Regulatory reform crucial for Philippine funds' growth

The country's mutual funds industry stands to get a much-needed fillip when the Collective Investment Schemes (CIS) Law is finally in force, say Valerie Pama and Michael Enriquez of Sun Life Financial Philippines.

Approving and implementing the long-awaited CIS Law will go a long way in boosting the growth potential of the asset management industry in the Philippines. That's according to Sun Life's Valerie Pama and Michael Enriquez, president of the local asset management business and chief investments officer, respectively.

These views also reflect the consensus of industry practitioners at a recent Hubbis roundtable of leading asset management executives in Manila. They believe that a change in the regulatory environment – and in particular the CIS Law – would provide a big boost to the funds industry. The legislation, pending for more than a decade, will provide a level playing field to various collective investment schemes.

Currently, unit investment trust funds (UITFs) are the main form of retail collective investment schemes in the Philippines. However, mutual funds (MF) and variable universal life insurance policies (VULs) are other collective investment schemes that are reasonably popular as well.

The UITF industry is estimated at around PHP 800 billion (USD16 billion), with about PHP 600 billion accounted for by money market funds. The MF industry, meanwhile, is estimated at around PHP250 billion. At the moment, all three schemes – MF, UITFs and VULs – are governed by different regulators such as the securities watchdog, central bank and insurance authority. Because tax implications on each scheme are different, there is considerable tax and regulatory arbitrage among these investment products.

"UITFs, for instance, are allowed to have feeder fund structures while mutual funds are not," says Pama. "Mutual funds, however, can be a fund of funds. VULs, meanwhile, can invest in other types of assets as well." The tax treatment is also very different for each scheme. In particular, the tax regime for MFs is considered the most repressive. To give one example, MFs are subject

VALERIE PAMA
Sun Life Financial Philippines

MICHAEL ENRIQUEZ
Sun Life Financial Philippines

to documentary stamp tax and corporate income tax due to its legal structure, while UITFs are not.

"I believe the regulations should definitely change and there should be a level playing field for UITFs and MFs. VULs, however, should be separate because they are insurance products," says Pama. She adds that if the CIS Law is implemented, the securities regulator is expected to take charge of UITFs and MFs.

CREATING A MORE CONDUCIVE MARKET

There is also a lack of financial literacy and understanding in the Philippines on the importance of investing among the general public.

"Many people are unbanked and those who do have bank accounts look at their savings as their investment," notes Enriquez. "They need to move out some of their savings and try out fund investing. Right now, there is a lack of understanding and confidence about investing." Accessibility of investment options is another issue which he highlights. However, to some extent, this is being addressed gradually by the introduction of online fund platforms.

Among the recent movers in this regard was First Metro Securities, which launched its online mutual funds platform last month, in both web-based and mobile application formats.

"Now there is a proliferation of online fund distribution," adds Enriquez. It suggests a growing acceptance of funds by retail clients through banks and via online channels." Indeed, despite the many challenges, the country's asset management industry is doing its best to be more financially inclusive, according to the Sun Life duo.

"For instance, the industry is working with the [securities regulator] to lower the minimum investment amount from PHP5,000 to PHP1,000, or even PHP100. That will allow people to start investing even with very small amounts," explains Pama.

Doing its bit, the Canadian-based group also introduced a comprehensive financial planning programme called 'Money for Life' that aims to help clients ensure that they have sufficient funds no matter where life takes them. The programme, which also has an app, involves a series of simple questions that aim to ensure customers can plan for their future appropriately given their broad long-term financial goals.

"We have generated quite a bit of interest through our campaign, but there is a requirement by law that financial institutions need to conduct face-to-face verification of identity. That is still a challenge, especially in locations that are far from our branches and client centres." adds Pama.

While documents can be submitted online, she says physical verification is also needed. "Documents can be submitted online, but a physical verification is also required as of now." Pama notes that the industry is currently lobbying the regulator for easing such requirements. In a country boasting more than 7,100 islands, expecting every customer to come to a branch for identity and document verification can be cumbersome and might lead him/her to decide against going ahead with an investment-based transaction.

SIMPLICITY IS EVERYTHING

The Sun Life pair believes simplicity is key when attracting new customers – and also staff – to the idea of investing. "When we bring in new employees at Sun Life, we already have a starter or initial investment plan for them," explains Pama. "It's simple because all the documents are already provided during the hiring process. Most of them sign up for the investment plan. Even if they decide to change their mind, it's easy to change the plan."

Giving people something very simple and as low risk as possible, at least initially, is one way to encourage them to start investing, she adds.In the Philippines, after recently completing its five-year corporate plan, Sun Life has set itself some new goals: between 2016 and 2020, it aims to engage with five million Filipinos. Currently, Sun Life Financial Philippines has about 1.2 million customers. In addition to the firm's interest in growing its institutional business, part of the expansion is to also reach out to middle-income customers. "Our focus has been the high-income market until now. We want to expand our reach," says Pama. ■