Understanding Southeast Asia’s dynamism and diversity

Asia’s asset management industry is one of the fastest growing in the world. Recent developments in Asian securities regulation, deepening capital markets, the emergence of a large and affluent middle class, and high saving rates combine to create huge opportunities for asset managers.

Asia is a continent of contrasts, with huge variations in natural resources, business environments, and cultures. Southeast Asia, in particular, is made up of a mix of mature, emerging, and frontier markets, reflecting economies that are uniquely diverse. Asset management firms will need to navigate the challenges outlined below that come with Southeast Asia’s diversity in order to come out on top.

The lack of a common cross-border mutual fund regime is one of the biggest challenges facing the region. For many years, asset managers have waited for an Asian equivalent of Europe’s successful UCITS directive, the European regulatory framework for investment vehicles. In 2013, not one but three possible versions of cross-border mutual fund initiatives across Asia were announced:

- **Asia Region Funds Passport (ARFP):** The Memorandum of Cooperation—signed by representatives from Australia, Japan, South Korea, New Zealand, and Thailand—on the establishment and implementation of the ARFP came into effect on 30 June 2016, after over six years passed since the idea for the passport was recommended by the Australian Financial Centre Forum in its Johnson report. These five economies will have up to 18 months to implement the arrangements through their national laws. Singapore is notably absent, despite being one of the countries to sign a Statement of Intent on the ARPF, and which has been involved in drafting its framework since 2013. Singapore remains open to participate in the ARFP, pending the commitment to resolve the issue around the treatment of onshore and offshore funds. While the high barriers to entry continue to be a challenge, the ARFP is a positive step toward the alignment of funds laws and regulations in the region, which may lead to more streamlined processes in the future.

- **ASEAN Collective Investment Scheme (CIS) Framework:** The CIS Framework went live in August 2014, allowing the cross-border distribution of funds between Singapore, Thailand, and Malaysia. As of March 2016, 13 funds have been recognized by their home jurisdictions as Qualifying ASEAN CIS, five of which have been successfully approved and launched in a host jurisdiction.

in 2016 and beyond. This challenge is heightened for those institutions that operate across borders and are subject to multiple regulatory jurisdictions. Financial services firms spend hundreds of millions of dollars on compliance and risk programs; approximately 30 percent of compliance costs could be saved just by employing the right technology. For example, Deloitte Singapore’s risk analytics center develops strategies promoting the use of analytics in risk management and regulatory compliance in the region. The use of technology helps our clients understand the gaps they need to address more efficiently. It makes it more effective for firms to automate the way in which they adhere to different regulatory compliance laws and regulations.

Technology also plays a vital role in devising strategies to scale up distribution and drive down costs while serving multiple markets. The use of robo-advisers is likely to be a game changer as it aims to independently replicate activities performed by asset managers through online access, at a lower cost. While traditional asset management services are usually reserved for high-net-worth individuals, robo-advisers target a broader customer base, including mass affluent and retail investors with little to no minimum investment amount. Robo-advisers and some early-adopting traditional adviser firms in developed countries are pursuing multiple strategies—such as marketing directly to retail clients and as a white-labelled offering for financial advisors—to scale more rapidly and sustain profits. Although it is only the beginning, asset managers should react, as this hybrid service model will likely become the new norm.
Investors in Southeast Asia, as well as greater Asia (China, India, and Japan), are on the lookout for new products. Product innovation will play an important role to persuade investors to buy asset management products. Southeast Asia is home to a population of approximately 622 million relatively young people and it has an emerging middle class with growing spending power. While first-generation wealth creators in the 1980s invested in their businesses and real estate, millennials are turning to professionally-managed investments. Millennials will be the largest client group driving asset managers to assess their business model, as well as assess the way in which they interact with clients, to identify which adjustments are necessary to successfully serve this group of people. Early adoption will enable firms to protect their market share and establish their brands.

Southeast Asia’s unique markets create the need for tailored strategies, and success requires strong local insights and on-the-ground resources. As the region’s asset management industry continues to grow, investment products will become more well-known and widely understood, and new passport initiatives and digital technology will allow funds to be distributed easily across markets, providing international asset managers with an opportunity to carve out strong market positions and keep their leading position.

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4 Spend on tech, save on compliance costs http://www.straitstimes.com/business/companies-markets/spend-on-tech-save-on-compliance-costs