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Capital Markets 2.0: Expanding Access to Wealth Management in the Philippines

Digital Pilipinas

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Introduction

Despite global macroeconomic challenges, the Philippines is still poised to enjoy steady economic growth. In fact, the country's gross domestic product (GDP) notably accelerated by 7.6% in 2022¹ and its 2023 GDP growth forecast is around 7%.²

Expanding economic growth for the country means the rise of a new demographic with the programmatic goal of learning how to better handle their money. After the COVID-19 pandemic, the number of young Filipinos opening online stock trading accounts has increased dramatically: in 2020 online accounts surged by 19.7% to 936,200 while non-online accounts rose by a meager 3.3 % to 460,553.³ More Filipinos are now in a prime position to receive wealth management services to help them grow their money in new and innovative ways.

Wealthtech aims to address people's evolving financial needs. It specifically aims to offer alternatives to the services offered by traditional wealth management firms. Moreover, it leverages technology, such as artificial intelligence and automation, to improve wealth management strategies such as trading and investing.

The country's growing need for better financial planning means wealthtech is in a prime position to make an impact in the Philippines. It is worth considering that Filipinos already have a natural inclination towards using technology in their daily lives, with 76.01 million internet users in the country as of January 2022.⁴ The country's internet penetration rate also stood at 68%. In addition, initiatives are already underway to inject financial education into the school curricula with the Department of Education announcing the expansion of financial education at the K-12 levels.⁵

¹ Venzon, C. (2023, January 26). *Philippines' GDP growth accelerated to 7.6% in 2022*. Nikkei Asia. Retrieved February 13, 2023, from <https://asia.nikkei.com/Economy/Philippines-GDP-growth-accelerated-to-7.6-in-2022>

² Calonzo, A., & Amin, H. (2023, January 17). *Philippine Economy to Grow Around 7% in 2023, Marcos Says at Davos*. Bloomberg.com. Retrieved February 13, 2023, from <https://www.bloomberg.com/news/articles/2023-01-17/philippine-economy-to-grow-around-7-in-2023-marcos-says>

³ Dumlao, D. (2021, June 3). *Young, lower-income Filipinos flock to stocks searching for better profits*. Inquirer Business. Retrieved February 14, 2023, from <https://business.inquirer.net/324022/young-lower-income-filipinos-flock-to-stocks-searching-for-better-profits>

⁴ Kemp, S. (2022, February 15). *Digital 2022: The Philippines — DataReportal – Global Digital Insights*. Data Reportal. Retrieved February 13, 2023, from <https://datareportal.com/reports/digital-2022-philippines>

⁵ Department of Education. (2021, July 8). *DepEd expands financial education in K to 12 to improve literacy of Filipinos | Department of Education*. DepEd. Retrieved February 13, 2023, from <https://www.deped.gov.ph/2021/07/08/deped-expands-financial-education-in-k-to-12-to-improve-literacy-of-filipinos/>



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Although the country still has a long way to go in improving financial literacy among the general population, it is clear that more and more Filipinos want to take greater control of their financial futures. What is crucial is that financial service providers keep up.

The benefits of diverse wealth management strategies

When it comes to wealth management, people typically think of investment management services that help put money into stocks and bonds or even insurance products that promise to safeguard one's money in case of an emergency.

Yet other types of wealth management products are also gaining popularity. For example, the Personal Equity and Retirement Account, or PERA is an investment, savings, and retirement account designed to help Filipino adults save up for retirement. It is often compared to the Roth IRA or Roth 401(k) offered in the United States.⁶ It was first released to the public in 2016 and has recorded a steady climb in contributions since. In September 2022 it was estimated that the number of PERA contributors numbered about 4,892.⁷ Contributions are expected to climb as more Filipinos look into retirement-saving services.

Independent asset management companies are also steadily expanding in the Philippines. Some such as ATR Asset Management and Trust Corporation have even launched online platforms making it easier to invest in retail treasury bonds.⁸ It is worth noting that buying retail treasury bonds typically requires an in-person visit to a bank or financial institution, which not everyone may have the time for.

Although not a wealth management product per se, it is also important to note the rise of cryptocurrency exchanges/cryptocurrency use among Filipinos. Filipinos even rank 2nd in the world overall with regards to crypto ownership.⁹ It is estimated that 4.3 million Filipinos, or 4% of the country's overall population, now own cryptocurrency.¹⁰

⁶ Metrobank. (n.d.). *PERA: Investments for retirement without taxes*. Metrobank. Retrieved February 14, 2023, from <https://www.metrobank.com.ph/articles/learn/pera-investment>

⁷ Fintech Philippines. (2022, October 5). *Digital PERA Contributors Triple as More Filipinos Set Aside Funds for Retirement*. Fintech News Philippines. Retrieved February 14, 2023, from <https://fintechnews.ph/56844/fintech/digital-pera-contributors-triple-as-more-filipinos-set-aside-funds-for-retirement/>

⁸ Shkraba, A. (2023, February 13). *Investors can now buy bonds via ATRAM's new investment app*. Back End News. Retrieved February 14, 2023, from <https://backendnews.net/investors-can-now-buy-bonds-via-atrams-new-investment-app/>

⁹ Quibranza III, L. A. (2022, May 24). *Report: PH ranks 2nd in 'ownership of cryptocurrency'*. Yahoo News Singapore. Retrieved November 29, 2022, from <https://ph.news.yahoo.com/report-ph-ranks-2nd-ownership-104200891.html>

¹⁰ TripleA. (n.d.). *Cryptocurrency Ownership Data for Philippines 2021*. TripleA. Retrieved February 14, 2023, from <https://triple-a.io/crypto-ownership-philippines-2021/>



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Filipinos put their money into cryptocurrency for a number of reasons. First, cryptocurrency provides a faster and cheaper alternative to cross-border transactions. Many Overseas Filipino Workers prefer to remit money back to the Philippines in crypto in order to save on transaction fees. The country's relatively high levels of financial inclusion also contribute to the popularity of cryptocurrencies, as many Filipinos do not have access to traditional banking services but have mobile phones and make use of digital payments. Additionally, some Filipinos see cryptocurrencies as a way to protect against inflation and currency devaluation.

Whether it is retirement savings planning or cryptocurrency, what is clear is that access to a diverse range of wealth management services and products carries numerous benefits. It is a way to diversify one's portfolio and hedge against risk. Having a wide range of choices allows investors to choose based on their particular needs and risk appetite. The diverse range also allows for increased specialization, which in turn leads to better investment performance overall.

There should be education initiatives detailing the benefits of having access to a wide range of assets and wealth management products and services. For example, a discussion of scenarios, regulatory environment, and other requirements and advantages for when: digital assets are to be recognized as fungible assets, people could buy a wide range of bonds through their phones, among others. Once these initiatives are in place, it will be easier to advocate for wider market access to newer wealth management tools.

Fintech and wealth management

The good news is there are initiatives to expand the range of wealth management services and products available to the public. The popular e-wallet GCash has already made plans to roll out a stock trading platform within its app, giving its 66 million users the chance to trade equities. The initiative is especially significant considering that the e-wallet user base is higher than the 1.6 million local investors currently trading through traditional stock brokerage houses. The initiative was made possible through a collaboration with both stock brokerage house AB Capital Securities and the Philippine Stock Exchange.¹¹

The collaboration between the Philippine Stock Exchange, GCash, and AB Capital Securities shines a light on what can happen when fintech companies work with brokerage firms. E-wallets, for example, are considered particularly powerful tools for financial inclusion. For one, a big chunk of the world's population already uses e-wallets: the total number of digital

¹¹ Rivas, R. (2022, September 21). *What you need to know before trading stocks on GCash*. Rappler. Retrieved February 14, 2023, from <https://www.rappler.com/business/things-to-know-before-trading-stocks-gcash/>



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wallet users is expected to exceed 5.2 billion globally in 2026.¹² Emerging markets such as the Philippines, Thailand, and Vietnam, in particular, were singled out as sources of growth for e-wallet usage.

E-wallets are also considered more accessible. This generally requires only a mobile phone and an internet connection. A typical bank account on the other hand requires multiple documents and valid identification cards (IDs) not everyone may have. Despite strides in financial inclusion over recent years, 44% of adult Filipinos still remain unbanked.¹³

Shaping wealthtech policy and regulation

Making more wealth management products and services accessible also entails improvement of policy and regulation environments and addressing loopholes in.

To fully harness the potential of digital assets like cryptocurrency, it is crucial to lobby for the enactment of a law to recognize digital assets as fungible assets. The advocacy and procedure for lobbying entails pro-active participation in the processes of monitoring, participating, and sitting in during public consultations, committee hearings, and other Congress proceedings for proposed legislation on the recognition of digital assets and the regulation of transactions related to digital assets. Among the legislative measures which may be flagged as starting points include Senate Bill No. 184 authored by Sen. Imee Marcos, Senate Bill No. 1341 authored by Sen. Loren Legarda, and Senate Bill No. 250 authored by Sen. Pia Cayetano.

To ensure alignment with evolving investment products and platforms for wealth management, it is important to engage leaders who can help in crafting, harmonization, interpretation, and proper implementation of relevant laws and policies. These will cover aspects such as registration, investments, reportorial requirements, regulation, audit, and compliance.

It will likewise help to engage and partner with BSP-DOF, BOI, and government financial institutions (GFIs) such as DBP & LBP, and SEC which can be beneficial for integrating education campaigns on wealth management services into government projects and activities. Providing incentives for local fintech companies to partner with and tech up existing brokerage entities can also be achieved by creating and forwarding proposals to GFIs for allocation of seed funds for fintech companies and new products.

¹² Juniper Research. (2022, August 2). *Digital Wallet Users to Exceed 5.2 Billion Globally by 2026, as Digitisation Accelerates Cashless Transition*. Juniper Research. Retrieved February 14, 2023, from <https://www.juniperresearch.com/press/digital-wallet-users-exceed-5bn-globally-2026>

¹³ BusinessWorld. (2022, August 23). *Philippines' banked adults rise to 56% in 2021 as online payments grow*. BusinessWorld Online. Retrieved February 14, 2023, from <https://www.bworldonline.com/banking-finance/2022/08/23/469819/philippines-banked-adults-rises-to-56-in-2021-as-online-payments-grow/>



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Conclusion

Wealthtech has great potential to further financial inclusion, generate opportunities, and grow wealth for Filipinos. Towards achieving such potential, it is important for investors, entrepreneurs, regulators, policymakers, and other stakeholders to first understand the opportunities ahead of them and help optimize these through education initiatives, facilitating partnerships, and shaping regulations and policies.