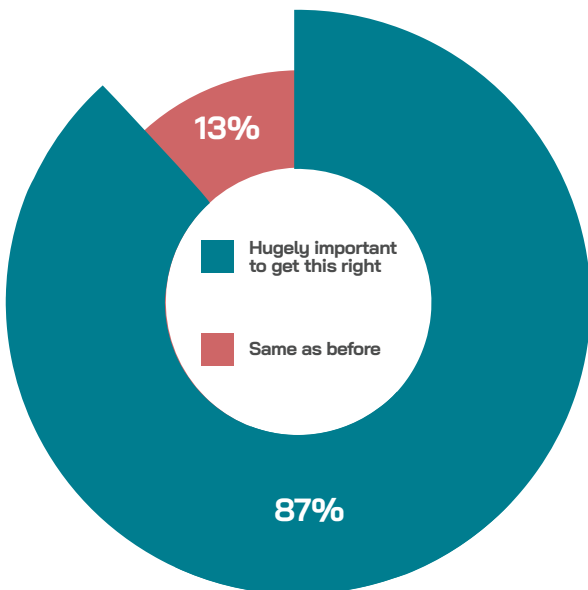


Estate and Legacy Planning:

Estate and legacy planning have become crucial, with **87%** of participants stressing the importance of getting it right in today's regulatory and compliance landscape. However, slightly over half of the clients do not have an organized will and plan for wealth transition, indicating a critical area for advisory focus.

How much of a priority is Estate & Legacy Planning in today's world of regulation and compliance and more global asset allocation?

Do your clients have anything resembling an organised will and robust plan to pass wealth successfully to the next generations?



POINTERS TO THE FUTURE: WORDS OF ADVICE FROM THE SURVEY RESPONDENTS ON GRASPING THE OPPORTUNITIES AND OVERCOMING THE CHALLENGES AHEAD

Embrace Digital Transformation Wholeheartedly: The continuous improvement of digital propositions is non-negotiable. Firms should prioritise investments in technology that enhance the customer experience, leverage data analytics for personalised advice, and automate internal processes for efficiency. With the vast majority of respondents observing steady improvements in digital offerings, the race is on to innovate and differentiate through technology.

Cater to the Rising Client Numbers and Better-Informed Investors: With a rapidly growing number of clients, many of them also becoming more sophisticated regarding investments and financial planning, it's clear that investor education and engagement strategies must evolve.

Diversify Investment Offerings and Embrace Global Trends: Expanding product portfolios to include a broader range of investment options, including more international, alternative, and ESG-focused assets, is crucial.

Embrace ESG and Sustainability: The growing interest in ESG and sustainability among investors should encourage firms to incorporate these considerations into their investment strategies and product offerings. Educating clients about the benefits and impacts of ESG investments can further drive allocation towards sustainable assets, which thus far lags the apparent rising interest.

Accelerate Digital Transformation: Across all wealth segments, the wealth management sector's evolution necessitates advanced digital platforms and tools to meet the increasing demand for sophisticated digital solutions, personalisation, better connectivity and distribution, and an altogether more efficient and productive workforce, resulting in better and more relevant client outcomes.

Capitalise on the Latest Technological Advances: Investments in AI, ML and data analytics are essential for future success and differentiation in an increasingly competitive market.

Expand Product and Service Offerings: Exploring opportunities in alternative investments, estate planning, and international asset allocation is crucial to providing comprehensive financial solutions.

Navigate Regulatory Complexity with Agility: Firms must stay agile, closely monitoring regulatory changes and proactively adapting their strategies to remain compliant while seizing new market opportunities. Successfully navigating these changes demands a proactive approach to compliance and regulatory engagement, ensuring that business practices align with current and forthcoming regulations.

Keep a Keen Eye on the Mass Affluent Segment: Developing scalable, digital-first solutions that cater to the mass affluent can unlock new growth avenues and help firms capture a larger share of Indonesia's burgeoning wealth.

Educate and Empower Clients: Providing these types of clients with educational resources and tools for financial planning and investment decision-making can enhance client satisfaction and loyalty, as well as boost investment activity. Firms should focus on empowering clients with knowledge to make informed choices about their wealth.

Address the Talent Crunch Creatively: Given the significant challenge of finding and retaining qualified professionals, wealth management firms need to think creatively about talent management strategies, remuneration, training, and career development.

Prioritise Estate & Legacy Planning: Providing comprehensive estate planning services can be a key differentiator and value-add for HNW/UHNW clients, given its increasing importance.

Foster Collaboration & Partnerships Where Logical: The increasing competition from fintech startups and digital platforms calls for traditional firms to explore collaboration and partnerships with newer fintechs and competitors to remain competitive. The increasing digital savviness of Indonesia's youthful demographic highlights the necessity for wealth managers to offer advanced solutions and more digital platforms, greater choice and new tools.