

WEALTH MANAGEMENT IN THE PHILIPPINES –

THE STATE OF THE NATION



INTRODUCTION

A Hubbis Pre-event Survey

In advance of the [Hubbis annual Wealth Management in the Philippines Forum](#) that will take place on March 20th at the Shangri-La Hotel in Makati, we have conducted a short pre-event survey to highlight some of the key themes, opportunities and challenges ahead.

2023 saw the country build upon the positive changes and advances seen in previous years, with ongoing liberalisation, greater product diversification, rising standards of transparency, and higher quality advisory propositions, all aligned with greater client centricity, more investment in digital solutions for efficiencies, RM empowerment and a better client experience, and the garnering of an altogether increasingly sophisticated offering, across the mass affluent, HNW and even UHNW segments.

Historically, the Philippines might have underdelivered on its economic and market potential, but there is considerable positivity today. That is aligning with a growing sense of optimism that the private sector, regulators, and government as they become more aligned than ever in promoting the financial sectors, especially as the mass affluent class rises and the government aims to retain more private wealth onshore.

There is considerable confidence in the Philippines, which has also encouraged private clients to diversify their approach to investments, shifting more from passive deposits and taking more exposure to financial market investments. The GDP growth has been positive, and the country's demographics are also highly favourable, with the Philippines having one of the youngest and fastest-growing populations in Asia.

Understanding the key drivers and current competitive environment is 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 population keeps growing and as the economy and private wealth creation keep expanding, even amidst global uncertainties.

There were some key insights delivered by the survey respondents, all of which gel with the findings that Hubbis has been uncovering in recent years. To simplify all this, Hubbis has distilled the replies into our Top 10 Takeaways, as below.



The true value of taking a more holistic approach to the client base

The wealth industry is growing, with an expanding demand for a more holistic approach to wealth management, focusing on current and future needs, risk appetite, financial capacity, future needs, and indeed, the future generations.

Regulations need to evolve further

The regulatory environment in the Philippines is, by most expert observations, improving, but far less rapidly than most market players would like. But having three regulators, the BSP, the Securities & Exchange Commission (SEC) and the Insurance Commission is far from ideal. By most accounts, these regulators do not tend to act in any coordinated manner, and many accommodative changes often fall between the cracks, which is somewhat frustrating for industry participants.

But fear not, as 69% of the replies indicated that things appear to be moving in the right direction.

There is a constant and growing need for greater product diversification

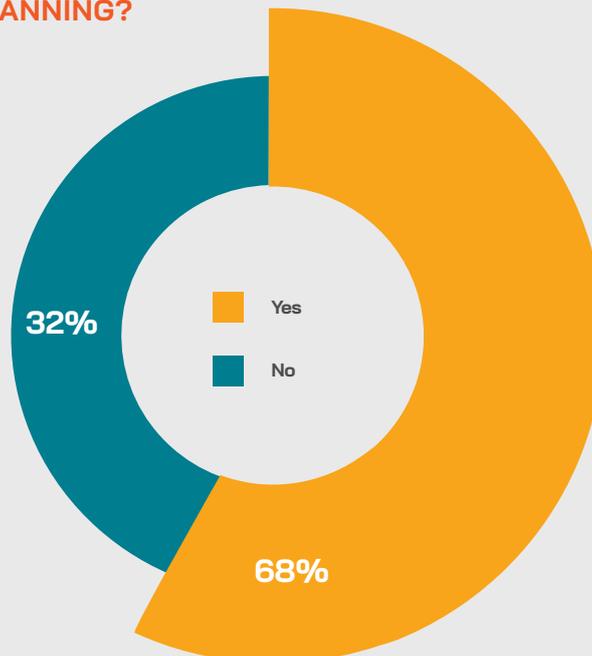
There is gradually an increasingly diverse range of onshore products and solutions, a wider array of private banks and independent wealth firms, and partnerships between international names and powerful local financial institutions. There is also a growing interest in estate and legacy planning, alternative

The Hubbis Post-Event Survey

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



DO YOU THINK YOUR CLIENTS ARE GETTING MORE KNOWLEDGEABLE AND SOPHISTICATED IN RELATION TO INVESTMENTS/FINANCIAL PLANNING?



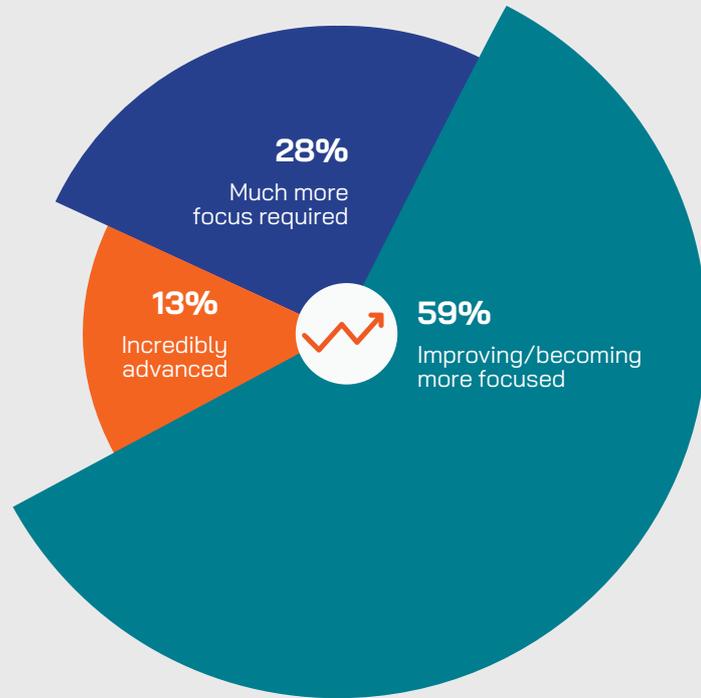
assets, digital assets, broader more diversified global investment portfolios, and improved risk management and allocation strategies among the wealthy. But it could all go faster. While there is a gradual expansion of the product suite available in the country for onshore investors of all types, a lack of consensus, as well as the slow wheels of bureaucracy, tend to hinder progress. The replies we obtained highlight the vital role of regulators as indeed crucial in this effort, and while changes in Manila may not be swift, respondents indicate that there the authorities are increasingly keen to foster a more professional, diverse, appealing and sophisticated wealth management ecosystem and proposition.

Greater financial literacy is required on the road to the democratisation of wealth in the Philippines

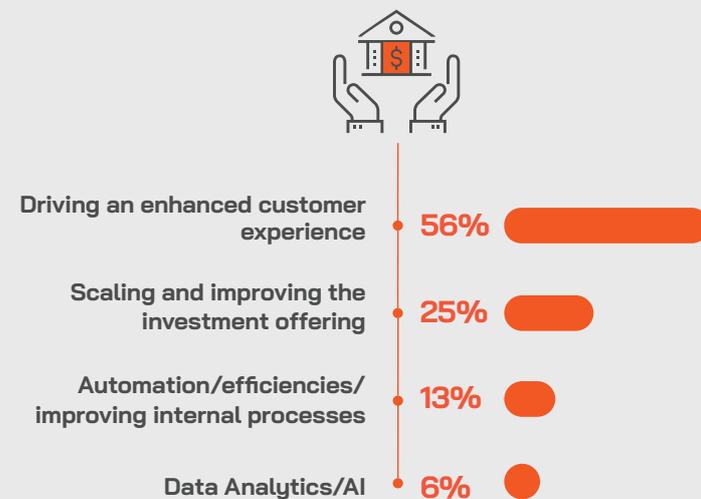
Below the top tier of HNWI and UHNWI clients, there is a widespread lack of understanding of financial products. The good news is that the replies indicate that progress is being made. The less good news is maybe they are seeing things through rose-tinted glasses – some participants stated that no matter how many times their institutions are out-educating the market, the near-term return on those efforts is usually minimal.

However, there is clearly a need for greater financial literacy among the general population, which will help encourage the regulators to liberalise services and expand the product range available. In other words, there is somewhat of a Catch-22 – the market needs more sophistication, but there are not

IN GENERAL, HOW SOPHISTICATED AND ORGANISED ARE LOCAL HNWI AND UHNWI CLIENTS IN THEIR WEALTH & LEGACY PLANNING?



REGARDING YOUR ENGAGEMENT WITH DIGITAL SOLUTIONS AND TECHNOLOGY, WHAT ARE THE KEY PRIORITIES?



enough sophisticated or diverse products available.

Lucrative deposits still rule the roost, but greater financial literacy plus a wider array of products will help to significantly increase portfolio diversification

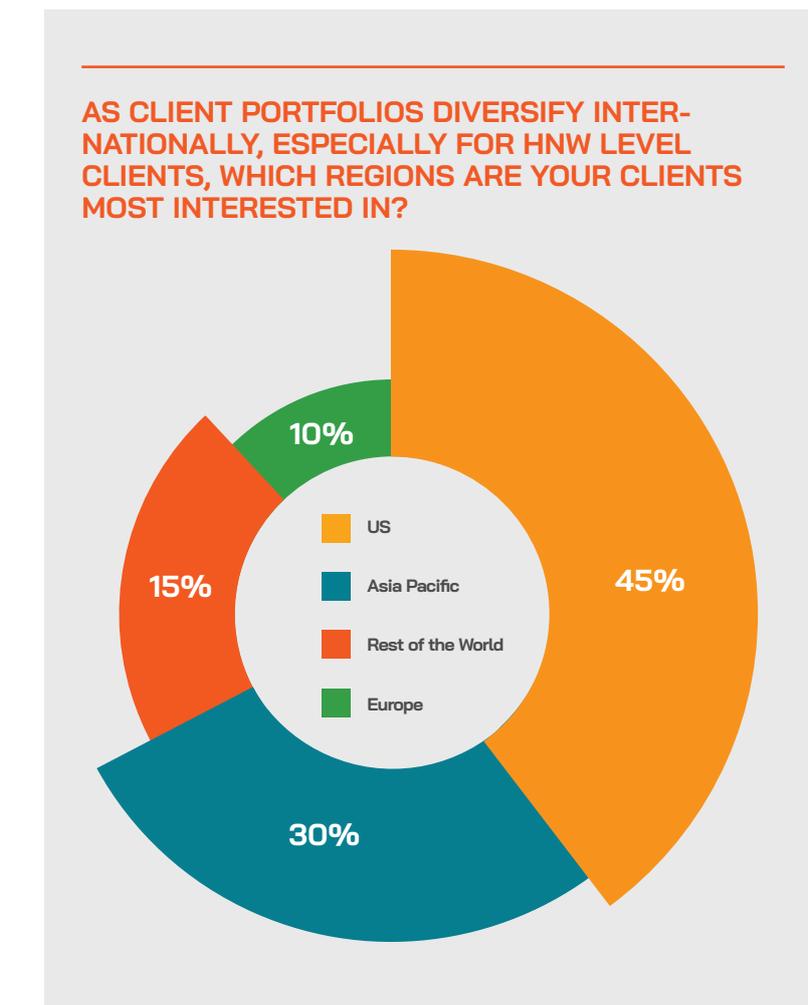
Interest rates are still relatively high in the country – the current benchmark interest rate in the Philippines, as set by the Bangko Sentral ng Pilipinas (BSP), is 6.5%. With the official inflation rate in the Philippines slowing down to 2.8% in January [2024], it is understandably tough to wean investors off such simple financial decisions and encourage them to take more investment market exposure.

This tracks back to the need for more financial literacy and a greater array of domestic and especially international risk-based investments.

Looking to the future (generations)

The wealth management industry has increasingly recognised the need to build business today as well as to address client needs in the future, and that has led to an increased emphasis on estate, legacy and succession planning and advisory, especially for the HNW and UHNW clients. Today’s clients will age and pass more and more wealth, businesses and control to the next and younger generations.

As the demographic profile of clients is changing, with a significant portion aged 50 and above, but more and more of the younger generations becoming more involved in managing family



wealth, these next and younger generations are increasingly looking for advice and products through platforms they use for different purposes, indicating a shift away from traditional banking and investment services.

This trend emphasises the need for wealth management firms to build their platforms, cultures, and ecosystems to attract younger, digitally savvy clients, especially as they often have global education and experience and are more inclined to take appropriate risk assets exposures.

What is clear from our survey is that there needs to be a greater emphasis on providing estate &

legacy planning to the domestic client base.

The Shift to Digital across the financial and wealth market landscapes

The pandemic greatly accelerated the shift towards digital solutions, enhancing client engagement and boosting operational efficiency.

Digital transformation has become crucial for scaling up and providing top-flight investment offerings. Aligned with the ongoing shift to bring the client more centre stage, the digital transformation taking place through the domestic financial and wealth management worlds has

a clear and sharp focus, with the arrival and embedding of solutions that cater to all angles to offer products, advice, and to offer full transparency and 24/7 access to information for clients.

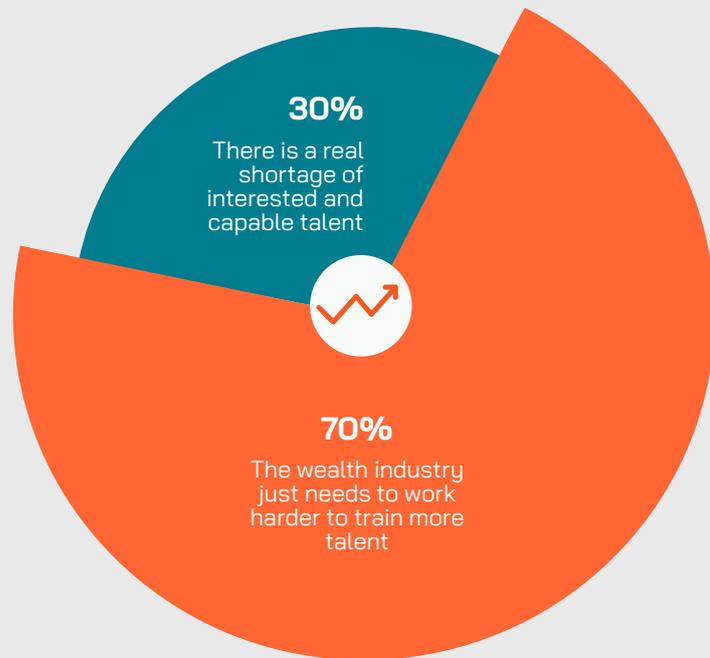
Digital transformation is valuable for all segments, especially for scalability and the ability to meet the mass affluent demand expected to grow threefold by 2030 in the ASEAN region.

Our findings show clearly that the market is in a certain phase of evolution that is understandably behind other more mature wealth markets – the key thrust is to deliver an enhanced client experience and then to scale and improve the investment offering. In a market where the cost of administrative staff is relatively modest, there is less of an intent focus on automation and cutting costs, and for the moment, more sophisticated data analytics and AI are in the plans for the future but not major priorities today.

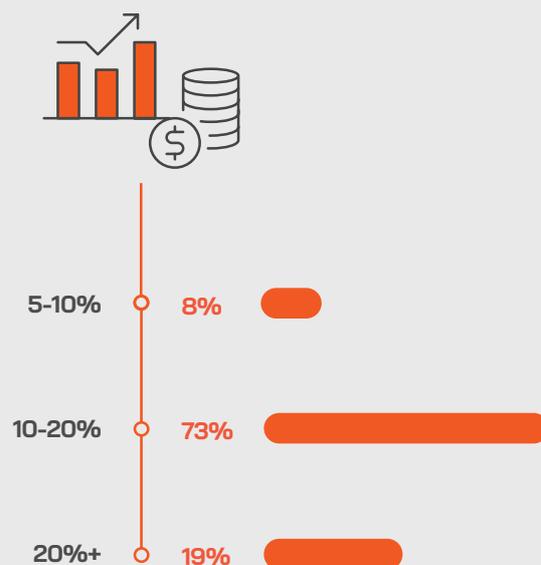
The onshore paradigm beckons, and a virtuous circle of products, advice, diversity and rising AUM is possible to achieve

If the country wants to bring home more of the vast sums of money that wealthy Filipinos have offshore, everyone must make a concerted effort, from the regulators to the government and the tax office to wealth management providers. If the onshore sector cannot in any way begin to emulate the offshore market’s diversity, then the country will struggle to attract much of its HNWI’s huge offshore assets back home.

WHAT DO YOU THINK ABOUT THE AVAILABILITY OF TALENT IN THE WEALTH INDUSTRY?



AT WHAT SORT OF PACE DID YOU GROW AUM IN THE PAST YEAR?



But there is a general consensus amongst the replies we received that progress is taking place, and the onshore wealth management proposition is indeed gradually diversifying and improving, helping to attract some HNW and UHNW AUM back onshore and helping to keep more from flowing offshore, legally or less transparently.

There is a shortage of wealth management expertise and talent locally, but it will take time to improve things

Wealth management is a people business, especially for the higher segments of HNW and UHNW wealth. Again, there appears to be somewhat of a Catch-22 situation in the country – the market needs more products, more liberalisation, more sophistication, more education, and better advice, and at the same time needs more professionals that are, unfortunately, cutting their teeth only on a relatively limited ecosystem of products, competitors and relatively unsophisticated clients.

Are things improving? Yes, our replies indicated, but much more progress is needed.

Growth beckons and there is enough room for plenty of different approaches to building a wealth business, from the new array of robo-advisories to the combination of major domestic banks and international private banks

The Philippine market could be characterised as one in which players of all types are jostling for

the position, fully aware that the potential in the years ahead is truly dramatic.

There are the relatively new robo-advisories, the wealth arms of the major banks (all of which are upping their digital offering), there are the fly-in, fly-out international private banks working with HNW and UHNW clients for offshore activities, and there are the offshore private banks.

Some local wealth management players are going it alone for their diversification and expansion. Others are choosing collaboration, bringing global brands and expertise into partnership with their local distribution capabilities, their local credibility and their understanding of the national culture. By teaming up with a universal bank, for example, a European private bank partner can merge the best of two cultures, history and expertise for mutual advantage.

All of them are increasingly supported in their endeavours by the rise of offerings from external investment product platforms seeking to benefit from the market's growth and the gradual liberalisation of the product universe.

There is very clear growth potential in the Philippines, judging by the replies we received. In short, the right platforms for delivering products and advice are essential from the perspectives of both the wealth management providers and the end clients. The right platforms, the right approaches and the right technologies will, it appears, produce the right sort of results and returns. ■



THE PHILIPPINES: A WEALTH MARKET WITH POTENTIAL AND WIND IN ITS SAILS

The country's general economic environment remains robust and of course the demographics are very alluring, with a surging population and a huge percentage of its people under 30 years old.

The Philippine economy is projected to continue its robust growth trajectory into 2024; despite facing challenges such as inflation pressures and global economic uncertainties, the Manila-based Asian Development Bank (ADB) projects domestic GDP will grow by 6.2% in 2024, driven by a recovery in employment and retail trade, sustained expansion in the manufacturing sector, and rising public infrastructure spending.

The International Monetary Fund (IMF) shares a similarly positive outlook, forecasting a 6% growth rate for 2024, supported by acceleration in public investment and improved external demand for the country's exports. And Finance Secretary Benjamin Diokno is even more optimistic, predicting growth of between 6.5% to 7.5% in 2024, and highlighting the role of private consumption and the continued implementation of structural reforms in driving this growth.

Nonetheless, challenges such as inflation, global economic slowdown, and geopolitical tensions are cited widely as potential risks that could impact the pace of growth.

Moreover, the country's demographics are very encouraging - the Philippines has both a huge and a very young and fast-expanding population, the third youngest in Asia. The demographic trends in the Philippines are also characterised by increasing urbanisation, longer life expectancy, evolving family structures, improving healthcare and education, and diversifying employment opportunities.

