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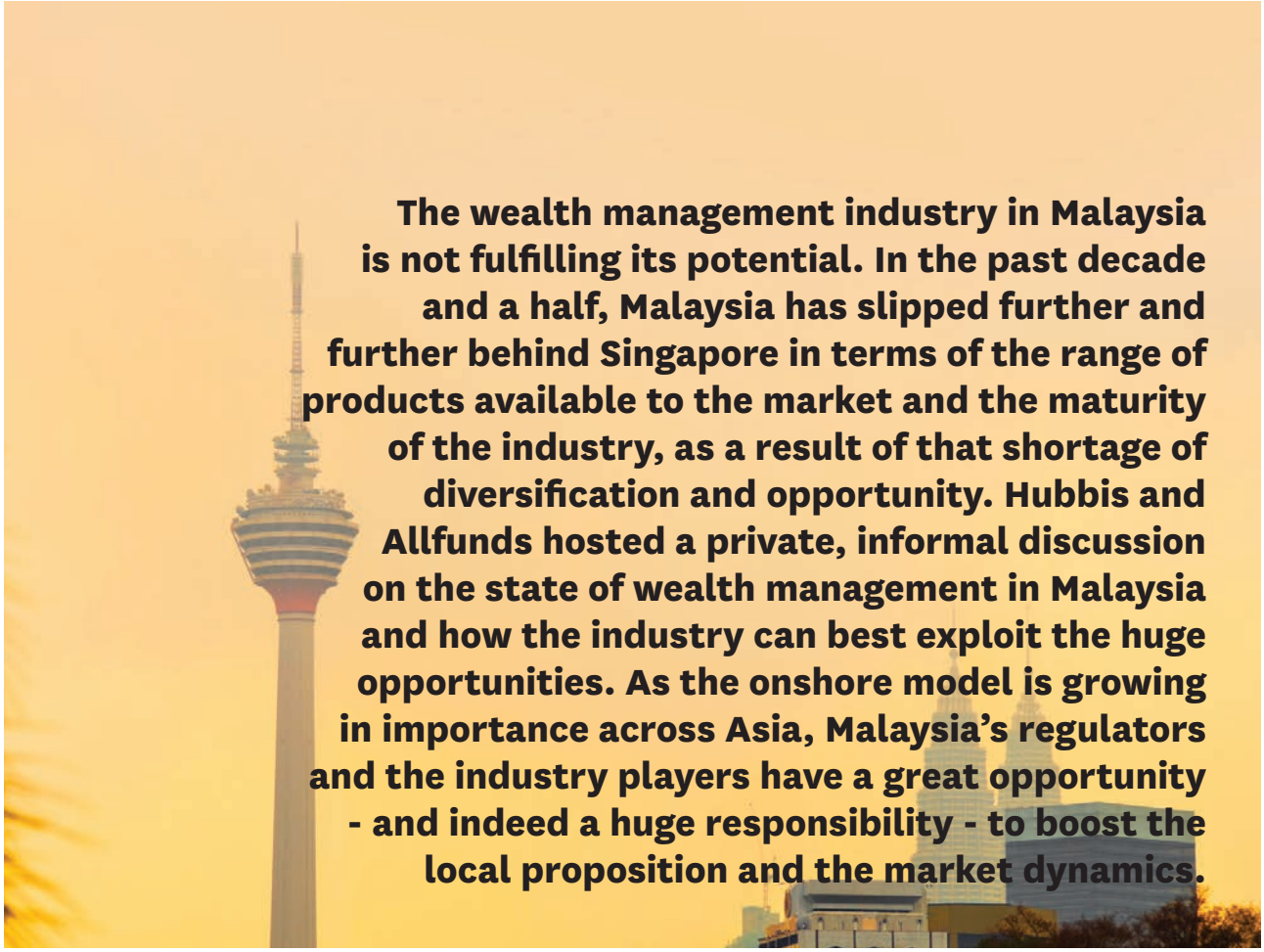
Malaysia: A Coordinated Effort is Required to Re-Boot the Proposition



The wealth management industry in Malaysia is not fulfilling its potential. In the past decade and a half, Malaysia has slipped further and further behind Singapore in terms of the range of products available to the market and the maturity of the industry, as a result of that shortage of diversification and opportunity. Hubbis and Allfunds hosted a private, informal discussion on the state of wealth management in Malaysia and how the industry can best exploit the huge opportunities. As the onshore model is growing in importance across Asia, Malaysia's regulators and the industry players have a great opportunity - and indeed a huge responsibility - to boost the local proposition and the market dynamics.

The key takeaways

Private banking evolves fast

Onshore private banking has evolved rapidly in the past 20 years as more of the major local financial groups have entered the market, including wealth management as part of the overall suite of offerings they provide to clients, including corporate and investment banking. As the typical client has got older or passed away during those years, there is today a rising emphasis on estate planning and wealth succession.

Image remains important

The image of the private bank remains important, as well of course as trust. The brand image is especially crucial as foreign banks and private banks compete aggressively for the wealthier customers.

Mid-market beckons

HNW clients in Malaysia are well serviced, possibly even over-banked, but the mid-market is underserved and there is a gap to be plugged in offering this category of client a better service and a wider range of opportunities.

Not enough choice

Most of the providers seem to have the same product capabilities and are competing for the same customers. Open architecture is one answer to this problem, but all the guests agreed that greater choice of funds and products is essential.

Asia coverage shines, rest of the world less so

Generally, the product coverage on offer for Asia exposure is very comprehensive, but coverage of Europe, the US and Japan is somewhat lacking, which hinders sensible portfolio diversification and also hinders growth in the wealth management space.

More tailored solutions required

Working with offshore partners, local distributors can and do tailor more individualised solutions for HNWIs, but this takes time to realise due to regulations requiring local institutions to host and onboard an offshore fund or other solution.

The quest for talent

Malaysia has plenty of talent to hand for private banking, but an issue is losing them to the Singapore market, where both pay and career opportunity are greater. Another issue is the relatively low entry level pay for graduates and those in their early careers.

Regulators - see the big picture

The regulators, while prescient and responsible, should consider permitting more market-driven decisions for more sophisticated investors who can thereby become the pioneer group to develop certain different kind of products and categories then for later distribution to the mass affluent market. This will also help keep more local money onshore.

Speed is vital

It is not only the availability of new products, but the speed at which they are brought out that matters. There is little point in waiting a year or more for a new product, when perhaps the market demand on launch will already have passed its moment.

KL falls further behind

Some 25 or more years ago, the Kuala Lumpur market for investments was almost on a par with Singapore, but in the past 15 years Singapore has raced ahead, while Malaysia has stagnated. If regulators can help the market players to diversify the range of opportunities, there will be less cause for customers to move money offshore. And with an estimated USD1 trillion or more of HNWI money already offshore, the opportunity to repatriate some of those funds is immense.

Costs and revenues out of sync

Compliance and other costs are rising, while regulation and the drive to transparency, as well as normal market forces are driving costs up. Again, product diversification will greatly help with these problems. Speed, execution, excellence, and opportunity are all essential to boost the wealth management proposition onshore and to add value to clients.

Allow the market to be responsible

There was a general call for the regulators to allow the market to find its own feet in terms of risk understanding. If not, then the market will not mature. Moreover, lack of diversification is a great risk, in itself, as concentration of exposures to the generic products means an overwhelming of concentration risk in the Malaysian and Asia-Pacific markets as things stand.

Great potential ahead

The discussion closed with the experts acknowledging that there is great potential in all segments of the onshore wealth management market, but that there must be greater regulatory flexibility to encourage greater participation at all levels, from the UHNWI segment to the rapidly expanding mass affluent market.

MANOJ PRAJAPATI, HEAD OF SALES FOR SOUTH ASIA at fund platform Allfunds and Oliver Stewart Malir - COO Allfunds Asia began the discussion by quickly summarising the Allfunds history, its digital platform and its relevance for wealth managers in Malaysia and the wider region [See Article Below on Allfunds].

"We are one of the largest platforms with USD450 billion of assets and our services are used by 620 financial institutions in 45 countries," Prajapati told the assembled experts. "And just to top it up, our business has been supported by the Government of Singapore through their investment arm GIC, which is today one of our shareholders."

"Our overall mission is to meet and match fund buyers with fund sellers and remove some of the non-core activities such as funds on-boarding, fulfilling KYC obligation with Fund Houses, operations and other hindrances and thereby making life easier for everyone," Oliver added. "So, kind thanks to everyone for coming today and sharing your insights into the development of private banking and wealth management in the country."

Private banking evolves fast

The representative from a major Malaysian private bank began by explaining that less than 20 years ago the only offering the group had for high-net-worth (NHW) clients was broking.

"We felt that if we can do a good job in providing advisory services to some of these institutions and corporates, we could also do the same for individuals," he recalls, "so we began our private banking operations, always with our target proposition to provide robust, holistic advisory services."

"Over the past 17 years," he continued, "we have extended our proposition to include giving clients access to the rest of the group as well to take care of their family businesses, their corporates, we are the only private bank to offer Lombard lending here, the only private bank in Malaysia able to take any kind of Ringgit assets and providing facilities in multiple currencies for the individuals or corporates, onshore or offshore. We have evolved very fast."

And he explained that the third evolution he had witnessed during the past 15 to 20 years is the changing demographics of the client base. "Of course, many of our core clients have become older

and have increasingly focused more on other non-investment issues such as succession planning, so we work in this field including through the trust business we opened to help take care of the succession planning for our private banking clients."

Another guest explained that image remains important for private banking onshore. "We recently opened new offices, partly to boost the brand perception," he reported. "We are building a private bank business where the clients are getting more and more demanding and they want a full solution, end to end. We must compete and stand up to the intense competition from the offshore private banks, and for us both brand image and product and financing solutions are very important in that endeavour."

Is there enough choice?

One big question posed by the representative of a European asset management group was whether there are enough solutions for the HNW, or even the mass wealth market in Malaysia, given regulatory and other constraints. "All the providers seem to have the same product capabilities here, competing in a very small space," he remarked.

Open architecture was one reply. Tailor-made solutions constructed between the private banks and partners was another answer.

"Don't forget," came one voice, "HNWs and ultra-HNWIs hardly buy unit trusts in Malaysia, so if you want them to buy they must be some unique proposition, so we work with partners very regularly to come up with tailor-made strategies and solutions, but those are not for the more retail space."

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Mid-market opportunities

Another expert added that HNW clients in Malaysia are well serviced, possibly over-banked. "But if you take a look at the middle market," he observed, "much of that segment is still being serviced by ad hoc advice, they are not able to visualise their wealth as a whole or to obtain similar levels of financial advice as the HNW clients, so we see a gap there in terms of advisory within the demographic of Malaysia."

Generally, another expert noted that the coverage on offer for Asia exposure is very comprehensive, but coverage of Europe, the US and Japan is somewhat lacking.

Tailored solutions required

"We want to help clients achieve greater diversification," he reported, "and not just on Asia-Pacific, so we want between exposure to the different regions and varied asset classes. We have multiple off-

shore partners that we work with, but the Malaysian regulations require that if you want to onboard a fund solution in Malaysia you need to have a local fund manager to host it, And of course, that process takes a bit longer, although we can arrive at the solution that is tailored more accurately to our HNW clients, so we are proactive in engaging both onshore and offshore partners to bring on those solutions to Malaysia."

Another guest agreed, noting that HNW private bank clients will not generally buy generic unit trusts. "HNW clients will almost never buy unit trusts," he remarked, "but if we call the clients and say their portfolios should be re-shaped and we can work with our partners to provide proactive solutions for them with our partners, we are often very successful, but of course it sometimes takes three, or even six months to achieve this."

Bringing diversification to local HNWIs

He explained that his firm had just onboarded a so-called discretionary private mandate through multiple asset managers globally. "They call it a segregated SMA mandate," he said, "so this is discretionary mandates for our clients but at much lower figures than the USD10 or 20 million often required, so we can do this for assets as low as USD1 million."

The same guest reported that his firm offered specialist lending, for example for ultra-HNWIs who had been buying Japanese ski resorts where the yield through rental income was often over 7%. "The clients give us their Ringgit assets, and we offer them Yen funding, so they are hedged as the rental income is also in Yen. That is one example of a tailored solution for certain clients. Sometimes we also fund acquisitions, as well, but mainly we fund investments."

The quest for talent

Malaysia has plenty of talent to hand for private banking, but an issue is losing them to the Singapore market, where both pay and career opportunity are greater.

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"I think that the banks are not actually doing enough to build up wealth management talent here," said one guest. "Training and guidance should be improved. Moreover, the average fresh graduate coming into the business earns between 2600 to 4000 Ringgit [USD625 to USD950], which is in KL is really insufficient for anybody to survive I think."

"And even if it is up to 5000 Ringgit each month," came another voice, "there is little or no

change in the first few years, and even after they have graduated from the management training programme, they would not become a private banker here, they would begin as a junior banker or assistant banker, maybe for a period of another two to three years and it will therefore take five or more years to become an active private banker. This can make them easy targets to be poached by Singapore."

Another guest did however remark that there is shortage of graduate employment opportunities in Malaysia, with private banking and wealth management offering an interesting career path in a business that is growing well and serving an ever-wider demographic.

Regulators should be more flexible

The discussion turned to whether there is enough depth of product in on the capital markets and from the Islamic capital market perspective.

An expert from a local fixed income asset management firm gave his insights, arguing that the regulators should permit as much market-driven decisions as possible for more sophisticated investors who can thereby become the pioneer group to develop certain different kind of products and categories.

Another guest suggested that if the regulator offers more flexibility, the market demand will expand as well. "If the regulations were freed up to allow more international funds and greater access to different markets you would see potentially two things happen - access to product market expands and the inflow of money potentially into Malaysia could rise."

Speed is vital to catch the waves

The discussion also focused on the onboarding and KYC issues, with a guest remarking that perhaps a centralised KYC and simplified processes might also help. "And the application for bringing new products," he commented. "For example, a simple US dollar bond fund as a savings account substitute, might have taken as long as 18 months from the original idea, by which time the market had changed already, meaning it might not even be relevant, resulting in needing to close the fund."

"Does that mean the local banks are losing out compared to for example Singapore or Hong Kong, where there is already far more choice on offer?" asked another attendee. "If you had the chance to do things locally and rapidly, you might be able to capture that market share, would you not?"

KL falls behind

"Actually, back in the early 1990s you could say KL was competing with Singapore for private banking, and the situation was far

more on par between here and there," came a reply. Almost 30 years later, and we are not about 15 years behind Singapore, so if we want the wealth to remain in Malaysia, we need to offer a lot more onshore funds, or the money will go to Singapore, Hong Kong, Switzerland or wherever."

"Today," he continued, "the amount of ultra-HNWI money offshore is enormous, perhaps as much as USD1 trillion or more. Of course, there were political issues in the past, but generally it is this lack of solutions that is a key factor. Nevertheless, we also estimate that there is at least another USD1 trillion of this HNW and ultra-HNW money onshore, and that might perhaps be a conservative assumption. There are more products than before, but there is lack of solutions, lack of access to great strategies, lack of access to great fund managers out there for them to invest in onshore. In short, this is a major disadvantage for the Malaysian local private banking scene."

He therefore advised dialogue to develop the local market, to allow more assets, more avenues to in global strategies and expertise.

Costs up, revenues down?

"That makes the job of platforms offering a large range of fund managers and funds easier," said another attendee. "But what about the costs involved? In the UK, the RDR regime now prohibits distributors from taking any commissions from the asset managers who were also required to bring their cost down. And in Europe this is coming with MiFID II."

"And," he continued, "we are seeing that slowly catching up in Asia, for example with India coming out with their own regulations to drive costs down, with China considering, and Australia also with has RDR in place. So here in Malaysia, if you were not remunerated from the manufacturer, are you prepared to go and charge an advisory fee to your clients or are the clients sophisticated enough to start paying a fee for the service which comes from the distribution partner?"

Managing transparency

"Well, transparency is certainly required, and is good for clients, who are actually demanding more openness," said one local expert. "From a distributor's standpoint the cost of distribution for wealth products is very high, and this means that especially for the lower wealth segments they are underserved partly because the economics do not work, which is partly why people are moving to robo-advisory and digital solutions to reach the mass affluent markets."

Another local private banker whose group is only more recently moving into the wealth space, explained that as a relatively late

entrant their focus has been to boost the fee-generating business, necessary due to revenue compression as well as competition from some newer, niftier entrants, even including crowdfunders."

"Overall," he added, "we need greater support and leeway from the regulators to offer more products, especially as costs are rising fast. Let the customer choose what they want, we certainly need to diversify with more products and more fee income."

Magnetic appeal?

"For new clients to come to the private banks here," said another guest, "customers want a total banking solution, not just the product solution. They want a proper relationship and access to the senior management of the bank. We also know that clients will not move all their funds to a new private bank, they go step by step, so we might for example start with 10% and work up from there."

"Speed, execution, excellence, opportunity," said another expert, "those are all vital competitive advantages for private bankers when dealing with wealth clients and trying to draw them from priority type banking to private banking."

The need to add value

"We need to add value," said another guest. "If you are not able to add value to them then effectively your service will be generic. We know from surveys that Asian clients tend to bank with several banks, so while trust is vital it must be aligned with differentiation in the form of value-added services. We focus a lot on needs-based or goals-based approaches, so we for example are not product sellers, we are basically a solution-based private bank, we discuss with the clients, we have managed to convert around 70% of our business to recurring revenues, with transactional activity forming a very small portion. We visit the clients every few months, we then review strategies and adjust accordingly."

More bankers required

An expert reported that a hindrance to his bank's further growth is the shortage of advisers. "We service some 3000 clients with about 50 bankers, so that is 60 clients per banker," he reported. "And with the compliance requirements these days, the bankers have even less time, so whatever we can do to ease the administrative burdens through digitalisation is very important."

He also highlighted how the lending business is an important part of the bank's profitability, representing at last half of the income. "But again, regulation hinders," he reported, "as there is a limit on foreign currency borrowing of 10 million Ringgit [USD2.4 million], so if that was doubled overnight my business would double as well potentially.

I personally see no reason why they should not allow a higher limit, but we remain constrained, so in order to grow I have to multiply the number of customers."

"It seems from the discussion that in comparison to Singapore Malaysia is going backwards and that the gap between Singapore and Malaysia is widening the whole time," observed an attendee. "Can technology help in that regard? Or what can be done to close the gap?"

"Fees and costs here in Malaysia are high" came one reply. "I can easily sell bonds that yield 2% to 3% in Singapore, in Hong Kong and they are well received, but it is much harder work to sell funds here, and with higher costs comes margin compression. Unfortunately, looking at the fund flows over the last few years the asset growth has not been rapid enough to compensate the lower margins. I think therefore the regulators should look at how we actually make our products more competitive as compared to other foreign markets. And we need greater diversification, especially for the more mass affluent portion of the market."

Water must find its own level

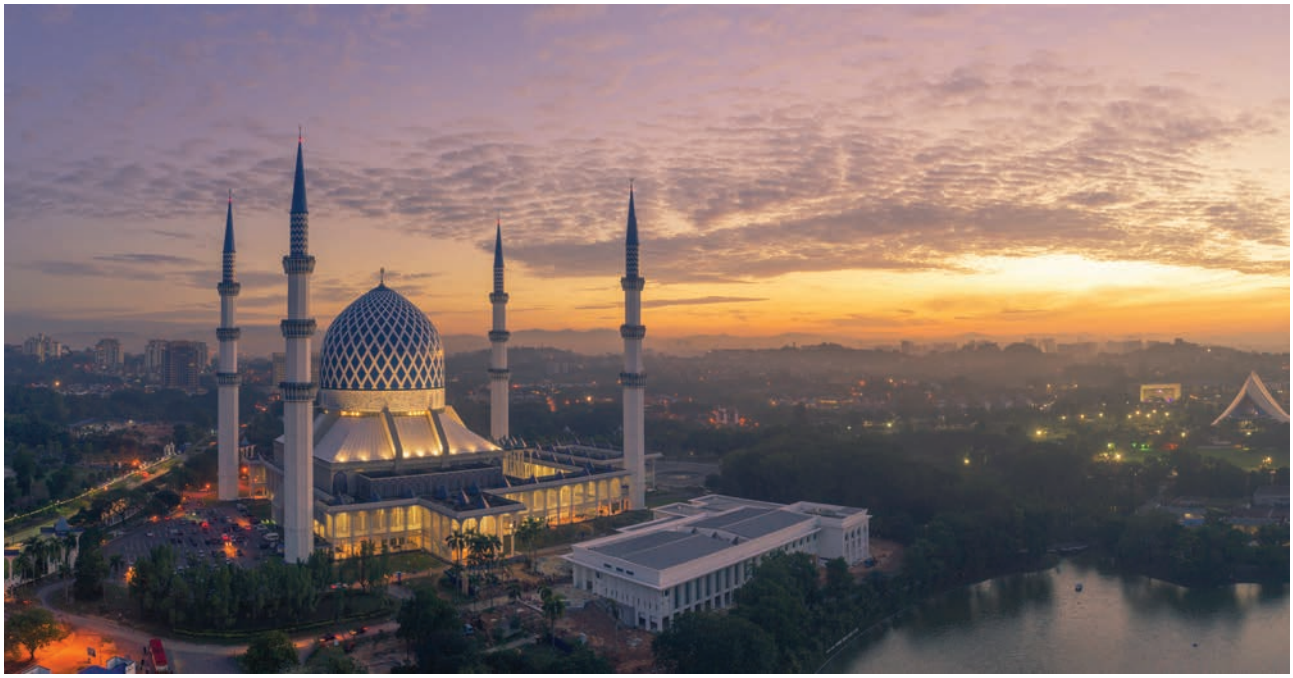
"We have had many discussions with the regulators for more than 10 years," said another expert, "so we hope for action to address all these issues. We cannot always protect investors, there is risk and the only way for investors to understand the risks is to let them put their money in and understand how it works. If we continue to protect investors and think that only this product is suitable for them then I think we are not protecting them. Secondly, having them concentrate so much of their money in Malaysian assets is also not necessarily protecting them because you are not allowing them to diversify their investment opportunities."

And she added that technology will also help improve investment understanding and expertise, including of the risks involved. "This is available now and part of the education platform," she said, "so we need to just let them go into deep blue sea and try for themselves. In fact, we think that we are protecting them, the more we try to not let them, they are finding avenues to do it on their own. Better in my view to just let the market forces determine how the market should be."

Another guest agreed, adding that alternative assets, even private equity, should also be on offer more widely.

Less diversification = more risk

And as to the mass market, he agreed that concentration of exposures to the generic products means an overwhelming of concentration risk in the Malaysian and Asia-Pacific markets as things



stand. "In Singapore and Hong Kong there is broad diversification available in terms of building portfolios," he remarked. "We need to grow the opportunity range for all categories of customers not just the HNWIs, so we need to have more flexible regulations and a far faster time to market for new products. From a distributor's point of view, when they want to distribute a fund, they need it fast, but often it can take years, not weeks or months. If, for example, you look at the last two years, what we have been launching is not much so different from where we were some 15 years ago. We must move beyond this."

An expert highlighted that although the asset management expertise in Malaysia has risen significantly in the past 10 to 15 years, there is a shortage of international investment expertise at home, partly because of regulatory impediments and also because anyone of any quality is snapped up by the higher paying offshore markets such as Singapore. "We are losing talent, and we must stop that," he implored. "We actually have some really good asset managers, some of the best in the region, but we need to retain, pay more, get more regulatory support, and the market will thereby improve substantially for the HNW and mass affluent segments."

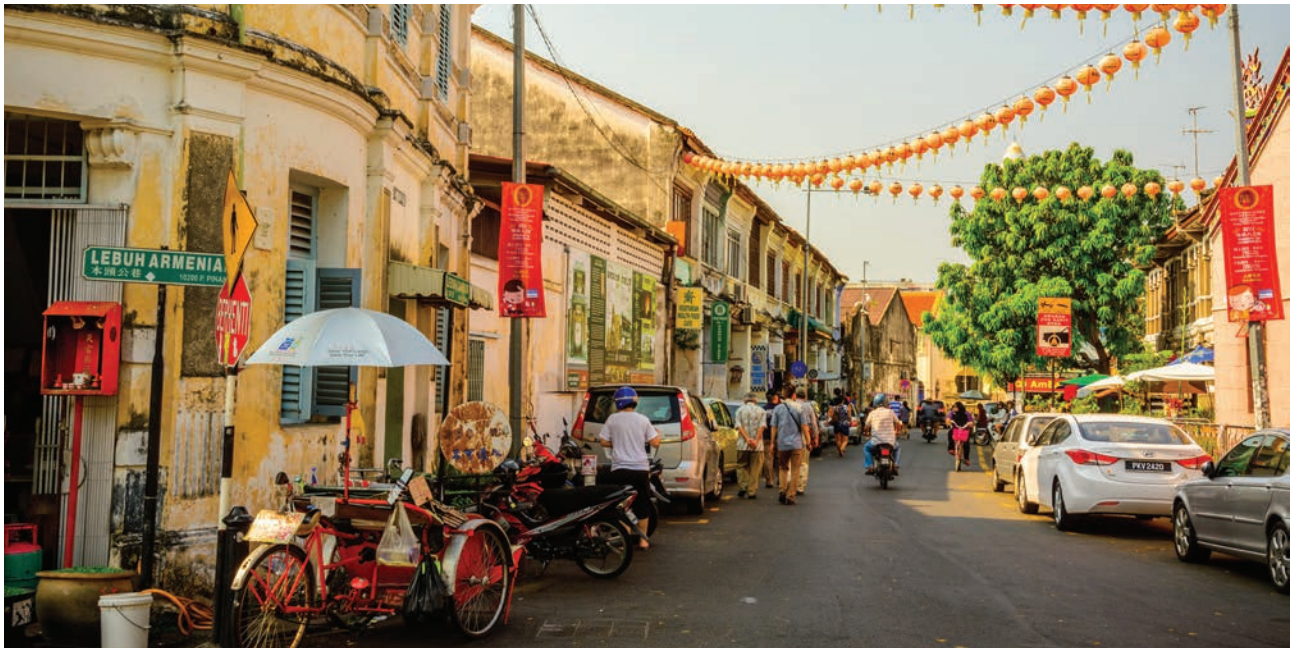
But education is also vital

"I agree to some extent," said another expert, "but we should be wary of selling on 'this is your return or your potential return' basis without the customers understanding what the risks associated are. So, I do believe greater focus on education and financial literacy is required, including from the SEC as a facilitator. I feel it is a vital key to the local market actually moving forward."

A banker cautioned that salespeople and fund management firms can tend to encourage investors to churn too much, due to their compensation structures. "We also need to help the investors to understand investments are long-term and help them ride through the risks in the markets, so how do we balance the need to sell more products, more funds, it is an issue we must all acknowledge. And this has nothing to do with the regulators, it is the mindset of the banks, not the regulator.

"Upfront fees are always an issue," added another guest. "We do not charge upfront fees on funds, and I think this is a matter for the market, not the regulator, so we should see players be more responsible. We also have to collectively be more responsible, training our salespeople, not pushing product, looking at customers from the needs basis, this should be the message."

The discussion closed with the experts acknowledging that there is great potential in all segments of the onshore wealth management market, but that there must be greater regulatory flexibility to encourage greater participation at all levels, from the UHNWI segment to the rapidly expanding mass affluent market. ■



Allfunds - Articulating the Architype of Diversification Across Asia Pacific

Allfunds is today the world's largest institutional fund distribution network, describing itself as a global marketplace where fund groups can reach world-class financial institutions across more than 45 countries.

The firm is now spreading its wings ever more widely, and successfully, across Asia. Alexis Fosler is CEO for Asia Pacific. "The trend we see in this region is for our customers to seek operational alpha," she recently told Hubbis. "They are seeking to achieve efficiency, scale and automation. We see firms really looking to leapfrog in terms of technology and this gives us a central role because we are able to facilitate that operational alpha for partners out here."

Manoj Prajapati, head of sales for the region, also told Hubbis that Allfunds only began to ply its trade somewhat recently in the region, but that the firm has already garnered significant volume of what the firm terms assets under intermediation.

The growth is exponential, he had reported, because wealth management firms in the region are at such a positive inflexion point in terms of their development and therefore often seek out the value proposition that Allfunds offers.

"We have huge experience," he said. "We are non-conflicted; we are all about the facilitation of the mutual fund industry."

Prajapati added that Asia is somewhat different from Europe, both in terms of the continuing existence of retrocessions and trailer fees, and also because RMs need to do suitability checks on their clients to make sure that from a regulatory viewpoint the right product is offered to the right client.

"That really complicates the distribution channel and let's not forget that in today's world everything revolves around cost," he observed. "And that is where Allfunds also adds value, as digitalisation is not only front office, it is about trying to streamline your middle and back office and that is where we play an important role, to make thing efficient so that tomorrow when you want to leapfrog, you want to increase your operations, your services, then you don't have that bottleneck or a traffic jam that might impede growth."

Prajapati explained that Allfunds is the leading European B2B platform, working with more than 1,475 fund managers and offering 78,000 funds that are accessed by 640 institutions through 45 different countries. In 2018, Allfunds processed some 14 million trades, all automatically and with no manual intervention.

"We thereby help financial institutions to scale up their business without increasing their infrastructure and costs," Prajapati explained. "With our open architecture we do not favour any funds or any providers, we favour best of breed solutions for your end customers. You have optimal products to offer with lower cost and considerably greater ease and speed."

Wealth managers today spend much of their time working out how to add value to their clients and to do that they need to access and provide the best products in the timeliest manner. They are often impeded, once having selected a fund, by know-your-client (KYC), by due diligence requirements and so forth. Those factors cause delays, create client frustration and generally cause a lack of immediacy and responsiveness.

Prajapati said the Allfunds platform removes many of these headaches by connecting electronically to the service providers, fund managers and financial institutions who, through what he termed a seamless platform, can access the myriad of funds available. Importantly, all this can be achieved without the need for multiple due diligence and operational steps.

And the platform also provides the latest data and information the relationship managers (RMs) need to be most effective.

Wealth management advisers clearly do not want to go to the website of each and every local or global fund manager to get information, they do not want to be opening an account with each and every transfer agent, they do not want to conduct the due diligence on each fund.

Allfunds aims to make all these steps dramatically more efficient. The mission is therefore to help the wealth managers execute and communicate to their clients rapidly, efficiently and constantly facilitate information and price data flows.

As Allfunds handles the account segregation, the platform helps clients mitigate risk and ensure ease of audit and compliance. Importantly, Prajapati also noted that the platform operates within the bounds of the regulatory framework of each country so that clients can be assured that all activities comply with their local and international regulations.

Finally, there are for Allfunds' customers four different levels of connectivity. The simplest is plug and play, where Allfunds' clients are given access to the website on which they can go ahead and start trading. Then there are three higher levels of integration and sophistication available for clients.

Prajapati noted that the funds on the platform are not only international, they are also local and regional funds. "We have got something like 1,475 fund managers and through one single agreement our wealth management clients can access them seamlessly. You can thereby bring products quickly to your clients and help them offer the right choice without spending too much time on paperwork and on legal agreements."