Thailand: Investing at Home & Abroad in Uncertain & Challenging Markets

A small panel of experts gave their valuable insights into the investment market in Thailand at the Hubbis Thailand Wealth Management Forum. The mood was mostly positive, with expectations of greater liberalisation to encourage foreign investment, a gradual move towards passive funds, towards ESG and impact investing and towards more sophisticated structured investments at home. But the weakness of the markets in 2018 and some tax changes affecting the financial sector mean the total AUM of the fund industry is growing slower than in recent years, even though the outlook for Thailand's economy and capital markets appear favourable.

These were the topics discussed:

- *Are Thai investors becoming more international in their investments?*
- *Regulation and compliance - what are the relevant developments affecting behaviour?*
- *How are investors approaching fund selection and portfolio construction?*
- *How is the distribution of funds changing? Digital delivery?*
- *How has the Investment environment changed in Asia from 2017 to 2019?*
- *What about the fixed income and credit universe?*
- *Is Thailand warming to index and ETF products?*
- *Is there a growing interest in ESG, Alternatives, and Private equity?*

PANEL SPEAKERS

- **Benjarong Techamuanvivit**, First Senior Vice President, Strategic Planning Division, Kasikorn Asset Management
- **Yingyong Chiaravutthi**, Head of Investments, Prudential Life Assurance
- **Cholathee Pornrojnangkool**, Senior Vice President, Micro Segment Management - Consumer Banking, Bangkok Bank

Link to Content Summary page
Link to Photos
Link to Event Homepage

hubbis

THE KEY TAKEAWAYS

Rising demand for foreign assets

In the domestic capital market, the demand for foreign assets is increasing rapidly for reasons of diversification. The capital market at home is still small and needs a greater diversity of products and themes until further liberalisation permits greater offshore investment. In a poll at the event, 81% said greater diversity in Thailand will be a huge benefit, allowing direct investment into offshore funds, rather than into only onshore funds that invest in foreign funds is a required development.

Life portfolios remain largely domestic

Onshore investment portfolios remain largely domestic in concentration. For example, the USD3 billion portfolio of a leading life company is currently 85% is invested in fixed income, with only 15% in offshore assets. The profile is partly due to legislation, partly due to liability matching and the need to swap and hedge.

Life industry and the RBC 2 regime

Although the date is as yet unclear, the life insurance industry will likely soon adopt the Risk-Based Capital 2 (RBC 2) regime. The life industry typically will have only a small portion of their funds in equities and of that a very small portion in offshore stocks, but the changes mean that the life insurance sector will have a considerably higher capital charge on equity holdings, rising from around 20% to around 35% and thereby further restricting their demand for equities. To compensate, the industry is asking for more flexibility to invest in offshore stocks.

Government needs money

The demand for increased tax and duties in Thailand from the government and local authorities means the end of two financial markets tax incentives draws near. Both changes will affect the fund industry at large, negatively in the short-term.

Regulator remains general forward-thinking

Aside from the need for higher revenues, the Thai regulatory environment is generally considered progressive, and there is tentatively also loosening control over offshore institutional investment in some sophisticated onshore products or alternative products, for example, private equity, hedge funds and others. In mainstream markets, diversity will likely be improved for the developed markets, with slower liberalisation for other emerging or even frontier markets.

Asset allocation being professionalised

Having a viable asset allocation model is the best way forward for proper portfolio management, opined one expert on the panel. The advice he proffered is to copy the institutional world, to work on asset allocation first, and also use more passive funds and ETFs to reduce costs.

Digital on the rise

Digital channels are growing in prominence in Thailand, partly from established players, partly from competition from new fintechs, some of which are entirely home-grown and funded. A major bank cited the growth of digital customers from 20% two years ago to around 40% today and the forecast is for 50% within another two years.

Keep it personal

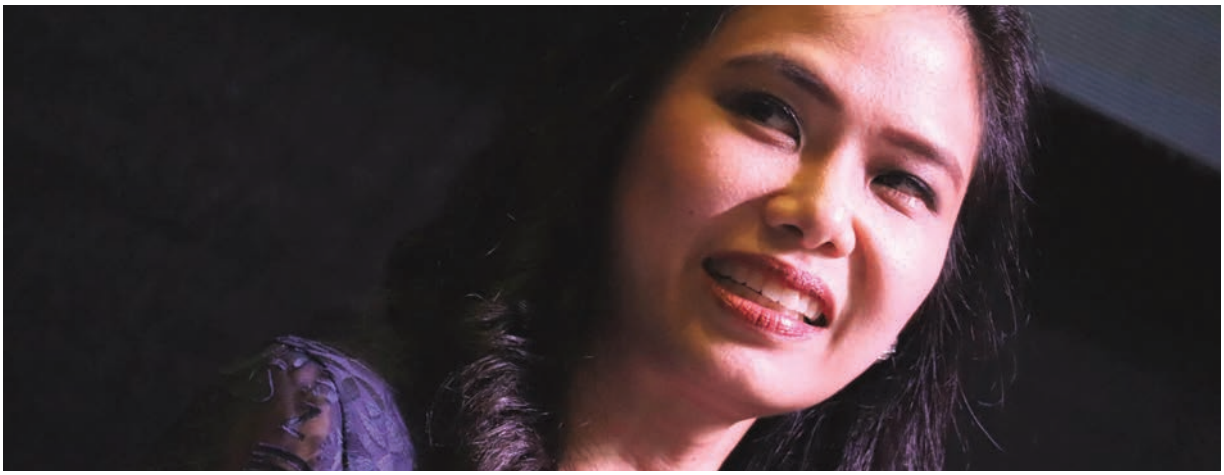
While digital will empower the retail market and the mass-affluent segment, a guest observed that the human adviser will still be required for the HNWI segment and above.

Passive, ESG and alternatives

ETFs are making only modest headway in Thailand, partly because low fees mean low interest from the sales teams. Although the environment is clearly a priority for many, ESG principles have not yet caught the imagination strongly enough to translate into action. Structured products are of more interest, but only for the more sophisticated investors and intermediaries.

Total AUM growth slowing

Tax changes and the weaker financial markets of 2018 have resulted in a slowing growth profile for the funds industry in Thailand.



BENJARONG TECHAMUANVIVIT
Kasikorn Asset Management

THE DISCUSSION BEGAN WITH a life insurance expert explaining that, as yet, Thailand's onshore investment portfolios are dominated by domestic assets. He highlighted how for their USD3 billion portfolio, 85% is invested in fixed income, with only 15% offshore.

"We need a 150-basis point or more pick-up offshore," he reported, "given the challenge of the hedging cost of the US Dollar-Thai Baht, but right now we struggle to achieve that. And locally, there is not enough corporate bond supply locally to manage our required yields and duration needs. In terms of equity investment, generally the life insurance industry will have around 7% to 12% of their portfolios in equities onshore and offshore combined."

Tax changes affecting the investment market

The end of two tax incentives draws near, he added. One concession being removed was applied to unit investors holding their units at least seven years with a ceiling of investment of THB500,000. This will affect some 10% of the total mutual fund AUM.

And more importantly, the fixed income fund tax comes in as a 15% tax on coupons and capital gains on fixed income funds, whereas this was 0%. As fixed income funds are about 25% of the total mutual fund market and as yields are so low already, the impact might be to reduce demand, leading to higher spreads.

YINGYONG CHIARAVUTTHI
Prudential Life Assurance

CHOLATHEE PORNROJNANGKOOL
Bangkok Bank

Life industry to adopt RBC 2 regime

Although the date is unclear, the life insurance industry will likely soon adopt the Risk-Based Capital 2 (RBC 2) regime, he reported. The impact will be that the life insurance will have a considerably higher capital charge on equity holdings, rising from around 20% to around 35% and thereby reducing their demand for equities.

As a result, insurers are also pushing for offshore limits to rise to 20% from 15% to allow them to access potentially higher returns overseas to compensate. The move might also drive insurers to buy higher risk fixed income paper to compensate, so there are moves afoot to persuade the regulator to more liberalisation.

Asset allocation being professionalised

Having a viable asset allocation model is the best way forward for proper portfolio management, opined one expert on the panel. The advice he proffered is to copy the institutional world, to work on asset allocation first, and use more passive funds and ETFs to reduce costs.

Digital channels are also much more in evidence in Thailand, and competition from fintechs in this field is rising. This is helping access the retail and mass affluent segments more readily. A major bank cited the growth of digital customers from 20% two years ago to around 40% today and the forecast is for 50% within another two years.

A key challenge now is for the banks to strengthen advisory capabilities over digital channels in the years ahead, so that the customers use mobile and apps to invest rather than sell, as thus far digital is creating net outflows.

An expert noted that digital is ideal for the retail and mass affluent market, but for the HNW segment and ultra-HNWIs, the personal touch remains essential. But panellists appeared to agree that digital can, across all segments, help drive cost efficiencies, productivity and client loyalty.

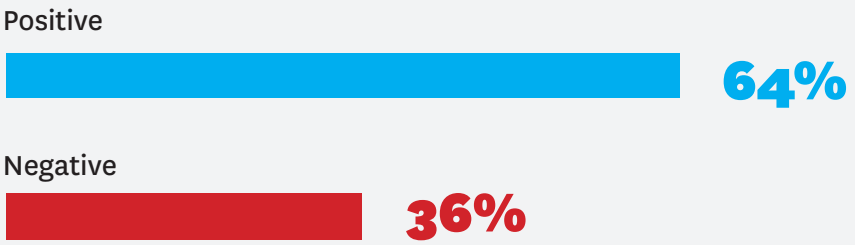
Rising demand for foreign assets

In the domestic capital market, the supply-demand dynamics remain similar to recent years. However, demand for foreign assets is increasing rapidly for reasons of diversification and focus on thematic, regional and single country trends that are not so easy to play in Thailand, for example Big Tech, Latin America, Japan and so forth. The capital market at home is still small and needs greater diversity of products and themes. In a poll at the event, 81% said greater diversity in Thailand will be a huge benefit. For example, direct investment into offshore funds, rather than into only onshore funds that invest in offshore funds is a required development.

The regulator is tentatively also loosening control over offshore institutional investment in some sophisticated onshore products or alternative products, for example, private equity, hedge funds and others.

An expert remarked that the financial world is borderless. For insurers, for example, if appropriate hedging can be incorporated to offset currency risks and protect domestic currency liabilities, then they

ARE YOU FEELING POSITIVE OR NEGATIVE ABOUT THE INVESTMENT MARKETS TODAY?



Source: Thailand Wealth Management Forum 2019

would like to invest considerably more offshore, primarily in developed, liquid and transparent markets, but also including nearby ASEAN markets, although perhaps not illiquid, nascent frontier markets, such as Vietnam.

Passive, ESG and alternatives

The ETF and passive index fund market in Thailand remains lacklustre, a panellist noted. But there are industry-wide efforts being made to boost flows and therefore demand, with some encouraging signs. A major investor at the discussion said he prefers ETFs for fixed income and is neutral on passive or active for equities, although he perceives a gradual shift to passive, as it makes it easier, rather than with active investment always having to explain performance against the benchmark.

Low fees from ETFs translate to low incentives for salespeople to push them as products to their clients. Moreover, liquidity is insufficient in Thailand. Nevertheless, there is growing interest and activity in passive strategies in the country.

While there is also growing interest in concepts such as investing along ESG principles, as investors and people, in general, become more aware of social and environmental issues, including significant pollution in Bangkok, more ESG products are required before demand rises, and then on the proviso that returns are not diminished compared to traditional products. An expert noted that he is confident that regulatory and operational obstacles can be overcome for more ESG and impact investing product launches.

There is take-up of structured products, which are gaining tractions and there are plans afoot for simple structured products linked to multi-asset fund or selected stock indices, incorporating principal protection, which will also help boost overall interest.

Total AUM growth slowing

The whole fund industry in Thailand is today estimated at the equivalent of around USD160 billion through roughly 1800 funds, but unit-linked funds are a mere ripple in that ocean, representing an estimated USD2 billion of AUM. Growth in all sectors is likely to slow after several years of fast growth, due to weaker and more volatile market conditions, as well as tighter regulation on sales practices. The panel felt that the general outlook for the next six to 12 months remains encouraging for the Thai market, and the broader Asian economies, although there are clearly some political headwinds in the country as well as some geopolitical and trade concerns in the region and between China and the US.■