

Wealth management & the Philippines:

Experts shine light on the future path

The first panel of the Hubbis Philippines Wealth Management Forum in Manila set the scene for the day's discussions when a panel of experts opined on their perspectives how client needs will evolve and how the wealth advisory industry will adapt and improve.

These were the topics discussed:

- *How do the different players - wealth management, insurance and banks compete or complement each other?*
- *Asset management companies - what can we do to accelerate the business?*
- *How important is digital today?*
- *Offshore / onshore. Where is the long-term opportunity?*
- *Who is making a commitment to building an onshore business and why?*
- *Will we see an increased presence from offshore private banks in the Philippines?*
- *How will it effect and influence domestic Private banks?*
- *Is there a hybrid model where international banks can work with onshore banks?*
- *What changes are we seeing in client expectations and behaviour?*
- *Where will the continued growth come from and what are your priorities?*
- *How is regional wealth management developing?*

THE WEALTH MANAGEMENT INDUSTRY IN THE Philippines is in its relative infancy, compared to the more developed markets in the region. For example, the asset management industry in the country is in its formative stages, with total Unit Investment Trust Fund (UITF) assets estimated at around US\$17 billion equivalent and the mutual fund segment at about \$5 billion.

But the number of high net worth (HNW) clients continues to expand rapidly and the mass affluent segment is rising fast. The Asian Development Bank (ADB) currently forecasts that the country's GDP will grow by 6.8% in 2018 and by 6.9% in 2019. And the ADB expects per capita GDP growth of 5.1% in 2018 and 5.2% in 2019.

PANEL SPEAKERS

- **Christian Senn**, Managing Director, Market Group Philippines Market, Credit Suisse Private Banking
- **Stella Cabalatangan**, Executive Vice President, Head of Private Bank - Relationship Management, BDO Private Bank
- **Michael Ferrer**, Managing Director, ATR Asset Management
- **Vincent Magnenat**, Chief Executive Officer of Asia, Lombard Odier
- **Michael Manuel**, Chief Market Development Officer, Sun Life Financial



Expanding offerings, improving services

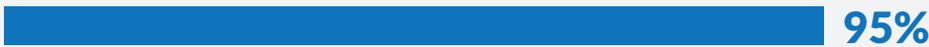
As this remarkable growth continues, banks, insurers and other wealth management firms are adapting and expanding their offerings, their services and their skills to make sure that they cater to client requirements and improve their business flows and prospects.

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 themselves create dedicated asset management entities.

DIGITISATION OF INTERNAL PROCESSES AS WELL AS THE CLIENT INTERFACE IS AN ONGOING PRIORITY.

ARE YOU POSITIVE ABOUT THE DEVELOPMENT OF WEALTH MANAGEMENT IN THE PHILIPPINES?

Yes



No



Source: Hubbis Philippines Wealth Management Forum 2018

Digitisation of internal processes as well as the client interface is an ongoing priority. Opening UITF or mutual fund accounts online, for example, and linking those to the client bank accounts are both priorities.

Onshore and offshore - how and why

Foreign private banks and other international wealth management providers see ever more scope in the Philippines for their products and services, so they are faced with a decision on how to penetrate the local market, or how to expand their presence there.

“We have recently opened a rep office here in Manila,” reported a panel member. “This is merely phase one, the start of our strategy here, one that will see us develop over time to phase two, where we will provide a fuller suite of offerings. In the second phase, we hope to do justice to a market in which we see so much potential.”

He explained that in his experience, private banking and wealth management, in general, has a remarkably high correlation with real estate markets. “The market here has been lagging the region, for example, Singapore or Hong Kong, but this has been happening only quite recently here. It will have a considerable positive knock-on effect in our business.”

He explained that there were three options for approaching the market. “We could buy a local player, we could collaborate locally, or build our own platform. We chose the latter, although we also see the other two options can have some advantages. This approach fits our business model and we have proven experience in this methodology elsewhere in the region.”

Another private banker explained that their approach was the partnership route. “We do not have the resources of the biggest global banks, we prefer strategic partnerships in these markets, similar to our approach in Thailand, for example. By teaming up with a universal bank here we merge the best of our two cultures, history and expertise for mutual advantage.”



MICHAEL FERRER
ATR Asset Management



VINCENT MAGNENAT
Lombard Odier

Focusing on a sophisticated approach to HNWI's

He explained that as the wealth market evolves into younger generations there is a greater need for structuring expertise that his bank can offer. “For example, it is time for families to sit together to understand what their objectives, to implement the right governance, to consider wealth transition and so forth. Investment strategies are more diverse, more global, more sophisticated and might, for example, include newer themes such as sustainable investment, and of course philanthropy.”

Another perspective came from a local expert who explained that their firm worked with international experts to source product. “We are continually seeking the best local and offshore product and service providers, we do not adopt exclusivity and we have been faithful to the open architecture approach. This has served us well in developing our local client base and gain market share. It has worked, we began very small and our AUM is now some 70 times larger after 15 years.”

As to potential competition from foreign entrants, whether go-it-alone or in partnership, this banker noted that healthy competition will encourage their bank to become even more expert and the overall wealth market is likely to expand as a result. As to regulation, the panel members appeared to agree that the local market had positive support, but that regular dialogue was essential.

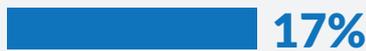


STELLA CABALATUNGAN
BDO Private Bank

“WE ARE CONTINUALLY SEEKING THE BEST LOCAL AND OFFSHORE PRODUCT AND SERVICE PROVIDERS, WE DO NOT ADOPT EXCLUSIVITY AND WE HAVE BEEN FAITHFUL TO THE OPEN ARCHITECTURE APPROACH.”

SHOULD LOCAL BANKS -

Build it themselves



Collaborate with international banks



Source: Hubbis Philippines Wealth Management Forum 2018

The ingredients for healthy evolution

“If we build trust with the regulators, they become more open-minded to new products, innovations, and are more receptive to greater offshore investment and so forth,” said one expert. “In the mutual fund world, for example, we have new rules that permit new funds and structures, the result of several years of dialogue. On the trust side, we lobbied successfully to offer a standalone trust model and obtained the first license. As to our strategy, we can work with distributors as we choose. And we can also tie up with different global fund managers to bring offshore products into the country, so we have become the leading feeder fund provider in the market currently.”

One of the biggest distribution platforms in the country comprises more than 12,000 sales agent. “We offer products and services that meld different silos, for example, liquidity, investments, and protection, spread across all our businesses,” he explained. “In this respect, we are both competing with the banks and asset management companies here, but also at the same time we are complementary to each other.”

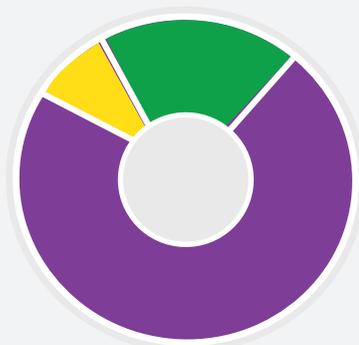
Improving services, products and delivery are all priorities for onshore and offshore providers. “We have embarked on a major project to improve the technology of our platform to connect our bank and trust assets,” one panel member reported. “We also have to continue sourcing providers. Having built an



MICHAEL MANUEL
Sun Life Financial

“WE HAVE EMBARKED ON A MAJOR PROJECT TO IMPROVE THE TECHNOLOGY OF OUR PLATFORM TO CONNECT OUR BANK AND TRUST ASSETS.”

WHAT DO YOU THINK ABOUT THE REGULATOR(S) SUPPORT OF THE DEVELOPMENT OF THE LOCAL WEALTH MANAGEMENT MARKET?



- They seriously need to get moving
- They could do better
- They are doing a good job

Source: Hubbis Philippines Wealth Management Forum 2018

excellent base of AUM, our current focus is to make the customers more loyal to us by adding on more wealth advisory, trust structures, onshore and offshore expertise and so forth. We are also refining customers and their needs, so we can service them more appropriately. It is all about relationship building and making sure we are client focused.’

One expert highlighted the development of products. For example, he noted that in the mutual fund and unit trust fund space there are less than 300 products in the market, and of those only about 10% or fewer are offshore oriented. “We have seen this develop steadily, with more differentiation, for example on the equity side we see more dedicated sectoral or small and large-cap funds. To some extent, it is all dependent on the development of capital markets themselves, the availability of different asset classes, and that is an area that still has much further to go in the Philippines. For example, we do not yet have a REIT product here, but we should within the next year.”

He also observed that the offshore side of the product flow is likely to evolve faster. “Currently we have the feeder structure for the unit trust and now also mutual funds products. However, regulations will likely evolve such that a private bank client may under QFII status start investing offshore, and then suddenly the universe of 30 foreign-focused products becomes 3000 funds.” As this happens asset management firms might see an opportunity to shift from being only creators of products to support the private



CHRISTIAN SENN
Credit Suisse Private Banking

“WE EXPECT DOUBLE-DIGIT GROWTH AND A LOT OF DIVERSIFICATION OF PRODUCTS TYPES, ASSETS AND MORE AND BETTER SERVICES.”

DO WE REALLY DO A GOOD JOB EDUCATING CLIENTS ABOUT INVESTMENTS AND WEALTH MANAGEMENT?

Yes



No



Source: Hubbis Philippines Wealth Management Forum 2018

banks, for example with services such as analytics, portfolio optimisation and other services.

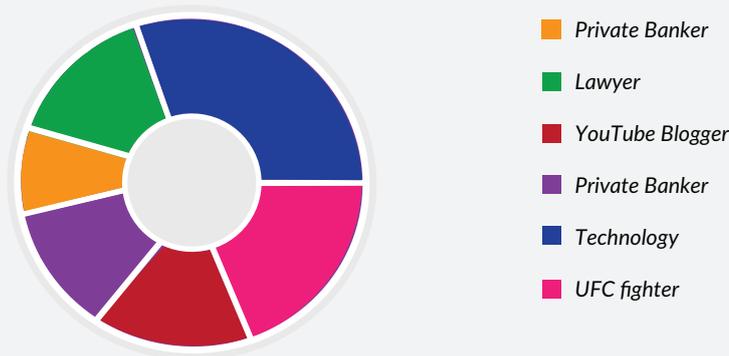
Panel members concurred however with the view that the product offerings will largely remain onshore focused. “But,” said an international banker, “HNW clients here also need to obtain a similar quality of service that they have from the traditional offshore centres and that they have access as they want to the global market. And the regulator must adapt to facilitate this access, which will help bring offshore

money back home. This, combined with partnerships between local and foreign providers, will propel the wealth management industry in the Philippines.”

Education is key

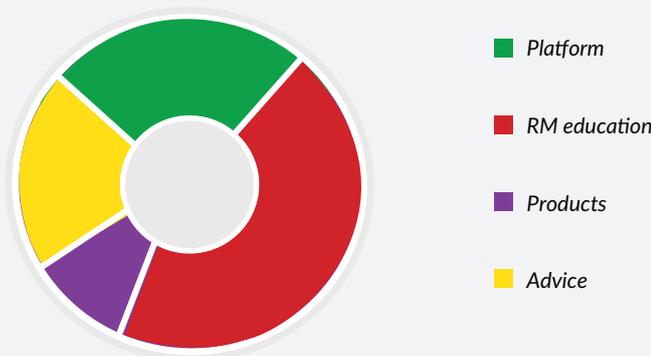
The discussion concluded with a general agreement that growth will be encouraging. “The opportunities are excellent,” said one expert. “I personally would be disappointed if we don’t see a growth of between 15% to 20% over the next three to four years, in fact, that would be on the low side of my hopes.”

A FRIEND ASKS YOU WHAT THEIR DAUGHTER SHOULD DO AS A CAREER - YOUR ADVICE IS:



Source: Hubbis Philippines Wealth Management Forum 2018

WHAT IS MOST IMPORTANT IN BEING SUCCESSFUL IN WEALTH MANAGEMENT?



Source: Hubbis Philippines Wealth Management Forum 2018

A panel member noted how much more sophisticated the market was becoming. “We expect double-digit growth and a lot of diversification of products types, assets and more and better services. Part of the game, if I might say so, is to move vast amounts of money here out of deposits and into investment products. Deposits are still growing very fast despite the ongoing low interest rates, that shows the scale of the hurdles and the size of the opportunity.”

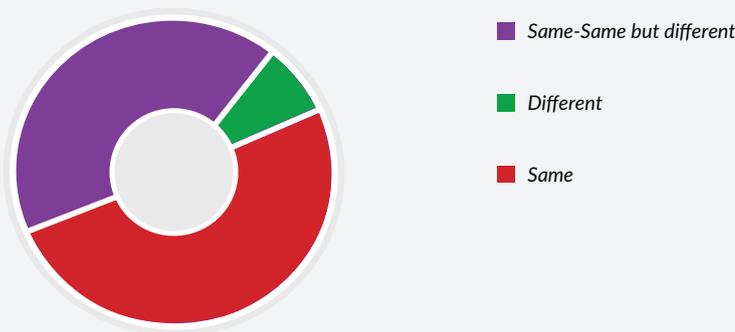
A different perspective came from one expert who said it was all about wealth experts providing education and therefore confidence to customers. “We are the bottleneck,” he said, “we have the duty to provide education to clients which have never invested in products like this or who want to diversify. There is

so much cash swilling around, so it is up to us to mobilise it.”

And an expert who has managed a rapidly expanding agency sales force agreed. “Without educating and expanding the sales force, we cannot expect to covert more customers,” he said. “We must all strive to be more financially literate. The distribution needs to be sophisticated, that is in our sights.”

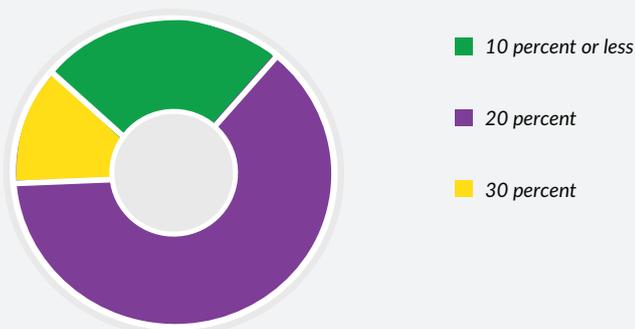
And one banker added: “The RMs and other key client advisers need to adapt their priorities, change their mindsets. They need to build better and more insightful and ultimately productive relationships with their clients, they truly want to show their desire to help them.” ■

DO YOU THINK PRODUCTS OFFERED BY BANKS ARE -



Source: Hubbis Philippines Wealth Management Forum 2018

IN THE NEXT 2 YEARS - WOULD YOU EXPECT THE AUM IN INVESTMENT PRODUCTS SOLD TO RETAIL AND HNW CLIENTS TO GROW BY -



Source: Hubbis Philippines Wealth Management Forum 2018