

Selling funds - time to rebuild the engine and add a turbocharger?

An expert panel of wealth management professionals gathered at the Hubbis Philippines Wealth Management event to air their views on the best ways to support fund growth whilst battling regulation and ensuring clients are financially literate, with inclusiveness a strategic goal.

These were the topics discussed:

- *Slow growth in fund distribution to retail - time to rebuild the engine and add a turbocharger?*
- *Three regulators for funds - time for more consistency and simplification?*
- *We love to talk about client education - but is there any evidence this is happening with focus and conviction? How will we improve the financial literacy of the Filipino investing public?*
- *Is the regulatory regime under which wealth or asset managers in the Philippines operates in need of an urgent upgrade?*
- *Will the unit-linked business continue to grow fastest?*
- *Is there a move towards advice? Discretionary?*
- *How are you thinking about fund selection and portfolio construction?*
- *Open architecture - myth or reality?*
- *What are the product strategies of the future?*
- *Fintech and distribution - will it evolve in a meaningful way?*
- *Product platforms - are you ready?*

IN THE LAST FIVE YEARS, VARIABLE UNIT LINKED products have become a popular choice as they are an efficient format for distributing funds in the Philippines and are pushed by advisors and banks using incentives. The trouble is, the landscape of product offerings has begun to repeat itself, due in part to the restrictive nature of regulation.

Regulatory strangulation

Is it possible that there are any benefits of regulation and transparency for wealth managers? “Regulators are open about their expectations, and it helps if we are open with them, engaging in an active dialogue. They are there, after all, to support the market, clients and industry,” explained an expert.

PANEL SPEAKERS

- **Juan Lizares**, First Vice President, BDO Private Bank
- **Michael Gerard D. Enriquez**, Chief Investment Officer, Sun Life Financial
- **Caroline Tinio**, Vice President, Head of Partnership Distribution, Philam Asset Management
- **Carlos Jalandoni**, Vice President, Head of Credit & Research, BPI Asset Management & Trust
- **Deanno J. Basas**, President & Managing Director, ATRAM Trust

The group acknowledged that regulators must follow government procedures, and resources are sometimes limited, which together add up to frustratingly slow progress. “Dedicating more resources to cater to the needs and pace of the market would benefit everyone,” suggested a panellist.

“The Philippines is the only country I know that has this convoluted structure, with the trusts, the banks and the many regulators,” a guest lamented.

“From a client’s point of view,” interrupted another expert, “I think the trust structure is important.” Indeed, the trust structure has lots of safety measures, it is highly regulated, closely supervised, it has a seal of good housekeeping from the BSP. Ultimately, there is also fiduciary responsibility, and one obvious benefit of transparency is that pricing is clearly structured for the client.

Baby steps towards open architecture

“Is there anybody in the Philippines who has anything resembling an open architecture platform?” queried a panellist.

“We try to emulate the best practices of the foreign banks, including open architecture,” answered an expert, “looking for the best-of-breed products then matching them with needs of the client.”

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JUAN LIZARES
BDO Private Bank

DO YOU THINK DIGITAL DISTRIBUTION OF FUNDS WILL SIGNIFICANTLY GROW IN THE NEXT TEN YEARS?

Yes



No



Source: Hubbis Philippines Wealth Management Forum 2018

“We aim to run a unit-linked and mutual funds platform and we deploy some of the funds offshore,” added another guest. “We don’t have the expertise to manage offshore assets, that’s why we outsource it to our funds platform.”

Market progress

In the last five years, wealth managers have been assisting clients in diversifying their portfolio, introducing new fund types, focussing more on accessible overseas investing, multi-currencies and flexible funds. Catering to a lower net worth client by increasing affordable options has also been an increasingly popular strategy known as ‘inclusion’.

“Some wealth management companies have started actively promoting financial inclusion,” elucidated a panellist, “where funds begin at 500 Pesos, and there are also systematic investment products where people can save as little as \$10 a month into their savings kit.”

Attendees agreed that a combination of increasing financial literacy and media influence has evoked a genuine interest in clients in the last five years regarding international funds, mainly because in a volatile market - as it is becoming - diversified funds tend to do better.

Regulation flexibility and financial literacy for the win

Panellists then began a systematic breakdown of what exactly needs to happen to ‘turbo-charge’ the fund-selling market.

Panellists agreed that the regulatory environment needs to evolve a lot quicker. It is currently restrictive and takes a careful approach because they are looking after the integrity of the bank industry. “However,” suggested a guest, “they could look at overseas regulation, where the risks have already been assessed and dealt with, then we could evolve to allow more product development away from the money market.”

In addition, panellists felt that the regulatory policy should be more accommodating with KYC (Know Your Customer) policies. “We should be able to in-



MICHAEL GERARD D. ENRIQUEZ
Sun Life Financial



CAROLINE TINIO
Philam Asset Management

roduce e-KYC and a higher threshold of investment before invoking KYC,” a panellist said.

Historically, the development of capital markets has typically been driven by the sales side, but it is also incumbent upon investors to be more proactive in developing the market, for which financial literacy is important.

Wealth managers also need to focus on educating clients on how not to time the markets. “They always want to try to catch the bottom of the market,” explained a guest, “whereas actually, a regular savings plan and cost averaging would work better.”

Broken markets, encouraging solutions

There is a lack of liquidity in the Philippines’ financial market, in both equity and fixed income. “The collective institutional funds alone are already too big for the equity markets,” a panellist said, “more so than fixed income markets, and there is no credit market here.”

Therefore, encouragement is needed to increase initial public offerings and trading which in turn will bring down friction costs. In addition, lobbying the boards to lower brokerage fees and encouraging more participation from companies on the equity and debt sides of the market would allow fund managers to come up with more products.



CARLOS JALANDONI
BPI Asset Management & Trust

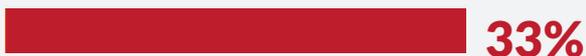
ENCOURAGEMENT IS NEEDED TO INCREASE INITIAL PUBLIC OFFERINGS AND TRADING WHICH IN TURN WILL BRING DOWN FRICTION COSTS.

DO YOU THINK INVESTORS ARE MORE INTERESTED IN BUYING INTERNATIONAL FUNDS TODAY?

Yes



No



Source: Hubbis Philippines Wealth Management Forum 2018

Technology – sometimes a hindrance, increasingly a help

On the technological side, at present it is still burdensome to buy a fund due to form-filling and lengthy procedures. “Certainly, a lot more can still be done to simplify procedures and documentation using digital services such as e-face-to-face and e-KYC,” commented a panellist.

Guests predicted that form-filling and applications will soon become close to 100% digital. So, no more paper applications, tablets will be used to collect signatures and documents will be uploaded online.

“In India, where 1.2 billion people have been retina scanned,” explained a guest. “I could buy a fund by just looking at a sensor.” If this technology can be implemented in the Philippines it would save clients time and effort, making the experience of buying and selling easier, at least for the technologically-savvy.

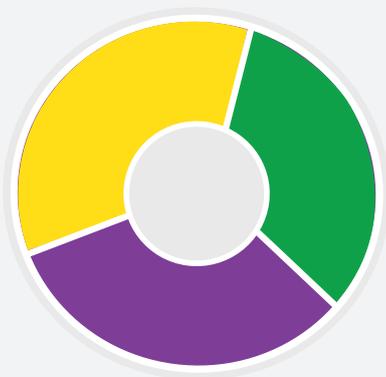
In summary, panellists agreed that customers want open architecture and helpful, time-saving digital solutions. Wealth management companies want to provide clients with education, support, inclusive options and best-of-breed products, but there is still a way to go from a regulatory perspective as well as inside the industry. ■



DEANNO J. BASAS
ATRAM Trust

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WHO WILL BE MORE SUCCESSFUL AT SELLING FUNDS OVER THE NEXT TEN YEARS?



- Insurance companies
- Asset management companies
- Trust companies

Source: Hubbis Philippines Wealth Management Forum 2018