Malaysia – An Update on the Wealth Management Market's Evolution

Malaysia is nowhere near as populous as its ASEAN neighbours such as Thailand, Vietnam, Indonesia or the Philippines. But the economy and the financial markets are well advanced, and there is immense private wealth, much of it historically managed through Hong Kong, Singapore or further afield in Europe. Accordingly, the wealth management model is more advanced than in neighbouring countries. However, there is far more to be achieved - Malaysia has the potential to evolve further into what will eventually be a mature and truly thriving wealth management market, emulating in an onshore model many of the successes of neighbouring Singapore and also Hong Kong. But to achieve these goals, to compete with the established offshore financial centres, Malaysia needs to enhance its regulatory environment, including liberalisation, boost the array of investment products, solutions and advice, make sure the incumbents balance the needs of the current holders of wealthy with the future generations' needs and expectations, and also continue to develop the Islamic finance wealth market. Digitisation to address both cost-savings and the needs and demands of an increasingly savvy customers is essential. So too is diversification of the revenue generation opportunities available, for example towards estate and succession planning, alternative investments and in other areas. Wealth managers are also striving to boost the fee-paying advisory and DPM models, to fight back against the tide of lower product fees, which are consistently being driven down by both competition and regulatory demands. And at the same time, key players are aiming to expand the remit of the wealth management industry away from solely focusing on investments and asset management and towards insurance, family office services, estate/legacy planning and even investment migration solutions. A panel of experts debated these and other issues during the Hubbis Digital Dialogue of March 16.

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Setting the scene

Opening the discussion, a banker commented on what has and has not changed in the past year. The regulatory landscape is largely the same, and physical engagement with clients remains seriously constrained by lockdowns and awaiting a more comprehensive vaccine programme, and even though towards the middle of 2020 some face-to-face engagement had restarted, today it is back to virtual engagement.

As to investments, he pointed to strong interest and activity in thematic fund launches especially in the technology and healthcare areas.

Another panel member highlighted how the WM industry locally, which had always been dominated by the banks, had seen the arrival of more financial planners, financial advisors and also nowadays more fund managers. "We are actually a fund management company and we have our fund management license now, we have also obtained a financial planning license and we are in the midst of obtaining the investment advisory license, we have launched thematic funds this year, and we also help clients with estate planning, trusts and even advice on Wills."

A senior banker commented that progress in Malaysian had been slow for too long, but that there had been a marked increase in activity in terms of new ideas, new products these days, with the regulators also somewhat more open to hearing about the products, and that better communication to those regulators had resulted in quicker decisions. "We have seen our

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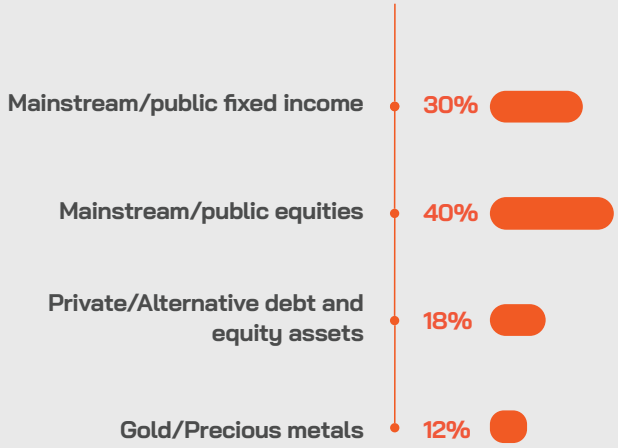
HOW WOULD YOU CHARACTERISE YOUR PRIVATE CLIENTS' APPETITE FOR MAINSTREAM FINANCIAL INVESTMENTS IN THE CURRENT CONDITIONS?

LOOKING AHEAD, WHAT PERCENTAGE OF YOUR PRIVATE CLIENTS' INVESTMENT PORTFOLIOS WILL BE IN THE FOLLOWING ASSET CLASSES?



assets grow well over the last 12 months, and we have seen a 70% pickup in terms of appetite for products, so it is very positive going forward."

Another panellist concurred, adding that there is also more interest in estate and succession planning, and in intergenerational wealth transfer, and more professionalism in the family office environment, as well as improving digitisation. "Malaysia has been behind in these areas," he remarked, "but we are catching up. To help achieve this, we need to improve the skills of our advisors and planners, to equip them with the necessary knowledge to offer clients the next level of advice and service. Many HNW and UHNW clients know what to do, but the mass fluent really need good advisory skills to help with these areas."

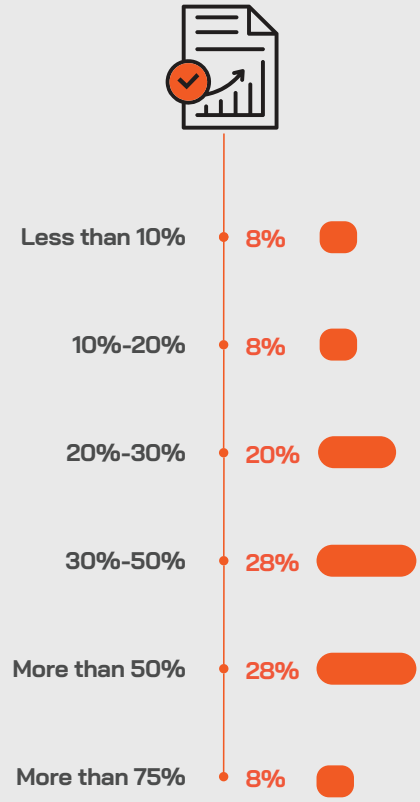
Expanding on this theme of inter-generational wealth transfer, a banker commented how Malaysia includes many people who had originally come from China, Indonesia and elsewhere, and that the concept of extremely hard work to establish a base and wealth was deep-seated in the first and second generations, with many rags to riches stories. He said that then as they move to the third generation, the grandchildren, many of whom are taking over or will take over family wealth amongst the Malay, Chinese and Indian ethnic communities in the country, the wealth management community must adapt rapidly to handle these clients and deliver on their preferences and needs in the years ahead.

A banker reported that as to investment, thematic ideas had worked well for much of 2020 once the initial chaos and fear had subsided and buyers returned to the markets, with medical/healthcare, technology and disruptive tech leading the charge, and delivered by his bank in both conventional and Islamic format to clients locally. He noted that ESG had also been rising in prominence.

And a guest remarked that virtual engagement with clients had now moved to the next phase. Now, there is far great emphasis being placed on the content and precisely how to deliver information and ideas effectively, with far greater intelligence applied to digital solutions to both help produce relevant analytics-enhanced ideas and content and also to deliver that to help then engage the clients in conversations. "The tracking of the entire client journey digitally right from invitations going up to the execution is also getting sharper as we speak," he added.

As to offerings, a banker observed that the wealthier the client, the more complex their needs, and to boost the onshore offerings, the local banks and firms must broaden their capabilities and

LOOKING AHEAD OVER THE NEXT FEW YEARS, WHAT PERCENTAGE OF YOUR HNW AND MASS AFFLUENT PRIVATE CLIENTS' INVESTMENT PORTFOLIOS WILL BE INVESTED IN OFFSHORE/INTERNATIONAL FINANCIAL ASSETS?



products. He said, for example, that his bank can now offer a leverage proposition to wealthier clients onshore in some 11 different currencies, meaning they no longer need to seek that offshore. "That has been a real growth driver for us in the HNW and UHNW segments," he stated.

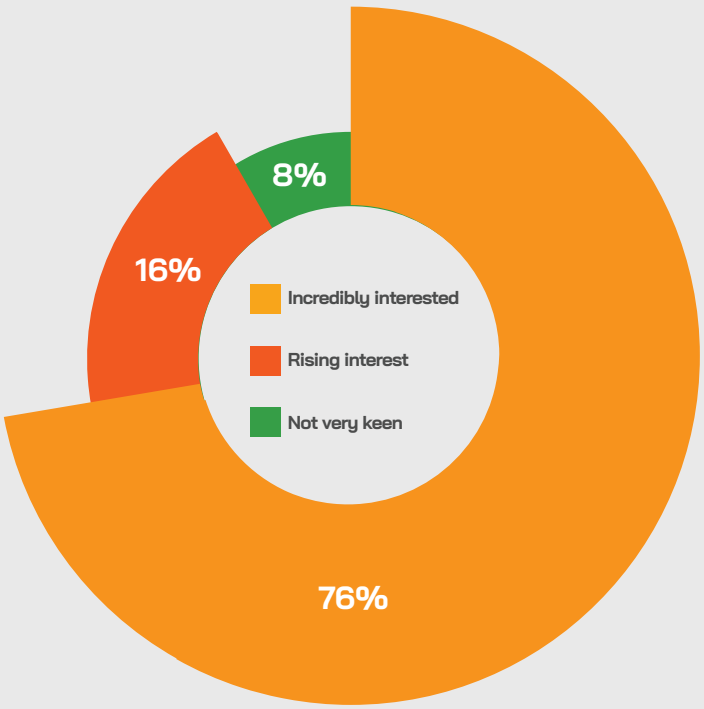
Digitisation continues apace

A technology solutions expert then commented on key trends he is seeing in his connection with the WM arena and therefore how digital solutions are rolling out to address these needs.

"We see both the advisory and the self-directed sides growing at the same time," he said, "with a real acceleration in private investors wanting to do some more of their own research, and in some cases, do some of their own investing, not always with the help of an advisor."

He explained that his firm's research had shown that investors tend to not greatly like webinars, preferring more data and hard content to help them make the right investment decisions. "And increasingly," he reported, "they're looking for data that is different from perhaps what they've used in the past. Fundamentals remain very important, and a lot of them follow technical analysis, and there is also alternative data and ESG. All in all, we have seen a massive rise in self-directed investing that obviously supports the digital trends, as the industry looks to provide trading capabilities directly into the hands of their clients. And at the same time there has been greater emphasis on digital onboarding."

HOW INTERESTED DO YOU THINK MALAYSIAN PRIVATE CLIENTS ARE TODAY IN DPM AND ADVISORY MANDATES?



ARE HNW AND UHNW CLIENTS IN MALAYSIA TODAY MORE LIKELY TO WORK WITH INTERNATIONAL/ OFFSHORE PRIVATE BANKS/WEALTH MANAGERS AND EAMS OR ONSHORE PROVIDERS?

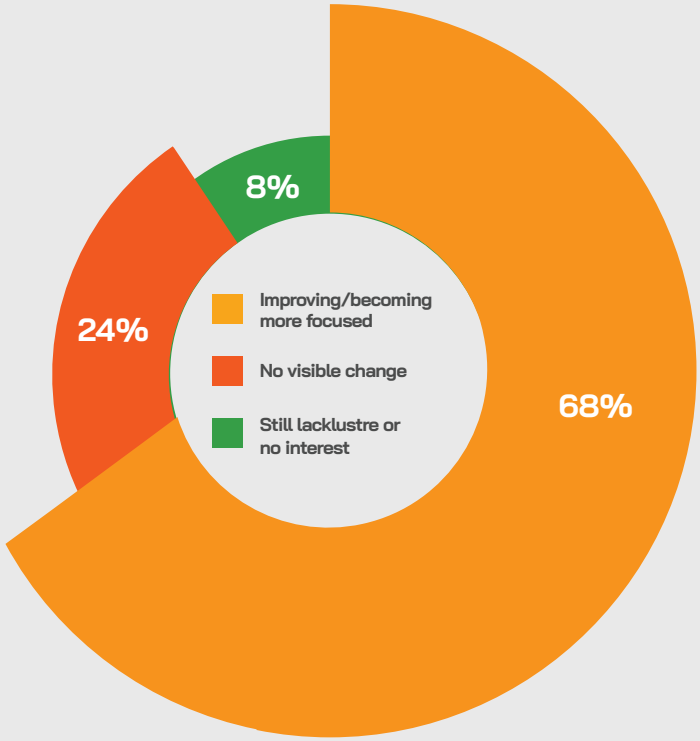
He questioned the efficacy of robo advisory, commenting that it had not enjoyed the adoption and success many had thought. "The broader story is more investors and more younger investors and a greater overall interest in investments, but from my perspective that has not translated to the robo market taking off in the way that people expected."

On the other hand, an expert commented that robo-advisory helps democratise wealth across mass affluent segment, which in Malaysia still seems to be underserved. He said that regular robo-advisory journeys give the user the possibility to define their risk profile and be offered an optimal investment strategy and recommendations of products aligned with customer risk profile, needs and preferences – all fully automated without human support.

But robo-advisory is not only for masses. The same expert noted how it can easily support more wealthy customers who are looking for diversification or more self-service investment options. The hybrid model where the automated service is supported by human expertise and personal-touch is an attractive offering to those who don't want to rely on technology only," he concluded.

Another technology expert reported that his firm supports the wealth management community by delivering solutions to support RMs in the investment advisory processes, and in the robo-advisory processes to deliver the investment reports for the customers. What he had seen since the pandemic hit is the acceleration of a more seamless and far more effective virtual AI and machine learning boosted

IN GENERAL TERMS, HOW SOPHISTICATED AND ORGANISED ARE MALAYSIAN HNW AND UHNW CLIENTS IN THEIR WEALTH AND SUCCESSION PLANNING?



Expert Opinion

SLAWOMIR WOJCIK, Product Manager Wealth Management, Comarch

"Covid-19 has accelerated changes in the interactions between banks and their customers which have been taking place on the market over the last few years. More and more reports and documents are shared between financial institutions and clients directly in a digital way whether it be e-mail, mobile app or customer portal. If needed all documents can be authorised by customer with usage of the newest technologies including biometrics and AI. In addition to that, face-to-face meetings have been supported or even replaced by digital communication channels – instant messaging, chats or video meetings with desktop sharing are now a necessary element within relationship management. It all gives various added values both to bank employees and customers in the form of higher availability of RMs, convenience of the interaction but also cost reduction experienced by the financial institution."

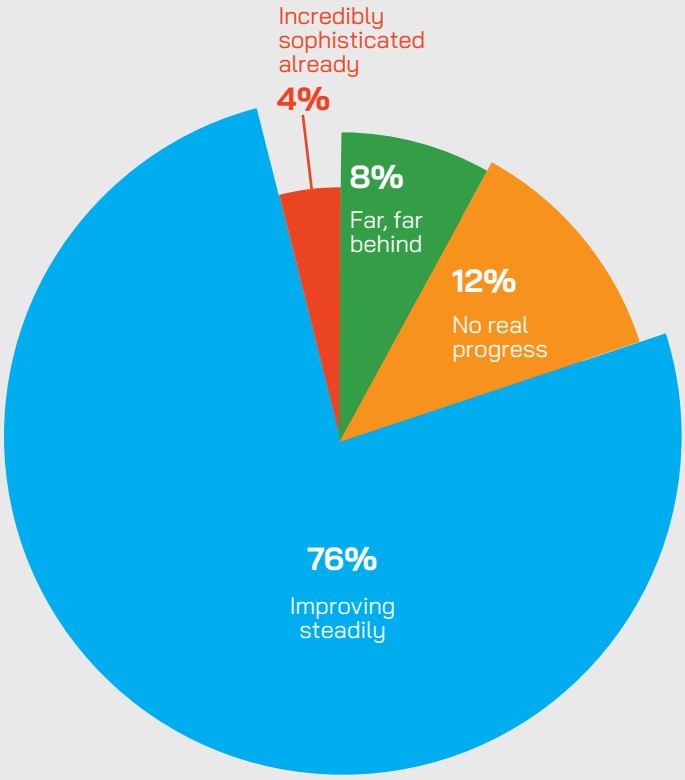
advice, execution, administration and compliance protocol, as well as a far more effective digital communication regime, and far more and far better tools for the end clients to obtain data, information, content, and advice, all also enabled in a fully mobile manner via apps where required.

He added that digital tools supported by AI to identify and curate the best products from a vast global universe of products were really helping deliver better advice and help banks construct better portfolios for the customers. And he said we are in the age of big data and advanced data analysis to help in various areas, to for example help build the right decisions based on that data, to support certain product campaigns, to help generate sales opportunities by selecting the relevant customers, and to enhance the probability of ideas translating into transactions.

A guest commented that AI will very probably play an ever-larger role, along with machine learning, in keeping abreast of client behaviour and in that context robo advisory would work better. "But at this stage, I think investors are still very much pampered with personalised service," he observed. "They like you to call them, they like you to greet them in person and they like you to understand their investment emotions during these panicky times, so we need to reassure them. No doubt in the future, technology will play a greater role, but for now the human touch is really important."

A technology expert said this means mobile communication of information, and advice and mobile transactions are essential for these younger private clients.

HOW WOULD YOU CHARACTERISE THE DIGITAL PROPOSITION OFFERED BY THE LOCAL WEALTH INDUSTRY FOR LOCAL PRIVATE CLIENTS?



Expert Opinion

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"When it comes to machine learning and big data analysis, it's all about going beyond standard conditions and rules. Within wealth management, machine learning can be used to better analyse and profile customers, prepare more personalised offers which increase the chance to convert bank proposals such as investment ideas or next-best-offers into actual purchase. On other hand, machine learning can help financial institutions better assess potential of investment products, find the best products for their customers looking from the perspective of risk and return and having in place wide product universe. This is possible thanks to smart algorithms creating innovative product rankings and well-optimised portfolios."

"Fundamentally," he said, "the next generation wants to access information in a different way, primarily through apps and mobile and smart phones and far less via advisors as their parents and grandparents. They need to know if they're looking at two different funds to choose from, which is the best one for them. If they are keen on ESG and they care about issues related to ESG how do they know which stocks have got a better ESG rating. It is not only about the mode of delivery, but also about streamlining the information, which is critically important."

Another technology expert agreed but added the caveat that these future clients are not yet looking for radical tech solutions such as virtual reality delivery, they are still leaning more towards a combination of technology and human interaction. "But an interesting concept is more gamification," he added, "so clients might begin investing in certain products and perhaps as a reward receive some higher interest rates for deposits or lower costs for the transactions. That type of gamification, I think, for the next generation clients, when we see what markets are asking can be quite interesting."

A guest observed that mobile apps dedicated to customers and their wealth are no longer a nice-to-have feature. Mobile channels are especially important from the perspective of next-gen clients who are mobile natives, he said. "Delivery of contextualised content and 'next-best-offers', interactive reports, personalised investment ideas, robo-advisory features together with the possibility to have a chat with an advisor – all those features should be available now at hand within mobile applications made for wealthy clients," he reported. "Easy access, rich content and self-service activities make the perfect combination which help financial institutions to increase customer engagement and improve customer retention ratio."

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AMONGST THE MASS AFFLUENT AND HNW PRIVATE CLIENTS, WHAT ARE THE MAIN INVESTMENT THEMES AND PRODUCTS (INCLUDING PUBLIC AND PRIVATE MARKET ASSETS) THAT RESONATE WITH CLIENTS TODAY?

- ESG is of growing appeal, especially for the HNW and UHNW clients.
- Robo advisory and thematic investing are of increasing interest to the mass affluent segment in particular.
- The quest for income in a world of low interest rates.
- Wealth preservation is as important as wealth uplift at this time.
- For capital appreciation, technology is still a core focus.
- Certificates of deposit are of interest today.
- Clients like selected IPOs that offer good upside potential.
- We see more interest in DPM.
- Private equity, especially venture capital opportunities.
- Our clients like the US, China, Technology and Healthcare, buying public market assets.
- Advisory is well liked by clients as it offers both self-direction but also some additional direction from the bank's advisors and experts.
- Cryptocurrencies and in particular Bitcoin are of growing interest as an alternative investment.
- China, China, China.
- A key theme for our clients and one we focus on is liquidity. Any investor in the market during these uncertain times should be wary of illiquid assets and select investments that can be easily converted to cash whenever required.
- We think clients who have exited or have yet to re-enter the market should consider staying cash-rich and holding off on re-investing at this time and wait for better opportunities.
- Property is still appealing amidst the volatility of the public markets.

What the future holds

Looking more broadly at emerging market trends, a banker commented that greater flexibility for fully open architecture from the regulators would help the WM proposition greatly. "We are an open architecture bank," he said, "and in our experience, bringing in a good quality global fund into the market, the fastest you can do it here, well, I guess it's about four months, so we have somewhat archaic regulation and processes here to protect the industry, which honestly doesn't really make much sense. At the end of the day, they are allowing the global funds to come in, but we need more transparency, more nimbleness."

Another area for improvement, the same banker reported, is flow products such as structured products. "A client could walk into any bank in Hong Kong or Singapore and ask them to design a structure, then get a structure and price within minutes, then obtain the best execution, and transaction pricing. But here it is all on balance sheet, and it takes time. If the model changes here to open architecture, there is greater agility, and the general population benefits in terms of much more competitive products, lower pricing that will automatically drop."

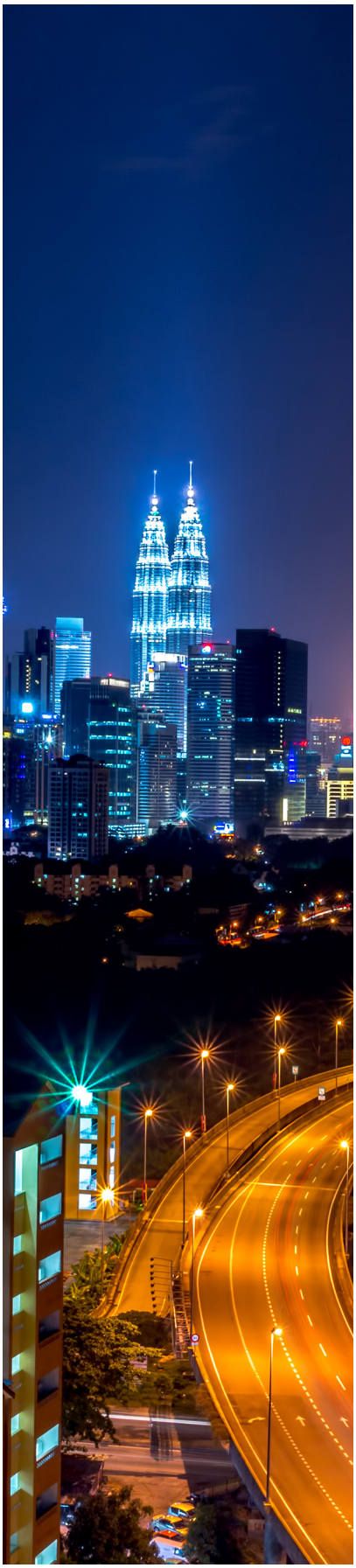
A banker chimed in, adding that the platform should tailor solutions and deliver as broad a proposition as possible, tailored to a client's specific needs, his or her risk appetite and of course highly personalised. The question of advice was addressed by another banker who said that the reality is the providers offer solutions more than advice, in reality. But he indicated it should be based on personalisation and trying to offer open architecture and solutions based on deep understanding and conversations that are both deep and efficient.

ARE MALAYSIAN HNW AND UHNW INVESTORS MOVING MORE MONEY INTO DOMESTIC INVESTMENTS OR INTO INTERNATIONAL ASSETS? WHY?

- Yes, because of an improved regulatory environment.
- We see more money going international due to the diversification into a wider investment universe.
- We see rising interest in domestic assets, due to more opportunities offered by the private bankers onshore.
- International, for global exposure and currency diversification.
- Moving into assets that offer more certainty in terms of valuations, such as both residential and commercial properties in London in particular. Both the rental yields and capital appreciation in such asset classes are more transparent as compared as in Malaysia. Even with the 40% Inheritance Tax imposed on UK Residential properties, clients are increasingly gaining more awareness by buying in Universal Life policies as one of the hedges.
- More towards international assets, due to lack of liquidity in the domestic markets and a comparatively weak Ringgit.
- International, as there are limited opportunities in Malaysia.
- More international mainly for diversification and to reduce exposure to domestic political risk.
- Greed will make them want to go international, but fear will cause them to stay local.
- The inclination should be towards international assets. The 1MDB scandal is still relatively fresh in people's minds. Malaysia seems to suffer from a somewhat tainted reputation and needs to boost its domestic credibility through increased transparency. Until then, perhaps international assets are local investors' best bet.
- Into international assets to avoid depreciation of local currency and will have more investment options.
- Due to the exchange control regulations, clients are more careful about investing into international assets.

The best is yet to come

"Are we there yet in Malaysia?" he pondered. "No, we are not. We have a long way to go, and it is not only about regulatory evolution; it



is also about us and how strong we can become in imparting the right kind of in-depth advice to clients, so that we have the right to charge a fee for advice. Right now, as an industry, we are not there yet honestly." But there is widespread optimism that progress is being made and that the wealth market's evolution will continue for many years ahead. ■

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IS THE ONSHORE WM MARKET DEVELOPING MORE RAPIDLY FOR HNW AND UHNW CLIENTS, OR ARE THESE CLIENTS MOVING ASSETS OFFSHORE FOR A GREATER RANGE OF PRODUCTS, ADVICE AND BETTER SERVICE?

- Clients prefer offshore for better tax management.
- The onshore offering is developing, but it is hampered by various shortfalls, and Singapore retains its allure.
- Developing more rapidly onshore but is still relatively limited.
- Clients, by and large, still mostly preferred moving the bulk of their investible assets offshore for better products, better offerings and definitely for better advice in general.
- Most clients are moving assets offshore for a greater range of products, advice and service.
- Offshore – there is a limited number of service providers in Malaysia that are on par with those operating in offshore centres such as Singapore and Hong Kong.
- Depends on the country. Some investors feel that the returns are greater in the domestic market.
- Offshore due to lack of sophistication and capabilities onshore.
- UHNW clients are definitely still keen on offshore advice and private banking.
- We see some trend to moving money offshore for a wider range of products and services.
- The onshore WM market is developing quite well and the charges are relatively low as compared to the high charges of offshore products, but there is less on offer locally.
- There is a lack of credibility in the domestic market, so clients should logically move their assets offshore not only for the unbiased, professional opinion and services of various global enterprises but also peace of mind that their investments are in experienced hands.
- The offshore proposition is certainly developing more rapidly than onshore due to greater range of products and services.

IN YOUR VIEW, WHAT NEEDS TO HAPPEN IN THE MALAYSIAN WM MARKET TO BOOST THE ON-SHORE PROPOSITION?

- Greater transparency.
- More marketing efforts.
- The product range needs to improve, and advisory management fees should not be based on transactions.
- Greater investor education.
- A reshaping of the regulatory landscape that encourages innovation and creativity.
- More family offices.
- More independent asset management firms that are objective and do not promote in-house products.
- Stability and a wider range of products for investment.
- The establishment of more independent asset manager desks in the banks.
- A more internationally aligned regulatory and compliance framework.
- Greater digitalisation.
- A more stable political environment.
- We have to be more flexible to offer more sophisticated products to capture the local market demand and keep funds onshore.
- More foreign asset managers.
- Malaysia needs to turn over a new leaf and attempt to take a step in the right direction away from the 1MDB scandal and re-build its reputation.
- Fewer currency restrictions and attract more international companies to list locally.
- More talent locally, and greater experience and enhanced advice.