Embracing innovation to drive growth in Malaysia

As investor attitudes in the country towards non-ringgit investments evolve and broaden, it is creating some exciting product-related opportunities for established players like Standard Chartered Bank.

Malaysian investors are starting to see the value of holding investments in non-ringgit-denominated assets as a hedge amid FX uncertainties and rising inflation.

As a result, the potential for wealth managers to do more via a more interesting investment landscape is creating new avenues to develop portfolios for local affluent and HNW clients.

It's certainly one of the reasons why Standard Chartered Bank, for example, launched Wealth Power in April 2017 – and became the first foreign retail bank in Malaysia to do so.

NEW AND EXCLUSIVE

This is a credit facility that allows investors to amplify their investment capital to achieve their financial goals and generate a regular income stream. Essentially, this leveraged financing, targeted exclusively at the bank's priority clients, is expected to help investors enhance their potential returns in the chosen currency by between 1.5 and 9 times

Foreign currencies under Wealth Power include the Malaysian ringgit, US dollar, Singapore dollar, Australia dollar, British pound, New Zealand dollar and euro. "We have a risk management framework that has identified 350 fixed income names in the market," says Pramod Veturi, managing director and country head for wealth management in Malaysia at the bank. "Ten of those have been identified as Wealth Power-suitable because they belong to a credit class that is attractive, high-grade and the tenors are short, so the client is not exposed to undue interest rate or tenor risk."

One of the featured products under Wealth Power will be the newly-launched CIMB-Principal US Mortgage fund; this is a wholesale feeder fund benchmarked against the Barclays Mortgage-Backed Securities Index. The fund invests at least 95% of its NAV in the BNP Paribas Flexi I US Mortgage fund, which is a UCITS fund domiciled

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Standard Chartered Bank

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in Luxembourg. At the end of January 2017, it posted a yield of 6.1%. Other products that can be paired with Wealth Power are retail bonds, structured instruments and PruHeritage, which is set to be launched soon.

SHIFT IN MIND-SET

This is a big step forward in a country where the product landscape, until a few years ago, lacked offerings that enhanced yield.

"We saw a big vacuum in this space, and that is where we saw opportunity to add value in this market," explains Danny Chang, head of managed investments and product management at Standard Chartered in Malaysia. Indeed, even the investment attitudes of domestic investors have also changed over the past two years. They have started to move away from capital growth only, to capital growth-plus-yield enhancement.

This has enabled Standard Chartered to also build on its traditionally-strong platform for fixed income securities. "In the past two to three years, we have on-boarded a whole range of fixed-income related products, from high-yield and multi-asset to mortgage backed securities," says Chang.

Thw Affin Hwang World Series - US Short Duration High Income fund is an example of one which was recently onboarded. This wholesale feeder fund aims to invest at least 80% into its target fund, the Allianz Short Duration High Income Bond fund. "We had a high-yield fund from RHB and extended that range with Affin Hwang," he adds.

Chang notes that wealthy Malaysian investors have been showing a keen interest in high-yield products, but it has happened after a significant investment of time and resources in investor education. "When we onboarded high-yield funds two years ago, the perception was that high-yield meant junk bonds," explains Chang. "We had to work hard to change that perception."

More broadly, client behaviour in Malaysia has also been evolving in terms of understanding the concepts of asset allocation and portfolio diversification. "A few years ago, about 70% of our clients had a single product or single asset class in their portfolios," says Veturi. "Today, about 80% of our active clients own multi-asset portfolios."

FILLING THE PRODUCT GAPS

Yet in addition to a lack of yield-enhancing products, there is another big gap in the market, according to the Standard Chartered duo: the inability of onshore Malaysian clients to hedge their investments. "Because of the master-feeder fund structure, most funds are denominated in ringgit and completely unhedged. We were among the first to offer a ringgit -hedged share class on an RHB fund nearly two years ago," notes Chang.

Veturi adds that to offer support to the hedging capability, the bank has also created a "voice based fulfilment process" – where customers can give instructions on the phone to buy, sell or redeem their assets. This enables clients to seamlessly hedge their holdings depending upon the market situation. "We have the ability to deal with asset-currency changes on a real-time basis, which is not something every distributor can do," he says.

The bank is certainly open to continuing to work with partners to promote the concept of onshore hedging. This is especially since there is little clarity on where the ringgit is headed; some experts insist that the currency is set to weaken, while others believe it will make a comeback with firming oil prices. Without hedging capabilities, though, investors might well experience a 6% yield, but also could see it wiped out by an adverse 6% FX movement.

MILLENNIAL CHALLENGE

Given that Malaysia's wealth management industry is still at a relatively nascent stage, broadening and deepening it will require targeting millennials. Yet that is a tough task, according to most market participants. "Reaching out to millennials is a challenge because they are very digitally-savvy and the way traditional commercial banking and wealth management operates is very face-to-face," says Chang.

Across Asia more broadly, wealth management has not fully embraced the idea of offering a differentiated digital experience to clients. "However," as Chang points out, "using the traditional model to serve millennials is less likely to be effective."

He believes this client segment needs different types of offerings – as well as education. "We do believe that supply can create demand. The industry needs to offer products specifically targeted at them, which also allows companies to focus their education efforts. One without the other is pointless." At the same time, millennials are likely to save less than previous generations. "The ticket size, therefore, will be relatively lower," adds Chang. "That means they will not have the capability to invest in sophisticated investment products which previous generations could afford." This also presents a hurdle insofar as from a regulatory perspective, the requirements are more stringent and it takes more time to get to market.

It is also more expensive from a product manufacturer's perspective in terms of costs. Nevertheless, improving fund penetration in Malaysia requires the participation of millennials, so it is important to have a relevant product solutions platform aimed at them. Saying this, the current wholesale funds platform is geared towards such older, wealthier investors. And, in the past few years, almost every product launched in Malaysia has been targeted at wholesale clients.

CHANGING HOW RMs BEHAVE

Not surprisingly, Standard Chartered's ability to fill in the product gaps in the market and embrace new trends have helped it outperform in Malaysia.

"Our growth in AUM is outpacing that of the market, and we are capturing more share of the priority customer segment," says Veturi. He believes that one area where there is tremendous scope for further development and evolution is the sales-oriented behaviour of relationship managers (RMs) in the industry.

"Up until a few years ago, one of the biggest challenges was an industry-wide attrition rate of close to 30%," he explains. "You cannot build a sustainable, high-quality industry [on this basis] and, therefore, one of our key objectives was to bring down the rate."

With a focused plan, the bank has managed to lower its attrition to below 20% today. "The longer an RM has to deal with a set of recurring clients, the greater the chances of the natural instinct for responsible behaviour kicking in," Veturi points out. "As an industry, it's crucial that we identify the people who are willing to play the game for the long haul."

One of the ways that Standard Chartered accomplished its goal was by changing how it assessed RM performance. "We changed the scorecard to make it less product-centric," says Veturi. "Today, our emphasis is more on AUM rather than income and sales, which reduces the requirement to churn portfolios frequently."

The bank also tweaked the way it compensates its RMs; they are no longer paid just because they sell the highest-commission products.

Instead, the goal is to encourage RMs to offer clients the best and most suitable products, even if these pay less in terms of commission. ■

Gung-ho about digital

Even as the wealth management industry globally continues to grapple with the implications of going digital, Standard Chartered is embracing the trend wholeheartedly.

"We have rolled out a video banking advisory capability," reveals Veturi. "The big benefit is that we can now access clients even in remote locations without having to significantly build up our on ground advisory capability to reach them."

He believes that clients really like this type of service, because they no longer have to worry about whether an adviser is available to serve them and they can also deal with the bank at their own convenience.

The firm has also recently launched a digital market outlook platform that swiftly delivers reports to clients via mobile, internet and email. "Market commentary such as economic and market updates are delivered almost instantly to clients and accessible 24/7 through a standardised platform called the 'Market Commentary Engine' in a concise manner," says Veturi. This is great value to clients, he adds, as they get consistent and timely feedback on market movements, helping them manage their portfolios better.

Importantly, analytics are used to track what clients are reading or find useful. "Making the information relevant is extremely important to us. We hope to do that by event-ually contextualising our market commentaries based on client needs and interests," he adds.