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Seizing the Wealth Market in Thailand

A significant drought, flagging domestic demand and the impact of ongoing trade wars weighing heavily on an export driven economy have all combined to see the GDP of Thailand set to fall in 2019 for the first time in over 5 years. Despite this slight slowdown, performance is still estimated to be an impressive 3.8% and Thailand remains Asia's eight largest economy and the 2nd largest in SE Asia.

As in other regions that have witnessed similar economic performance, Thailand is now home to a rapidly growing middle class, characterized, as elsewhere, by higher levels of disposable income. Not surprisingly, property developers building luxury condos were among the first to arrive and the luxury brands now on display in the malls of Siam Square were also quick to capitalize on this new customer segment. The wealth management industry however, 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 Thailand, the country has a population of circa 70 million people, the 20th most populous country in the world and spans a highly diverse land mass of over 500,000 square kilometers, slightly larger than Spain. The urbanization rate is almost 50%, but this number continues to grow year on year as rural workers and migrant workers seek alternative employment in the larger towns and cities.

Given the large levels of population disbursement, it is unsurprising that most financial services and products are distributed via digital and mobile channels.

Hootsuite's 2019 Global Digital Report indicated that Thailand was ranked Number 1 in the world for mobile internet banking users – 74% of the population, significantly higher than the 41% global average. With an average age of 38, most people in Thailand are considered both mobile and internet savvy. Internet penetration is circa 82% and mobile subscriptions are an incredible 133%.

It's clear to see that in order to achieve any degree of 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.

Thailand is reported to possess a vibrant, young labor market and has enjoyed a prolonged period of declining unemployment.

Some reports indicate unemployment is as low as 1% however these statistics are slightly more complex than they may initially appear. Many of the rural population, defined as 'employed' are engaged in subsistence farming for their own family and some estimates suggest that as many as 62% of the entire Thai workforce are employed in an 'informal' economy.

The Gini coefficient, at circa 38 is not much higher than the UK and appears to be trending in a positive direction. Literacy rates of 94% are very impressive and overall 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 only 7.5% of the population possessed wealth of between \$10,000 USD and \$100,000 USD and that 91.7% 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 either in their own businesses or 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 sometimes cited as primary reasons for this. In order to win back these valuable clients, banks need to build trust, and also enable access to products and delivery channels that are able to compete with these overseas competitors.

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 Thailand 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.

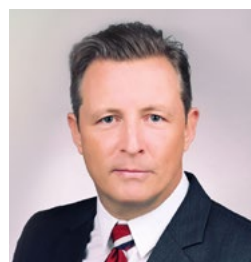
Regulations, which are already complex in Thailand, are constantly evolving and will continue to do so as wealth levels, and the need for client protection, continue to rise. Again, banks will seek platforms that can support and adapt to changing regulatory requirements, can support both clients and 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 Thai wealth management segment however there are multiple potential hurdles that banks will need to consider and navigate.

Consider the following. Thailand has a forward looking government, keen to see an increase in the net wealth of a large, relatively 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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