

# A FOCUS ON DISTRIBUTION FOR INDONESIAN ASSET MANAGEMENT

While penetration of mutual funds in Indonesia is very low, the asset management industry and regulators alike are confident that by working hard to raise awareness and find new distribution channels, they will deepen and broaden the market, said panellists at the 3rd annual Hubbis Indonesian Wealth Management Forum 2014 in Jakarta in late October.

Indonesia's asset management industry has failed to impress in recent years.

While total assets under management (AUM) has increased, in reality this has been in line with the general growth in the economy and the financial markets. Yet the penetration of mutual funds is stagnant.

For example, out of a population of 250 million, only about 250,000 people have

invested in mutual funds. As a result, the strategic objective for the industry is driving greater penetration by finding new distribution channels.

These were some of the main conclusions of a panel at the 3rd annual Hubbis Indonesian Wealth Management Forum 2014 in Jakarta in late October.

## TRYING TO CREATE MORE AWARENESS

Amid a market which hasn't seen much growth in appetite among investors for mutual funds in the last two to three years, the main activity has been in one of two types of funds.

The 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.

However, Riki Frindos, chief executive officer of Eastspring Investments in Indonesia, said he is positive about the mutual funds industry in Indonesia,

## PANEL MEMBERS

### RUDY ISMAIL BACHTIAR

Bank Internasional Indonesia

### RIKI FRINDOS

Eastspring Investments

### SONI WIBOWO

Bahana TCW Investment Management

given that it is close to what he called its "breaking point".

Over the next three to five years, he explained, 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.

"The asset management industry, as well as the association and regulator, have made an effort in trying to educate people about the benefits of investing," said Frindos.

Combined with expected increases in personal income, this will lead to an allocation of more financial assets into mutual funds, he added. "I think people want to invest but they lack the understanding about financial products."

While awareness about investments is there to a certain extent, it remains fairly limited, and more specific knowledge about investment products is poor.

**RUDY ISMAIL BACHTIAR**  
Bank Internasional Indonesia



## PANEL DISCUSSION

From the perspective of Rudy Ismail Bachtiar, investment product head at Bank Internasional Indonesia, the most important aspect of the development of the asset management sector is educating clients.

Further, he also said he would like a greater variety of products to sell.

For Soni Wibowo, research director at Bahana TCW Investment Management, meanwhile, the focus in its institutional business has been to develop solutions rather than individual products. "In 2014, we have created a lot of new issues for clients based on creating solutions for their own difficulties and challenges."

### AN EVOLVING INDUSTRY

Looking forward, Indonesia's asset management industry is set for consolidation, according to speakers.

While 69 fund management firms exist in the market today, the top 10 players control around 80% of the market share. And with fees now introduced by the regulators, the expectation is that there will be fewer firms able to stay competitive and operate in the market.

At the same time, the regulator has a serious commitment to improving the market in terms of mutual fund penetration, added Frindos, highlighting that the regulator is understood to be working on liberalisation of the distribution mechanism.

For example, he said 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.

"This would be an important step for the market," said Frindos. "Distribution is more important than product innovation to grow the industry in the next two to three years."

### RIKI FRINDOS

Eastspring Investments



In terms of online distribution opportunities, speakers said there are some concerns in relation to how they are regulated. "We need to wait a bit longer to see distribution move towards this avenue," said Frindos.

For the time being, Wibowo said his firm will continue to limit online engagement to the use of its website to encourage clients to get to know the firm, communicate through it, use monthly reporting and check positions of their assets.

### ALL ABOUT DISTRIBUTION

Despite interest in new or innovative products from some parts of the market, for example to help with diversification, Frindos said that given how many millions of people need to invest in mutual funds for the first time, they will most likely opt for simpler equity and fixed income funds, rather than anything more complicated.

He and other speakers acknowledged the need to continue to support existing investors as they get more sophisticated – but the priority has to be distribution.

This is the same for the regulator also – which has stated its goal of 5 million mutual

fund investors in 5 years' time. Frindos, however, said he thinks that 1 million investors over the next couple of years is more realistic.

Wibowo agreed that a lower amount is more likely. This is also based on his personal experience of trying to educate employees to invest via instalments.

One of the reasons for optimism, however, is the education being done by the industry by starting to introduce investment knowledge to universities. ■

### SONI WIBOWO

Bahana TCW Investment Management

