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PNB trusts its current asset management structures and strategies

The Philippine National Bank has thus far opted to keep its asset management business within its core corporate structure, although new regulations now allow for separate entities. Hubbis sat down with Roberto Vergara, PNB's Chief Trust Officer and Head of Trust Banking Group to learn more about the bank's asset management strategies.

THE PHILIPPINE NATIONAL BANK (PNB) is one of the largest banks in the Philippines. The bank was acquired by Lucio Tan after it was privatised by the government and became the first universal bank in the Philippines in 1980. After its merger with the Tan-owned Allied Bank in February 2013, PNB became the fifth largest private domestic bank in the country.

Vergara has been heading PNB's trust banking business since early 2015. Amongst many priorities, he singled out one core initiative for the near term, namely to get the firm's shiny new software system off the ground.

Upping the technology ante

"Technology is vital for so many reasons," he explains, "including internal controls and processes, regulatory compliance and of course sales and interface with the clients. The back-room function is already fully automated for accounting and operations. The new software will considerably enhance the account opening and client identification procedures. In brief, we will have a front-to-back system that also provides data for the clients, for management reporting and regulatory transparency."

He comments that technology can be a vital differentiating factor, making things more efficient for the clients. "For example," he notes, "PNB has become one of the first to connect their accounts and allow clients to add or withdraw via ATM from their UITF. Moreover, they can open a UITF account online if they already have an account with us." Trust firms principally sell UITFs, or Unit Investment Trust Funds, which can be distributed to both retail and institutional investors.

Sticking to the status quo... for now

The regulatory environment in the Philippines now allows foreign firms to establish trust corporations, authorised by the central bank, the Bangko Sentral ng Pilipinas (BSP), to engage in funds management.

Unlike the trust units of Philippine banks and non-bank financial institutions, these new corporate entities are stand alone and have their own dedicated capital and management structure.

The universal banks can create dedicated asset management entities, but the take-up is slow so far, for example, Philippine National Bank prefers to keep their asset management businesses in the primary bank structure.

"Here in the Philippines," Vergara explains, "the trust business has, until the new regulations, been operated within the bank. Outside the Philippines, you have a different trust corporation or trust entity, the licenses were granted to the banks to operate trusts. However, even within the banks, the trusts are supposed to be separate administratively, organisationally, and so forth."

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ROBERTO VERGARA
Philippine National Bank

He explains further that with the new regulations, that define banks being able to set up a separate trust corporation, it could potentially make the process somewhat cheaper and more efficient.

"However," he says, "the question right now is whether the existing bank-owned trust practitioners want to establish a separate trust corporation immediately. Some have done so, setting up external asset management firms, but we have stuck to our status quo for the moment."

People for a people business

A core concern of setting up an entirely separate entity is personnel. "There is some and anxiety amongst people moving from their existing corporate to a new entity," he comments. "And we would likely have issues with the regulator if we were to second staff to the new firm rather than officially transferring them."

As things stand, Vergara's strategy is, therefore, to forge on under the current corporate structures, as the challenges and opportunities are almost identical to those to be faced by a new corporate entity.

"Distribution of products that are not so well known to a retail market that lacks sophistication is challenging," he explains. "Our strategy is to train a lot of people who are based in the branches but are at officer level. So that becomes our distribution."

He adds that for those people to move into the trust entity itself as an officer or specialist and eventually to become the trust officer, further qualifications would be required. "There is some natural resistance to people moving into the trust business because to become a trust office there is the training required as well as wide knowledge needed of the world of investments, trading and so forth," Vergara explains.

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Making it easier for everyone

The central bank has been trying to encourage the trust funds, and other managed funds to develop additional products for clients outside the plain vanilla deposits, for example, fixed income, equities, etc.

"We fully agree with careful regulation, but we must also be careful not to become excessively burdened by procedures, for the providers and the clients.

"Along with the removal of certain central bank deposit accounts from the national system, the net result is that we trust practitioners are being encouraged or driven, to develop our own outlets, to be more creative," Vergara observes.

For the moment, aside from building out the technology platform, Vergara is keen to encourage the regulator to help the industry improve understanding of the investment world as well as facilitate easier access to opportunities.

"I would certainly like to see an approved centralised system of CSA for client forms," he says, "meaning that if you are a trusted client the process and time can be shortened. My wish list is eventually an electronic form that allows for the basic requirements to be used by all members of the trust industry through the regulators. In other words, it is a one-time thing."

Regulations as protector and as an enabler

The regulatory processes also need to be transparent and easy to follow. "We fully agree with careful regulation," he comments, "but we must also be careful not to become excessively burdened by procedures, for the providers and the clients. Online processing will help, although I still think that the human touch must endure, clients need a human face to the relationship... it is normal psychology."

The asset management industry in the country is in its formative stage. The total UITF industry is estimated at around USD17 billion equivalent and the mutual fund segment at about USD5 billion.

Education of investors on products and opportunities is therefore vital. It has started, but it is not yet an orchestrated, nationwide initiative.

"I would like to see a more concerted effort across the regulators, the banking associations and so forth," Vergara explains, "as well as conferences and summits. It is happening, gradually, but I do feel that the industry must come together to take full advantage of these enormous opportunities." ■