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The Evolution of Wealth Management in Indonesia

What are the main opportunities that will drive growth in the wealth management industry in Indonesia? What are the key challenges to building profitable private banks and wealth advisory businesses? Is regulation helping or hindering? What do the new entrants means for the competitive arena? Is there enough local talent to keep pace with growth? Are technology solutions properly understood and is digital transformation taking place at the right speed and with the right results? Is the best strategy to be independent, or for local firms to partner with international names? What will the industry look like in the next five to 10 years? These and other seminal matters were considered in some detail by our hand-picked panel of local Jakarta-based and also regional/international wealth management experts on October 13 in our Hubbis Digital Dialogue on the evolution of wealth management in Indonesia. Their conclusions were clear cut - the Indonesian wealth management market is growing rapidly in terms of numbers, wealth, diversification of products and digitisation, but there are key challenges around talent, the need for greater liberalisations, and delivering wealth management at scale for the rapidly expanding mass affluent market. As one expert proclaimed: "This is the promised land of opportunity, the skies are blue, and the potential is simply vast."

SPEAKERS

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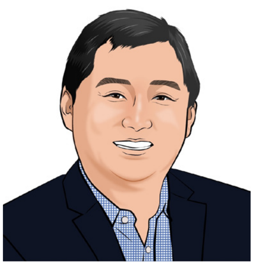

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Setting the Scene

Our panel of experts aimed to set Indonesia's progress in the context of developments in other populous ASEAN markets, such as Thailand and the Philippines. They analysed where there needs to be more progress and what additional building blocks need to be put into place in order to facilitate such progress, such as regulatory liberalisation, greater investment by the local and international players, more trendsetting by the newer JV partnerships between onshore and offshore partners, and so forth.

Indonesia is bouncing back well from the pandemic and navigating the global storms well currently. The Asian Development Bank still projects GDP growth of 5% in 2022 and 5.2% in 2023 and expects the country's inflation rates to be modest at 3.6% in 2022 and 3% in 2023. Meanwhile, the ADB anticipates per capita GDP growth of 4% this year and 4.2% in 2023. At the same time, private wealth creation and expansion at the upper tiers is robust and there are more and more Indonesians moving into the middle class and mass affluent segments.

This presents an outstanding springboard for the wealth management industry to continue its growth. Understanding the key drivers and the current competitive environment are vital for the positioning of the local and international players as they jostle for prominence in what is certainly a market of huge potential, as the huge population keeps growing robustly and as the economy and private wealth creation keep expanding. Moreover, the demographics are very encouraging - Indonesia has both a vast and a very young and fast-expanding population.

The domestic investment market is performing well. The Jakarta Composite Index hit a five year low of just over 4100 in mid-March 2020, but by mid-October was trading less than 5% of its all-time high reached in April this year. Accordingly, there have been plenty of good reasons for private clients and mass affluent investors to be investing wisely for their and the futures of their families. Moreover, almost everyone still has plenty of money in deposits and can recycle more of that into more active financial investments.

The panel of experts analysed the latest state of the wealth market set against these backdrops and delve into the development of the onshore offering and how the onshore wealth industry is trying to compete against the offshore opportunities. The onshore market is now better regulated, and the range of products has been expanding gradually, although progress is not as rapid as many would like to see. All in all, there is today cautious yet mounting optimism that the private sector, the regulators and the government are more aligned than ever in wanting to promote the financial sector.

The result is a gradually more diversified range of products and solutions onshore and a broader range of private banks and independent wealth firms, some of the alliances between international names and powerful local financial institutions with the reach across the country's vast lands and many thousands of islands. Moreover, there is rising interest amongst the wealthy in estate and legacy planning, in alternative assets, in globalising investment portfolios and in generally enhancing both the risk management and also investment allocation strategies they adopt.

Indonesia's 'promised land' of opportunity for the broadest range of wealth management, insurance, and digital solutions providers

A prominent guest did not hold back when he described Indonesia as a land of immense opportunity. From the insurance perspective, he reported their number of policies had rocketed by almost 20% last year. "There is an incredible need for coverage and protection, especially since the pandemic hit," he reported.

He explained thar while there are some concerns amongst customers over the performance of their unit-linked policies, as an insurer they provide a guarantee on the product, meaning that the unit-linked element is all essentially upside potential.

He added that although new regulations from March 2023 will hit the unit linked insurance product, making it too expensive, this is being replaced by a traditional product mimicking the original product and offering plenty of growth potential ahead.

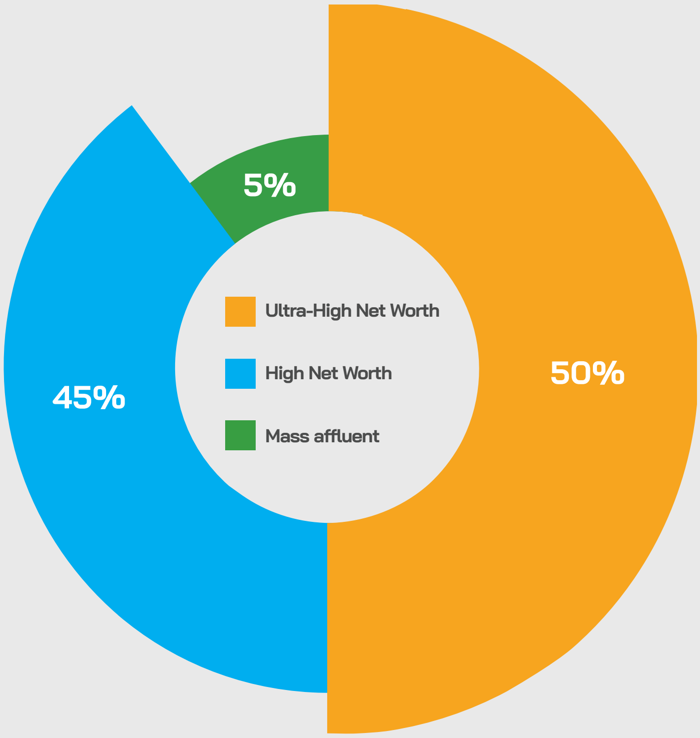
He explained that the higher segments of private wealth are increasing even more rapidly than any other segments, but that the lower end of the market is still growing robustly, but needs to be tackled through increased digitisation, while the higher segments will remain driven by human advisory and sales.

Digital evolution must track market trends and address key issues of distribution across Indonesia's vast and populous lands

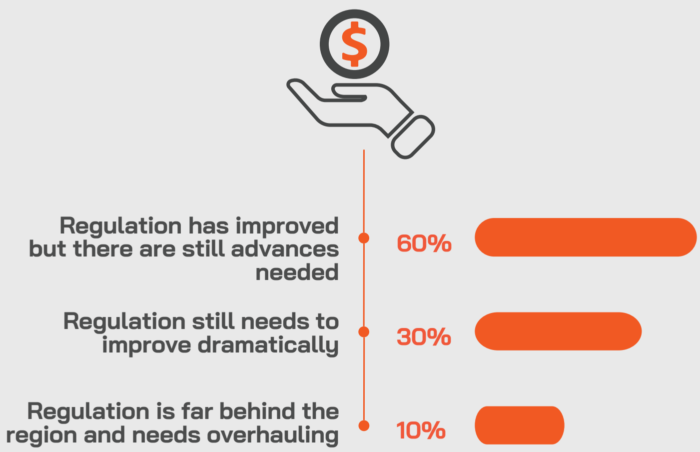
An expert explained that there is dramatic growth in the number of advisors in the financial world in Indonesia, and that digital tools are

The Hubbis Post-Event Survey

ON WHICH SEGMENTS OF CLIENTS ARE YOU FOCUSING MOST OF YOUR INVESTMENT AND EFFORT?



AS TO REGULATION AND LIBERALISATION, HOW WOULD YOU CHARACTERISE THE CURRENT ENVIRONMENT IN INDONESIA?



vital to unlock the market potential and new markets, as well as to boost efficiencies amongst the providers from front to back-end of their operations.

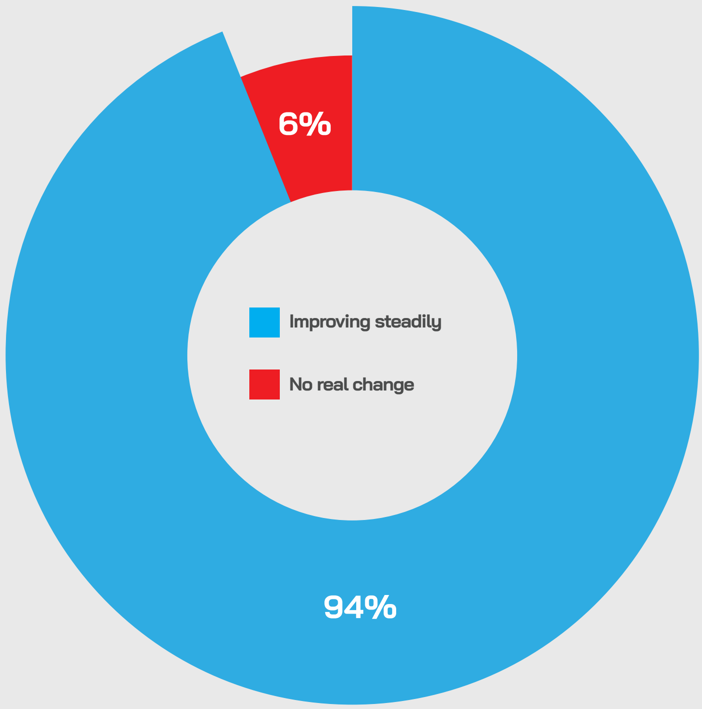
"I see an evolution where technology is helping these relationship managers and advisors, helping the operations team, and helping the management," he said. "Moreover, the vast majority of Indonesia's customers who are signing up for wealth products in Indonesia are younger and from the digital generation."

Getting closer to the customer and delivering greater relevance and personalisation are vital

A banker observed that whatever the vicissitudes of the investment markets at home or abroad, their key mission is to get closer to their clients. "They must appreciate that we are with them, intent on helping them to find the right solutions," he reported. "We are working hard to offer better advisory and product ideas, working more adroitly with our front-line to deliver solutions and ideas that are more relevant to their profile and their needs. We are also working with partners to boost our advisory proposition, for example to deliver more and better research, and thereby deliver more independent and objective product ideas and advice to the customers."

He explained the ideas and advice span insurance products as well as investments, or perhaps hybrid products. "Customers need protection, income protection, and wealth protection," he explained. "And we have our partners to support us in these areas, including fund managers, and insurance providers, and we do more through digital channels and with digital solutions."

HOW WOULD YOU CHARACTERISE THE DIGITAL PROPOSITION OFFERED BY THE ONSHORE WEALTH INDUSTRY?



Retirement planning, goals-based investing, protection, and income are all key priorities in Indonesia's young and dynamic private wealth market

Another guest agreed, adding that they were making greater efforts to direct customers towards sensible portfolio formation rather than emphasising one particular asset class or products.

"Customers need to understand principles such as average buying and building greater portfolio resilience," he explained. "These are the types of back-to-basics type conversations we need, and we are also trying to make sure that we are not product centric, but encouraging more advice related to client needs and then deliver products and solutions that meet their investment objectives."

He cited bancassurance, which he explained they had since 2020 been promoting, working at the same time on products and education for customers on retirement planning, and equipping RMs with retirement training certification to help them deliver advice and better solutions. He said this includes bringing in training experts from Singapore to help boost their proposition.

Another key mission is regular portfolio reviews for priority private clients. "In more challenging times for global investment markets and amidst changing financial conditions in Indonesia, these types of reviews are very important," he explained. "And portfolios can be tailored to the individual needs and expectations of the clients." And he explained that their particular focus is on helping boost retirement and legacy planning, and enhancing portfolios in terms of income, shifting somewhat to income producing equities and to fixed income, so that clients build a sustainable income and yield stream.

Digital tools can help the banks and other key competitors achieve some of these goals cost effectively

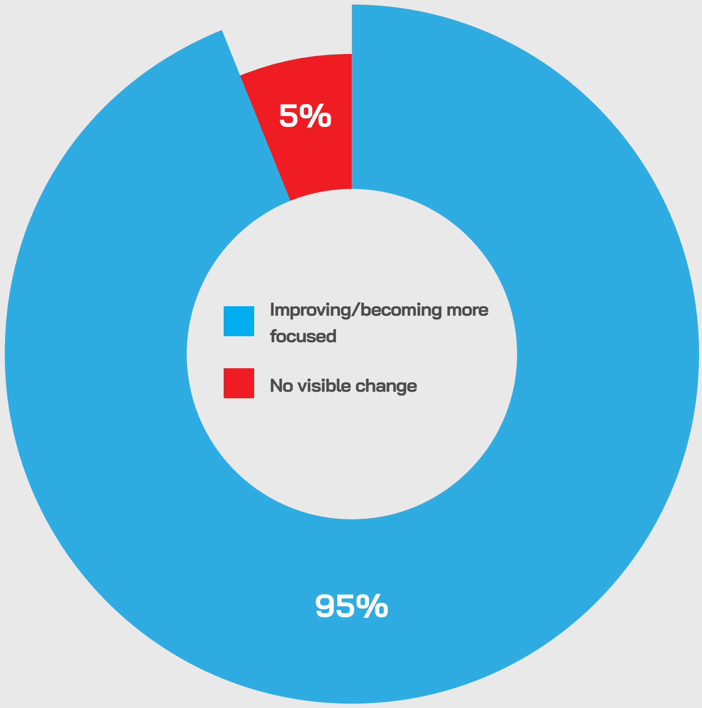
An expert highlighted how they had been promoting and launching new or refined digital tools to help the wealth industry in many of these key endeavours.

"We see the banks and others want to achieve these objectives but need to do so in a cost-effective manner and without adding further cost," he reported. "Platforms such as ours can help provide these differentiated solutions for them as they strive to keep close to their customers, but if they can with our help automate more and not add to their costs, perhaps even reduce costs, then they can deliver better service without layering on cost, and they can then reinvest in better service. We see a lot of manual processes and bureaucracy in Indonesia, so the more digitisation and automation we can provide, the better for this industry."

Asked the question about their work with banking customers in Indonesia who are deploying their digital wealth platform, an expert explained that there is very evidently increasing competition between traditional banks and asset managers offering digital wealth services versus new FinTech players in the market, forcing traditional banks and asset managers to accelerate digital transformation (i.e. adopting digital wealth platforms) to ensure scalable, cost-effective services can be offered to existing premium and new affluent/mass retail markets.

"We see in parallel the rise of 'lifestyle (banking) apps' from leading Indonesian retail banks and 'super-apps' offering digital financial services (based upon decreasing marginal costs) where we will move from digital wealth services to more embedded wealth services into orchestrated finance services over the coming 2-3 years. We are already supporting customers worldwide in designing and implementing their 'orchestrated finance' roadmap."

IN GENERAL, HOW SOPHISTICATED, AND ORGANISED ARE LOCAL HNW AND UHNW CLIENTS IN THEIR WEALTH AND SUCCESSION PLANNING?



Evolving tax laws and regulations will help diversify the wealth market, enhance transparency, and open up additional opportunity amongst higher wealth clients

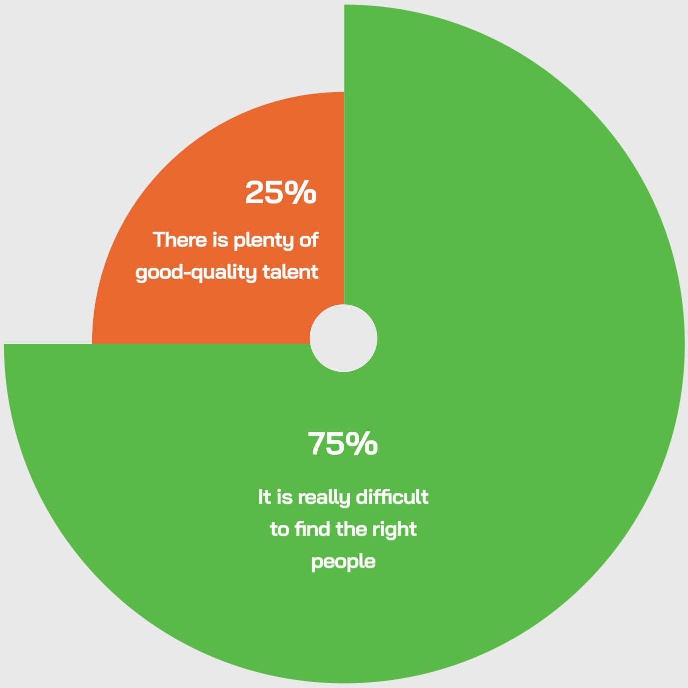
A guest highlighted two new regulations in the form of what is known as the 'Omnibus Law' and the harmonisation of the Tax Regulation Law, whereby HNWIs and UHNWIs are allowed to bring overseas structures back into Indonesia tax-free, assuming that they can meet certain requirements. Secondly, with regard to their assets that previously have not been disclosed in the previous tax returns, these individuals could apply for voluntary disclosure programmes up to June 30. "These represented a huge opportunity for them to disclose and then sleep more easily at night," he reported.

He said in light of these changes, there is a greater opportunity to focus on wealth structuring, for example potentially establishing a single-family office or engaging in more robust legacy planning, including potentially involving high-end insurance policies locally and also offshore. He added that the onshore family office would usually be in the form of a holding company that is owned by family members and that invests and can distribute dividends tax free if those proceeds are kept in Indonesia for at least three years. "Under the current rules, this offers a good solution for the families to have the family office type structure onshore in Indonesia," he concluded.

"Because their assets are already disclosed to the Indonesian tax office, it will be easier for them to manoeuvre," he observed. "There is more transparency required in face of the tax authorities, and greater awareness of the need to report all assets to the authorities. There will soon be a lot more monitoring and questioning from the tax authorities, so clients must be aware of this tightening of supervision and the increasing information flows about them and their assets. As a result, these clients need to sort out more robust and appropriate structures and organise their tax planning more transparently and more effectively."

He explained that most of the wealth is still coming from family businesses, and those that derive most revenues from onshore would be best advised to keep that wealth onshore, while the wealth from the overseas businesses should be more realistically be kept offshore. "Singapore is still the first destination for these types of clients," he reported.

DO YOU THINK THAT LOCAL PRIVATE CLIENTS ARE MORE INTERESTED NOW AND IN THE FORESEEABLE FUTURE IN ACTIVE OR PASSIVE INVESTMENT FUNDS?



Expert Opinion

PIETER ZYLSTRA, General Manager - APAC, additiv

"The additiv DFS® (digital financial suite) offers both traditional customers (private/retail banks and asset managers) and new emerging players (such as mobile wallets, neo banks, or super-apps) a scalable, modular, cost-effective platform that offers unique out-of-the-box digital wealth advisory and discretionary capabilities to enhance user experience, customer satisfaction, ensure regulatory compliancy and increase operational profitability."

Foreign investment is permitted but there are few avenues and some major hurdles in place

The discussion turned briefly to the potential for expansion of foreign assets held onshore, with one guest reporting that there are tight restrictions still in place from the regulators in terms of the avenues available more than outright prohibition of such activity.

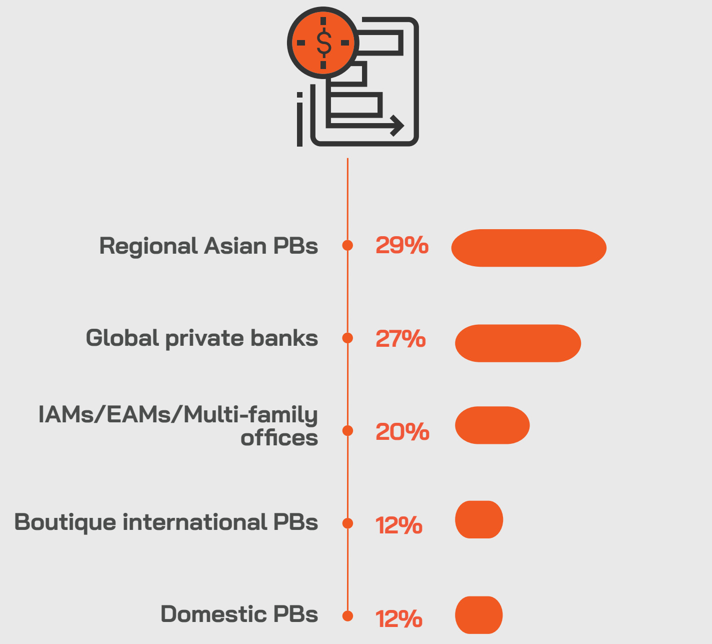
"There are only few products and avenues allowed," he reported. "One is via Sharia funds, and secondly discretionary funds. HNWIs tend to use discretionary, and they offer a broad array of assets and markets, but there is a minimum investment required that cuts out most investors here. "

There are more and more competitors in Indonesia's increasingly diverse and dynamic wealth markets

A guest highlighted a trip from the airport to downtown Jakarta and how many billboards there are advertising new competitors in the wealth market, ranging from robo-advisories to digital investment platforms, to super-apps, to digital or neo-banks and many more besides. "The access is becoming hugely more diverse for customers across the country, and we are talking about a vast population and literally millions or tens of millions of actual or potential customers," he reported.

"So," he continued, "if we look a little bit into the horizon, two or three years for now, I think what we're going to see is more mobile and digital financial supermarkets through which people can choose many more financial services, using these lifestyle apps, these super apps, creating a lot more transparency in the market, creating a lot more I think price pressure in the market as well. This is not the HNWI market, but the emerging retail and mass affluent market, which is potentially huge."

WHICH TYPES OF BANKS/FIRMS ARE LIKELY TO BE MOST SUCCESSFUL IN INDONESIA IN THE FORESEEABLE FUTURE?



Expert Opinion

PIETER ZYLSTRA, General Manager - APAC, additiv

"From our perspective, additiv believes that with this increased market competition in the Indonesian market for digital financial services, the winners will be able to ensure decreasing marginal costs in offering a variety of digital financial services, directly and indirectly, to a large mass-market of hundreds of millions of Indonesians."

He explained that they have been building their onshore team with domestic talent to cater to the huge and growing mass affluent market. As the economy grows, there is a GDP multiplier of growth in the mass affluent market, making this newer segment of the wealth market increasingly appealing to a wide range of established and newer competitors, many or most increasingly offering a digitised investment and advisory approach.

Indonesia's dynamic and youthful demographics allied to robust economic growth add up to an immense opportunity

Another expert agreed that the market is becoming increasingly diverse and dynamic. "The total number of investors grew by four times in the past five years," he reported. "One million customers became four million individual investors. And they might not be going through the traditional banks, they might go through mobile or go direct. And what they all have is needs for retirement, needs for more education around investing, better planning, and more appropriate investment allocation to match their life goals to their investment."

He explained that his firm had around two years earlier launched their robot RMs to help clients manage their portfolios. "I can report that last year, 90% of our customer who used this service beat the index, so this is a great example of digital enhancing the investment offering. Moreover, digital solutions have also significantly accelerated and improved our insurance claims management, speeding up resolutions for customers and boosting our efficiencies."

He explained that, for example, customers can access their retirement plans and projections via mobile, including allowing them to transfer or withdraw. "Digital offers us and our customers this kind of efficiency," he concluded. "And that is why I will reiterate that the sky is blue here in Indonesia. There are great opportunities, and the more we can boost efficiency internally the better, and the more we can deliver digital solutions to customers, the better the service we can provide."

Competition leads to innovation, better products, and improved service

In the core of the wealth management market, a banker explained that competition is a given and that it makes incumbents more creative and more customer centric. He explained that as a bank at the cutting edge of digital transformation, they are increasingly shifting clients to their digital platform.

"We already offer a complete range of product and will soon launch new products and services to make us really the most complete digital wealth management proposition. Why? Because we see vast potential, especially from the young demographics in this country, and the rapid growth in the number of investors. We estimate there are now some 10 million of them and 60% are from the younger generations."

A banker concurred, adding that the rapid growth in the mass affluent market is leading to them expanding their priority banking offering and capabilities. He explained that they have different customised strategies and offerings dedicated to each segment, with more and more skewed towards the younger generations and the rapid growth in the mass affluent market.

But he explained that they also keep their eyes firmly on the HNWI and older market segments and try to arrange events and educational programmes around connecting these generations, engaging both the parents and the younger customers.

"We want continuity," he said, "and for the second and third generations to continue to bank with us. Accordingly, we spend a lot of effort and time both on digitisation and also education, not only of the clients but also of our RMs and advisors."

The final word – amidst Indonesia's dynamic private wealth generation, the wealth market must evolve apace

The final word went to a guest who highlighted the evolution of expectations amongst different segments of customers. "There are existing customers with existing habits, and existing relationship managers with existing habits, and the challenge ahead is to have the right people and make sure you provide the digital tools for them," he observed.

He explained that in the months and years ahead, incumbent players have an opportunity to work together with newer players as well. "In ASEAN countries, and further afield in Asia we see that some of these traditional players are using the distribution capabilities of these new players, for example," he told delegates. "And there is greater collaboration, for example newer players leveraging the existing investment platforms to offer a limited range of investment for smaller or first-time investors." ■

Expert Opinion

PIETER ZYLSTRA, General Manager - APAC, additiv

"Digital Orchestrated Finance is the key strategic priority for Indonesia's financial service providers, and additiv is unique positioned to support the ambitions of our growing list of Indonesian and Asian customers."