The Drive to Boost the Onshore Investment Proposition in Indonesia

Four leading local and regional wealth management experts assembled to debate how the Indonesian market can boost its onshore proposition. After the tax amnesty and with Indonesia clearly wanting to retain as much money as possible onshore, the opportunities are increasing for local advisers and wealth solutions providers. But will the regulators move at the pace required tom liberalise domestic markets? Will the onshore providers be able to go it alone? Or will they need to partner with offshore private banks and other experts?

These were the topics discussed:

- *What are the opportunities and challenges for Indonesia's asset management industry?*
- *For years there have been discussions about opening international investments to Indonesia for distribution onshore, but will it ever happen?*
- *Tax amnesty money (with lock up period expiring) - do we assume that will head back offshore?*
- *What developments are we seeing in treasury and structured products like FX, bonds, dual currency investments etc?*
- *The domestic capital markets are relatively thin - what can be done to improve them?*
- *In Asia - how do 'funds' and 'investment products' get effectively distributed to clients? Why can't we do this in Indonesia?*
- *Has performance in the local market been lacklustre?*
- *Why are deposits still so popular?*
- *What must the regulator do? Why don't they do it?*
- *Any interest in ETFs? And interest in ESG?*

PANEL SPEAKERS

- **Antony Dirga**, President Director, Trimegah Asset Management
- **Keng Swee Koh**, Executive Director - Head of Investment Product and Advisory, DBS Bank
- **Ogar Renaldi Widjaja**, Passive Sales, Head of South East Asia and Intermediaries, DWS
- **Handry Mulyo**, Managing Partner, Kolega Capital

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

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THE KEY TAKEAWAYS

Indonesia follows broader ASEAN trends

Asia-wide there is a rush to boost the onshore wealth management proposition. And this is being done across all segments, from retail to mass affluent to HNWIs and the ultra-wealthy.

Repatriation of money must not be reversed

The government's tax amnesty has resulted in the repatriation of around 146 trillion Rupiah, according to one panellist. The mission now is to keep that money at home, especially in light of the country's growing infrastructure spending and current account deficit.

Regulators must encourage the industry

Growth at home should be faster in terms of the product suite and expertise on offer. However, the regulator could be more proactive, especially improving segmentation between offerings for HNWIs and the mass market to permit the speedier release of new financial solutions to the top echelons of wealth and then down over time to the mass affluent and then retail markets.

Some commendable progress, for example insurance

There are clear pockets of progress, for example, insurance companies in Indonesia are at least now able to invest offshore as to 20% of their assets, they can also launch unit-linked products that invest 100% offshore and distribute that to retail clients as long as it doesn't breach that 20% cap. Within the mutual fund industry, Sharia funds are able to invest 100% in offshore assets, although that liberalisation has not yet flowed to the conventional fund segment.

And progress is happening

An expert highlighted the growing number of SID numbers, representing the single investor IDs required in order to permit an individual to buy and trade financial instruments, such as stocks, bonds, or buying mutual funds. The SID data is, therefore, a leading indicator of coming growth.

Corporate bonds - liberalisation gradually taking place

A guest pointed to the regulator's move earlier this year on corporate bonds, allowing banks to distribute them, while previously it was only the securities firms.

Look across the region, and learn

Indonesia can work more closely with ASEAN counterparts to learn more of the development of a robust wealth management market, especially with eyes on the generations who will be holding the wealth in the next five to 30 years.

"I SEE SIMILARITIES HERE WITH THE OTHER DEVELOPING MARKETS OF THE REGION," SAID ONE GUEST, ON OPENING THE DISCUSSION. "Everyone wants a very liberalised, open industry, and everyone wants to sell fancy products. For us, we look across the full spectrum of wealth, from people with USD1 million to those with USD50 million or more to invest." And he said the bank is developing a full suite of products to cater to all these different segments, explaining that careful segregation is required to offer the right products to the right investors, with some products ringfenced only for a very selective group of clients.

Another guest explained that the tax amnesty has resulted in the repatriation of around 146 trillion Rupiah, and the feedback thus far is that the clients have targets for the money, in other words investments in mind locally in Indonesia. "Some has been moving into the market, in government bonds and other investments," he reported, "but most is being reinvested in their own companies in the forms of loans and so forth. Our clients have told us that they plan to keep the money here."

He referred then to concerns over the country's ongoing current account deficits, which are expected to remain troublesome for some time. "Until we actually solve that the country will always be worried about managing the volatility of the Rupiah, as my fellow panellist mentioned."

Another expert said his wish list starts with

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the hope that the industry grows a bit faster. "For example," he observed, "the regulator can be more receptive, talent could improve, segmentation between offerings for HNWIs and the mass market should be better, product availability needs to be greater, and the industry must work better together."

"There is some reasonable progress," came another voice. "The insurance companies in Indonesia are at least now able to invest offshore as to 20% of their assets. They can also launch unit-linked products that invest 100% offshore and distribute that to retail clients, as long as it doesn't breach that 20% cap."

"Within the mutual fund industry," he added, "Sharia funds are able to invest 100% in offshore assets, this changed some three years ago, although we are all waiting for the traditional funds to be able to do that as well. I would like to see offshore exposure opened up through ETFs, and if the major institutional clients and pension funds keep pouring money to the local domestic market, which is not so deep, that will cause problems. There needs to be more product locally, partly also to keep money onshore, or it will go offshore again."

"We understand the regulator will help improve segmentation of the clients," said another guest, "and actually depending on certain segment of clients, for example, HNWIs, they will make it easier for smaller funds to open up and bring in more flexible products. The overall wealth industry

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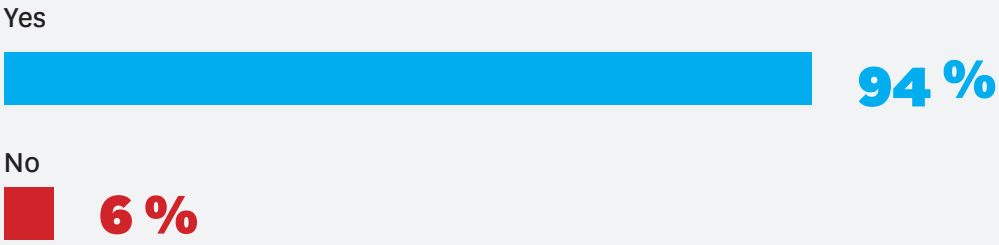
WOULD YOU LIKE TO SEE MORE PRODUCT DIVERSITY IN INDONESIA?



Source: Indonesian Wealth Management Forum 2019

here has in fact been growing about 20% per year, which is not bad, and the market now has roughly a 3.5% AUM penetration, as a percentage of GDP, which is in line with where China was about seven years ago, so we are on track. Of course, we tend to be impatient about where we want to go, from here, but the SID number, the single investor IDs, has been hovering around between 300,000 to 400,000 a year in a country of 270 million people, low but it has in fact grown five-fold in the last four years to roughly 2 million; it is important as a data point, because you need a SID to actually trade stocks, bonds or buy mutual funds. The SID data is therefore a leading indicator of coming growth."

Another guest highlighted the regulator's move earlier this year on corporate bonds, allowing banks to distribute, while previously it was only the securities firms. "This is a positive move for opening up the market here, especially since the bond industry is growing so rapidly here, as corporate bond liberalisation is a natural step."

The final comment went to an expert who said that from his perspective, the key protagonists, the product generators need to look across to glean lessons from the neighbouring ASEAN countries and share more information and insights. "Wealth is moving from the first to the second and third generations, and many of those have a more global mindset, and that is another reason the regulatory environment here must advance; they have to open up the market, in order to allow more offshore exposure onshore. At the same time, the authorities have to protect the individuals here who are not as educated or sophisticated. ■

ANTONY DIRGA
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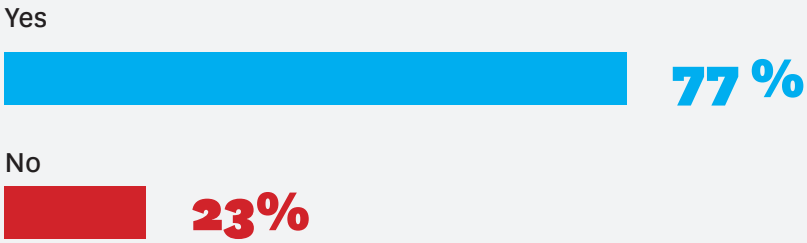
WOULD YOU LIKE TO BE ABLE TO ACCESS MORE INTERNATIONAL FUNDS?



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