Seizing the Wealth Market in Philippines

Between 2010 and 2017, the economy of The Philippines saw growth of circa 6.3% per annum and in 2019 is on track to deliver growth of 6.4%, making this one of the strongest and fastest growing economies in the world.

As in other regions that have witnessed similar economic performance, the Philippines are now home to a rapidly growing middle class, characterized, as elsewhere, by higher levels of disposable income. Not surprisingly, the luxury brands now on display in the malls of Makati were quick to capitalize on this new customer segment, however the wealth management industry, usually at the forefront of such changing demographics, seems to have been slow to respond.

Initially hampered by high barriers to entry, low levels of financial literacy and rapidly changing regulations, the wealth management industry now seems to be gaining traction in this frontier market but what opportunities exist? What are the hurdles that must be overcome and what are the threats to success?

For those unfamiliar with The Philippines, the SE Asian archipelago comprises 7,641 separate islands distributed over an area of 120,000 square miles. With a domestic population of over 100 Million it is the world's 12th most populous country and with a further estimated 10 million overseas workers, also has one of the world's largest Diaspora populations.

Given the vast geographical dispersion, it is unsurprising that most financial services and products are distributed via digital and mobile channels. With an average age of just 25, most people in the Philippines have never heard of cheque books, let alone owned or used one.

Fortunately, the Philippines has a 71% internet penetration rates, 116% mobile subscription rates (more phones than people!) and, according to a recent study by Hootsuite, has the world's highest level of daily screen time, a staggering average of over 10 hours per day.

It's clear to see that in order to achieve success, wealth propositions will likely be characterized by high levels of digital functionality. Digital client onboarding, e-signatures, web and mobile client portals, real time valuations and 24/7 trading functionality represent some of the most requested and desired features.

To an extent, this type of proposition is supported by the underlying demographics however this is not as clear cut as one may initially imagine.

The Philippines possesses a vibrant, young labor market and has enjoyed a prolonged period of declining unemployment. The Gini coefficient is moving in the right direction and poverty levels are improving substantially but whilst these metrics are very positive, there remains a very wide level of wealth disparity.

A Credit Suisse study in 2018 reported that only 0.1% of the population possessed wealth (assets and property minus debt) in excess of USD $1 Million.

The study also revealed that 86.6% of the population possessed wealth of less than USD $10,000.

For banks and wealth managers, this division presents a unique challenge. How to structure an offering that will cater to the minority, but still promote a sufficient level of inclusion to capture the smaller, but growing, less affluent segment.

The majority of the wealth that does currently exist resides primarily in the hands of over 50's – business owners and family patriarchs, many of whom have elected to invest offshore in nearby financial centers such as Hong Kong and Singapore.

A lack of suitable local products, political instability and a general lack of trust are cited as primary reasons for this. In order to win back these valuable client, banks need to build trust, and also enable access to products and delivery channels that are able to compete with these offshore competitors.

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Many banks are now faced with a significant challenge, having to build a robust and appealing wealth proposition for a very small market segment and, ideally, a complimentary proposition for a much larger, but potentially less profitable segment.

Back and middle office operations in many banks in the Philippines are currently run on aging legacy systems and most recent investment has been steered, not surprisingly, towards front office digital applications, many of which aim to reduce operating costs, not drive future revenues. Securing budget for new initiatives therefore is a significant challenge, especially for a new and unproven offering in a relatively new client segment. The most forward looking banks will seek to build their wealth offering on proven technology platforms capable of spanning multiple client segments and supporting multiple business models. Relationship manager assisted services and complex products for those who currently hold the most wealth and more basic, automated and digitized offerings for the mass market, retail segment.

> In order to reduce costs and maximize potential revenues, banks will seek integrated platforms that can integrate quickly to other systems and deliver high levels of STP. They will also need mature front office and CRM functionality capable of enhancing the overall client experience, supporting both internal and third party digital applications and streamlining the overall advisory process.

A series of sweeping tax reforms have recently highlighted the need for banks to remain flexible and adaptable. Regulations, which are already complex, are constantly evolving and will continue to do so as wealth levels, and the need for client protection, continue to rise. Again, banks will seek platforms that can support and adapt to changing regulatory requirements, can support both clients and their advisors in managing investment risk and can provide rich and detailed reporting.

As can be seen, there appears to be a great deal of opportunity in the Philippines wealth management segment however there are multiple potential hurdles that banks will need to consider and navigate.

Consider the following. The Philippines has a very forward looking government, keen to see an increase in the net wealth of a large, young and tech savvy population. A growing middle class with increasing levels of disposable income and a financial industry battling regulatory complexity, thin margins and with limited funds to allocate to new initiatives.

This scenario must surely be piquing interest levels amongst the regions many fin-tech providers therefore the domestic banks will need to act fast and decisively if they wish to fend off competition and place themselves at the forefront of this emerging opportunity.

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