The modernisation of Malaysia's unit trust industry

The country's unit trust industry has been evolving. Commission rates on traditional unit trusts are due to fall as financial product education improves and digital distribution gains momentum, says Roslina Abdul Rahman.

Although Malaysia's unit trust industry is growing fast, it seems to be lagging behind its peers in terms of distribution sophistication. This is a crucial area for development as more people are now aware of the importance of saving for retirement.

Roslina Abdul Rahman, managing director at Amundi Malaysia, says the unit trust industry has had impressive growth in the last decade, and remains excited about the industry development in coming years.

"The growth of the unit trust market might well continue on this trajectory and we expect this will stimulate continued diversification from local to international assets," predicts Rahman. "We believe investors will increasingly move from plain vanilla fixed income and equities into more complex investment products. We are expecting to see some excitement in new product offerings in the coming years."

The Securities Commission Malaysia (SC) has taken strides to improve the breadth of wholesale investment products and streamline the process.

Fund managers have commended the improvement in the approval process for the products. For example, the SC introduced a new Lodge and Launch (LOLA) Framework, which allows wholesale funds to lodge information online at the SC website for distribution, upon complying with the necessary regulations.

To encourage both local and foreign fund managers to offer more investment options for investors, the LOLA framework liberalisation is expected to become fully effective by end of the second quarter of this year.

"We believe shorter processing time on fund authorisation will have a positive impact on the growth of Malaysia's unit trust industry," says Rahman.

ROSLINA ABDUL RAHMAN
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GROWTH POTENTIAL

The population in Malaysia grew from 18 million in 1990 to 30 million in 2014 with an average age of 25. This young set of people offers strong growth potential for Malaysia's unit trusts industry. As retail investors become more aware of personal wealth management they will want to save more, meaning there will be rising demand for investment products.

"There is a growing middle class in Malaysia and along with it comes the rise of a saving culture. The need to save for retirement is widely encouraged through investment planning. They are considering fund investments to help them save and plan for their future retirement needs," says Rahman.

DISTRIBUTION STRUCTURE

To allow faster and stronger growth of unit trust industry in Malaysia, there is a need for more mature product distribution structures and processes.

Currently, unit trusts in the country are mostly sold by banks and unit trust consultants (commonly known as agents), attached to fund management companies. These consultants will then receive part of an upfront commission on any assets they sell.

This stands in contrast to retail investor-targeted funds in Europe or the US, which are more commonly distributed through independent financial advisers (IFAs) or sold via digital platforms for no or minimal upfront fees.

There are two key reasons behind the agency model's popularity in Malaysia: a lack of formal financial education among investors, and the personal touch that direct sales agents offer.

"Retail investors in Malaysia prefer having a dedicated person who they trust, to come to their home, explain the investment products and answer any questions," says Rahman. "They feel it is like a tailored service, even though there's a high cost attached."

The most popular unit trusts in Malaysia provide a return higher than a one-year deposit with the country's retail banks. To deliver such returns, fund managers need to employ riskier investment strategies.

"If you talk to investors on the street about funds, the first thing they usually want to know is the return they can get," says Rahman. "But they don't tend to think about the risks associated with funds that offer such high returns."

The danger is that market conditions can adjust sharply in a short period of time, forcing heavy losses upon these financially unsophisticated retail investors. However, Rahman believes financial understanding is slowly improving.

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POSITIVE SIGNS

She notes many banks and fund management companies are conducting seminars to introduce concepts such as risk versus reward and the difference between asset classes.

The country's Employee Provident Fund (EPF), the state pension fund, has done its bit too. The EPF in Malaysia has recently obliged asset management firms to limit front-end fees for unit trusts included as EPF investments to around 3%. In addition, on April 14, the EPF launched the EPF Members Investment Scheme Information Portal (EPF-MIS), which offers information on the funds included in the scheme. Meanwhile, the rising use of technology-based investment solutions among younger generations should help raise competition and reduce fees.

"The new generation of the millennials is savvy with technology and financial knowledge," says Rahman. "More effort in the industry may be channeled into web-based distribution channels that provide access to funds."

Ultimately, she believes the increase in investment acumen among Malaysian investors and easier access to funds will continue imposing a downward pressure on unit trust fees.

"Over the next few years, we think the upfront fee will reduce closer to global average rates, as seen in other markets. That would be good for investors and a more mature market would also be welcomed by local and international fund management companies," says Rahman. "We are excited to be part of the evolution of the Malaysian unit trusts industry and will remain committed to offering diversified products in this growing market." ■