

TAKING INDONESIAN WEALTH MANAGEMENT TO THE NEXT LEVEL

Hubbis' 3rd annual Indonesian Wealth Management Forum 2014 highlighted vast opportunities to deepen penetration of investment products, digital offerings, adviser training and customer understanding – to make the most of the market's potential.



Indonesia continues to offer a huge opportunity to wealth management organisations looking to capitalise on the potential that a rapidly-increasing middle class among a population of 250 million offers.

To discuss and debate this, practitioners in the domestic and regional wealth management community gathered for an event which included presentations, case studies and panel discussions to discuss key aspects of the market, including: taking Indonesian wealth management to the next level; families and their wealth - how to serve them best; cultivating Indonesia's insurance industry; the asset management industry; driving the digital revolution in wealth management; and delivering advice that counts. Some of the key take-aways included;

GENERAL TRENDS

- Wealth management as a concept is starting to develop its own identity, separate to the bancassurance business, rather than continuing to just be a buzz-word

- There is a shift from wealth management being a purely product-focused industry to one where some banks are trying to introduce more of a service-oriented, holistic offering
- With wealth management getting better known is also creating an opportunity to introduce alternative products offerings to the younger generation
- The industry needs to tap all key cities in the country – beyond the current focus largely on Jakarta, Surabaya and Medan
- There is an urgent need to educate clients as to the benefits of various investments and savings products

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- Talent needs to be more standardised, and there is an urgent requirement for more educated bankers
- Accessibility via online channels is a major trend for the middle class segment in Indonesia

MANAGING FAMILY WEALTH

- Entrepreneurs and business-owning families in Indonesia are increasingly facing tough questions about how they manage, preserve and pass on their business and personal wealth
- The key, therefore, is to help clients move assets from those structures into something which considers the issues

relating to a combination of the local reporting obligations and the global disclosure requirements

- Another aspect of advising wealthy families in markets like Indonesia is the prospect of alternative citizenship

EVENT SUMMARY

- Clients need to use the right adviser so that they are not replicating any parts of the process, or speaking to people who are not relevant
- One of the areas Indonesian clients need to pay more attention to is preparing for succession planning
- In other Asian countries, children are involved in the family business at a very early stage, and this is starting to happen more in Indonesia

INSURANCE DEVELOPMENTS

- The key is to position the offering to access the emerging middle class. That means building relationships with customers over the long term and developing products which suit their unique needs
- In a country like Indonesia, these relationships often start in places like the wet markets, where the shop owners are opening bank accounts for the first time
- Middle-class customers have tended to buy regular premium products, yet nobody monitors their portfolio. As a result, an opportunity to provide ongoing service and develop a lasting relationship with that customer is gone
- The profession – including bankers, agents and other practitioners – must



take the same long-term view as the policies do themselves

- Turnover of salespeople in the insurance space is around 40% per year. Recruitment is challenging given

that new players are coming in and hiring people with a lower standard of competency by offering them better compensation and positions

- Some tangible signs of progress in professionalising the industry include

“ Until companies start to expand into more regional markets, they won’t be able to make the most of the opportunity in wealth management ”



increased requirements for stronger corporate governance and risk management

- For the bancassurance segment, the key OJK concerns are focused on transparency and customer protection, as well as promoting awareness and education in terms of the financial solutions available in the bank
- Data shows that the average length of some ILP products is less than three years. That means the customer’s first experience tends to be value destroying not value adding

EVENT SUMMARY

INDONESIAN ASSET MANAGEMENT

- While total AUM has increased, in reality this has been in line with the general growth in the economy and the financial markets
- The penetration of mutual funds is stagnant – out of a population of 250 million, only about 250,000 people have invested in mutual funds
- The strategic objective for the industry is driving greater penetration by finding new distribution channels
- Demand has been for either time deposit-plus funds on the one hand, which pay a little bit more than a time deposit, and equity funds on the other hand
- Over the next three to five years, there will be more penetration of mutual funds driven by two main factors: first, the need to invest to generate income; and secondly, an increase in the awareness of investing itself
- Indonesia's asset management industry is set for consolidation – while 69 fund management firms exist in the market today, the top 10 players control around 80% of the market share
- There is work being done by the regulator to authorise distribution of mutual funds more widely – through not only banks, but potentially also insurers, other financial institutions and possibly IFAs
- One of the reasons for optimism is the education being done by the industry by starting to introduce investment knowledge to universities

DIGITAL REVOLUTION

- Digital technologies are starting to reshape the wealth management industry globally – and Indonesia's middle class and affluent segments are most likely to be the target of the digital revolution

- Digital solutions can help RMs and financial advisers reduce the time spent on manual interventions, so they can convert that into being more productive
- In markets like Indonesia, it is possible to review solutions which have already been implemented to select the best pieces from what has been created elsewhere
- Using apps represents a significant cost advantage that didn't exist two to three years ago when upgrading platforms or implementing solutions



- The inherently social characteristics of Indonesian people make social media well suited within the domestic financial services and wealth management market generally
- When it comes to usability, there is growing appetite for consolidated views across portfolios

DELIVERING ADVICE THAT COUNTS

- One of the obstacles to the further development and maturity of Indonesia's wealth management industry is the ability of wealth managers working in banks and other advisory firms to provide real advice to customers
- A lot of organisations want to be able to offer a more tailored service, but in reality, winning new clients comes down to hiring advisers with existing books of business

- A tailored service is required as people get older and need estate planning services such as trusts, foundations and offshore products
- Extensive knowledge of products and markets is very important to give the right advice
- But the reality is that RMs cannot be experts at everything, he added, so need to be supported by a team of specialists

“ Indonesia's middle class and affluent segments are most likely to be the target of the digital revolution ”