Wealth Management in Malaysia – Looking towards a Dynamic Future

Few would disagree that Malaysia has the potential to evolve further into what will eventually be a mature and very thriving wealth management market, emulating in an onshore model many of the successes of neighbouring Singapore and also Hong Kong. There is evidently plenty of room for Malaysia's market to grow robustly alongside those more well-established offshore financial centres, as long as participants in Malaysia can manage the tighter regulatory demands, boost the array of investment products and solutions, and if they continue to develop the Islamic finance wealth market. At the same time, the incumbent players will need to compete energetically and smartly against new entrants that have been becoming more prominent locally, as the regulators continue to gradually liberalise the financial markets. Digitalisation, increasingly savvy demand from customers and diversification in the revenue generation avenues available are the hallmarks of the wealth management model as key protagonists would like to see it develop in Malaysia. 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. Are the regulators helping or hindering these developments? Could they be more accommodating and more open to open architecture and allow faster speed to market for fashionable concepts? Are Malaysia's private clients engaging with these concepts, the products and solutions and the increasingly digitised methods of delivery? And how is the industry coping with the implications of the pandemic? The overall mission for all the industry players is to significantly boost the variety and diversity of products on offer and the professionalism of the advisors and the industry at large, but the big question is exactly how can this be achieved, and at what pace. A panel of experts debated these topics, and others, in what was an illuminating Hubbis Digital Dialogue on October 15.

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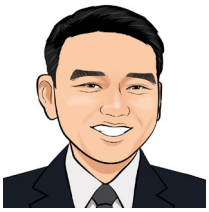

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The potential is clear for all to see

A local expert opened the discussion by remarking how the asset and wealth management market had been driven thus far mostly by the banks, especially the international banks, many of which have had a long and historic presence in the country. "I think the market has evolved even further with the help of the policymakers as well, as you can see that regulators in Asia have been quite dynamic in trying to playing catch-up with the international scene. In short, we've come a long way, but we are still below expectations, especially if you compare with the likes of Singapore or Hong Kong, or London."

He commented that there are many areas to improve, especially the range of investments, the need for more and better fiduciaries and responsibilities and more and better local intermediaries as well, thereby bringing up the level of advisory. He also suggested better and more advanced regulation would help.

"Yes," he said, "we are heading in the right direction, but not at the speed that we want to."

Growth behind and growth ahead

Another expert said he would divide his views into two areas. From a client standpoint, he said the good news is the market is becoming bigger and bigger, with the latest Knight Frank report detailing that million-dollar plus clients here had grown some 30% in the last five years, and the expectation over the next five years is that this number will grow at a pace of almost 80% across Southeast Asia. And from a business standpoint, he maintained that Malaysia in the past five years had moved far closer to what Singapore and Hong Kong can offer. "Are we on par?" he pondered. "No, we're not there yet, but we are on the way."

A guest reported how with rates so dramatically low, there is more interest in investing, especially as bonds yield very little now and are much less safe than before. He said equity is the place to be, but selectively, as the Malaysian market itself had been lacklustre for some years.

As to segmentation, an expert commented that historically, the banks focused primarily on the affluent client segments, including mass affluent, priority and HNWIs, purely because when it comes to wealth offerings and advisory, the cost of service is rather high, and the lower end segments therefore generally get left out.

"But now," he observed, "things are changing to some extent in a couple of areas, as clients see that with rates so low they need to save more and cannot rely on traditional savings or bond products."

Some flexibility seen

He noted, for example that the governments Employee Provident Fund (EPF) had created a digital platform offering funds at zero sales charge, trying to encourage people to start to invest in a more structured fashion. And the banks, his bank included, had been aiming to democratise WM through digital platforms to reduce the cost of serving customers, for example offering goal-based platforms to clients from very low entry levels, then helping create portfolios to match these goals.

He noted that at the HNW segment, things remained roughly as they were, although there is gradually greater digital adoption in that space, and across all age brackets, and especially since the pandemic hit. However, another guest said in this space, personal connections to the bankers and RMs remain very important and in strong demand. In short, for the HNWIs it is certainly not a digital only model that is evolving.

Another guest highlighted the ongoing need to educate the client base, and the need for both industry specialists and the regulators to encourage this evolution. "If they are more informed and more prepared, access will be a lot easier for customers going forward, so the market can develop accordingly, it is simply then a question of how to utilise that access."

Expert Opinion

JOVIN SHEN, Senior Partner Manager APAC, CREALOGIX

"Wealth Management will continue to revolve around the values of relationship, personalised content and insights. On top of this with technology in digitalisation, banks and challengers can now offer the variety and diversity of products to digitally engage more with clients. Players must differentiate and accelerate in order to compete."

Onshore is not yet replacing offshore

A panel member commented how there is a regionwide rise across ASEAN for onshore investment products and expertise, so the question is how then to best service the different segments of wealth, and build onshore expertise and product diversification.

"Leaving it up to the clients, often with relatively new wealth, to make these investment decisions without the right education and the right kind of guide them through that whole process is going to be a challenge, but I think it can be done," he said. "The opportunity is very good in ASEAN and certainly in Malaysia."

Digital – more work & vision needed

Moving the discussion towards digital, an expert observed that things remain 'clunky', but that there is a very strong intent to move towards using latest platforms. "Then," he said, "if you're serving your customer segments digitally how do you bring in that difference in experience, that differentiated level of service? These are some of these types of very interesting conversations that we've been seeing in the region, and certainly in Malaysia."

Another guest commented that the need therefore is to adapt archaic platforms to new platforms, and to produce a situation where the wealth managers can be much more agile. "The challenges always, however," he observed, "centre of the complexities around the integration of solutions. We also need to be aware that cycles of technology are shortening all the time, so the customers and we need to be constantly nimble. The idea is to try and optimise and find omni methods of engagement for clients so that the engagement is also far more nimble."

He explained that the challenge is also to create good quality content, and deliver that to clients in an easy fashion, so that the digital journey is actually much easier. "You don't really need to invest in very heavy system, you just need to invest in nimbler solutions which can be tracked and monitored easily. And then the delivery to the clients is done in a simple fashion, and then deliver efficiently and easily to the client, perhaps in videos, of message apps, whatever suits the clients best. And then use the best methods of engagement, especially challenging during this pandemic, but made possible by many digital solutions and avenues."

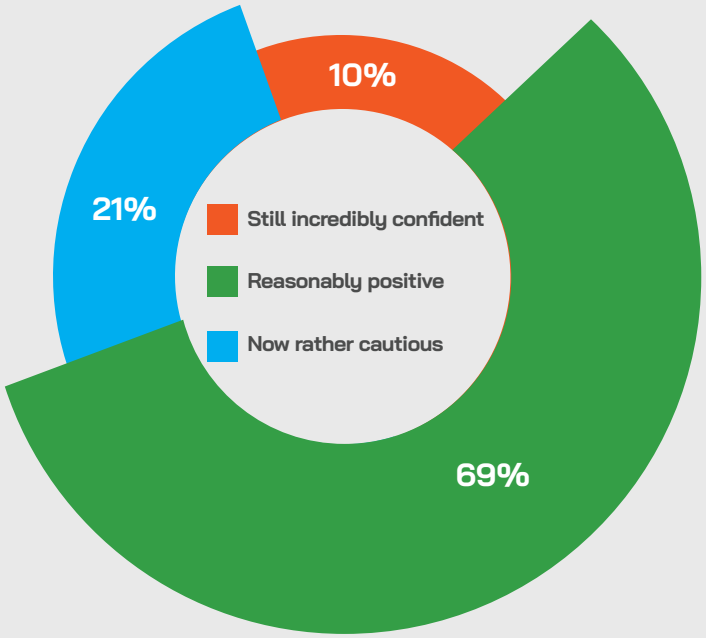
Complexities must be overcome

The other requirement, he elucidated, is better execution, achieving a smooth, error-free execution platform. "The idea is now to build the entire journey and make it a complete single journey for the client, right from content delivery to engagement, and then finally the decision making and execution. Making this

Post-event Survey Insights

As usual immediately aft the discussion, Hubbis sent out a survey to all delegates, and we reaped the following insights from the market experts plying their trade in Malaysia.

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



smoother and smoother is our focus right now."

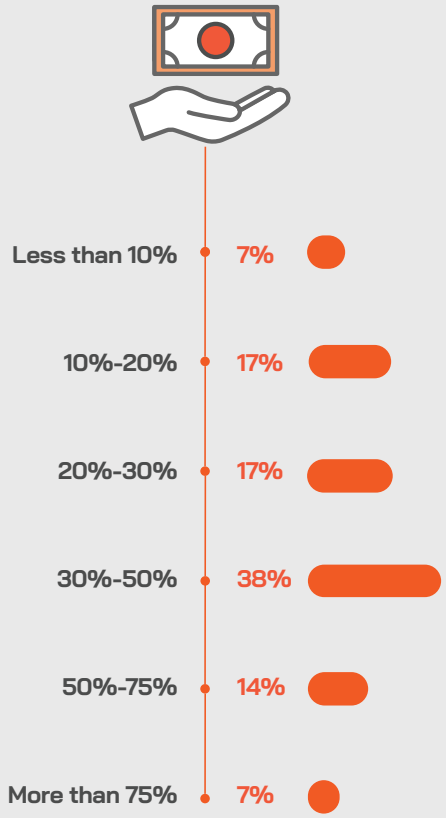
Another expert observed that with all software delivery, complex conversations are needed to get things right from the start. There's no one right answer, he said, so solutions must be tailored to needs and expectations. "And from a project risk perspective," he said, "the larger the project the more caution must be taken as there are so many moving parts."

More diversity required

An expert observed that there is a global trend towards passive rather than active, towards private rather than public, towards alternatives rather than simply mainstream, towards thematic rather than broad brush. "Malaysians as investors are hungrier than ever for products and transparency and independence, and that can offer them the lucrative returns they hope for," he commented. "There is therefore huge opportunity here."

"When it comes to products," another guest stated, "the regulators have helped expand the range here, so today we can offer products in eight currencies, we can offer lending, leverage facilities, we are offering insurance solutions, but we also need to address speed to market for products, as that remains weak. For example, ESG is a core concept and of great interest, but there is nothing locally, so we need to bring products from outside, but the regulatory framework is not really open architecture, you can't just go pick a fund and bring it over, you need to wrap it with the local fund manager, and that all takes time and money and cost, so all that need to become much more efficient."

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?



Not yet fleet of foot

Another simple example, he said, could be structured products. "If you go to Singapore today, you could walk up to any institution, any institution and say I want to structure this or that with this underlying with this index, and they do it there and then. But here this is certainly not possible. So, these are areas where we remain falling short vis-à-vis the international markets. We can offer some good advice, but we can't deliver the solutions and the array of products and ideas."

Still wary of fee-based models

The panel then discussion DPM and advisory, seeming to agree that while there is an intent to drive the industry in that direction, the market is hampered by three elements – the lack of experience and talent at home, the lacklustre range of solutions, and the predilection for transaction rather than paying fees amongst Malaysians in general.

A panel member commented how Malaysia remains relatively youthful in its wealth management

transformation, that there are easier targets for the industry – lower hanging fruit, as he said – and the market is still demanding transactional-related solutions rather than really trying to push for DPM and advisory, although everyone should keep striving towards that as a key goal.

"The younger generations are perhaps more inclined to fees," said one guest, "more prepared to pay for advice, which might become more of the norm in the future."

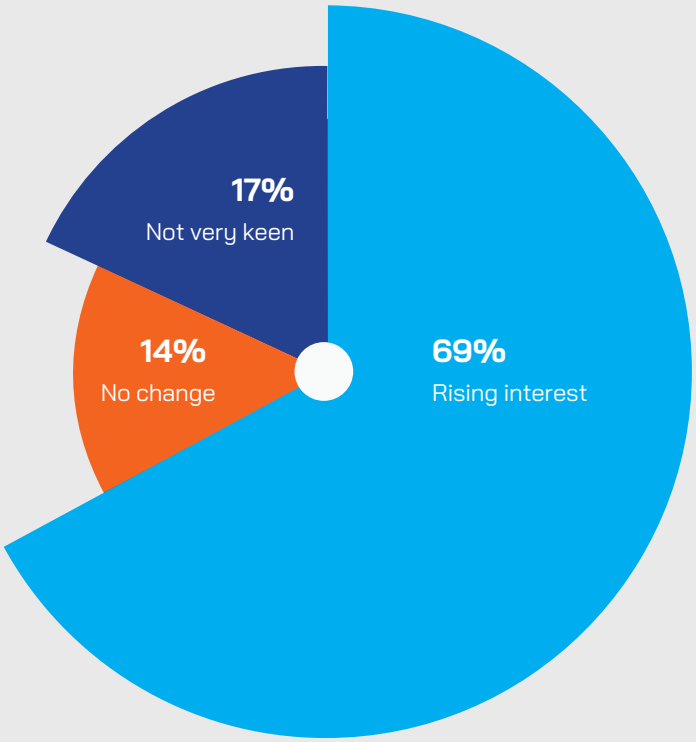
Islamic wealth management

Another core area of growth in Malaysia should be the Islamic wealth management proposition. Malaysia has a head start globally in Islamic finance and the door is open to build the country into a global Islamic wealth management centre.

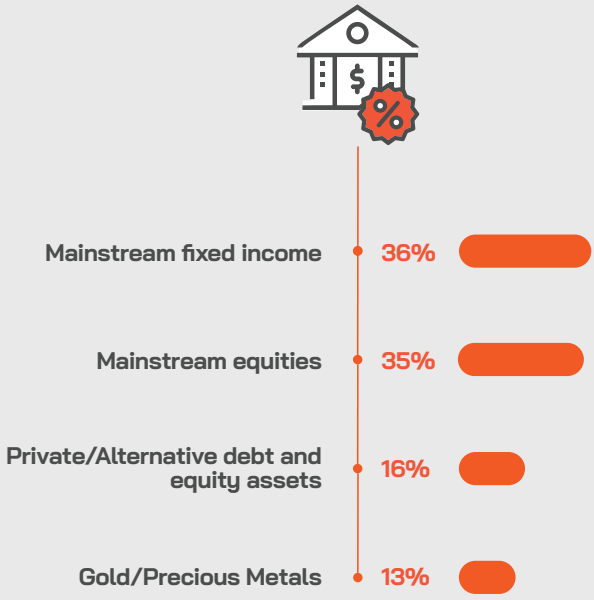
The panel recognised the vital importance of Islamic finance in Malaysia, and observed that there has been considerable progress in the local, regional and global Islamic finance offerings, and therefore Malaysia should be at the cutting edge of such developments.

But for now, the offerings remain fairly limited owing to the difficulty in creating products that are Sharia compliant, and there is not so much global innovation that can be brought in ready-made. Moreover, the local market still needs more expertise to drive the industry forward, despite having made considerable progress over many years. Additionally, there is still a lack of flexibility in offering derivative based products, and very limited hedging available, meaning too many risks and

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



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



complications to what the industry can offer, thereby again restricting choice. Moreover, for insurance solutions, there is demand providing the right type of Shariah compliant products can be created.

Plenty of goals, many hurdles to overcome

The panellists seemed to agree that Malaysia has the potential to grow neatly alongside those more well-established offshore financial centres, as long as participants in Malaysia can manage the tighter regulatory demands, pay due attention to the Islamic finance market requirements, and boost the relatively limited array of product offerings, all of which are somewhat slowing the trajectory.

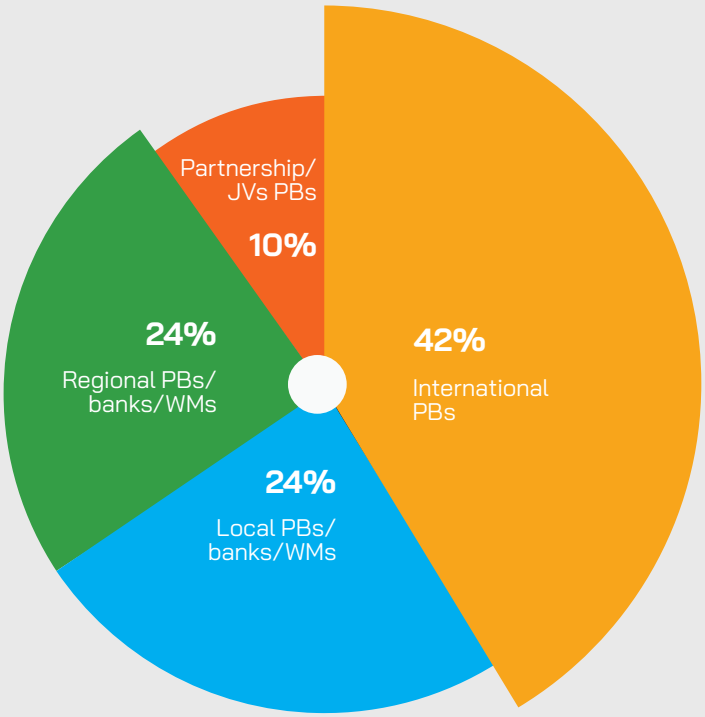
The discussion closed with the panel agreeing that more needs to be done and will be improved relating to legacy and succession planning, and that the time is ripe for this, after the shock of the arrival of the pandemic, focusing minds and hearts on survival and longevity and future generations.

The panel discussion closed with the distinct impression of the experts agreeing on the many opportunities, but also agreeing on the numerous challenges ahead.

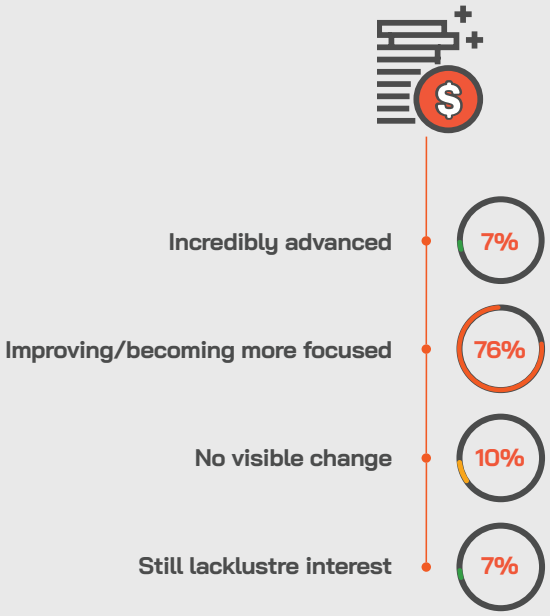
Digitalisation, increasingly savvy demand from customers and diversification in the revenue generation avenues available are the hallmarks of the wealth management model as key protagonists would like to see it develop in Malaysia.

Wealth managers must endeavour to reap the benefits of a fee-paying advisory model rather than possibly drowning in a sea of ever-lower product fees, which are

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



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



consistently being driven down by both competition and regulatory demands. The wealth management industry is seeing an increasing trend away from solely focusing on investments and asset management and towards insurance, family office services, estate/legacy planning and even investment migration solutions.

There are some concerns that increasingly strict and rather cumbersome regulation of the wealth management environment in Malaysia is having a negative effect on the growth and stability of this evolving business model, because the variety and diversity of products on offer is far more limited than the offerings available in other Asian countries. This means that Malaysia is at risk of losing customers – especially the wealthy and ultra-HNWIs - to those more appealing jurisdictions.

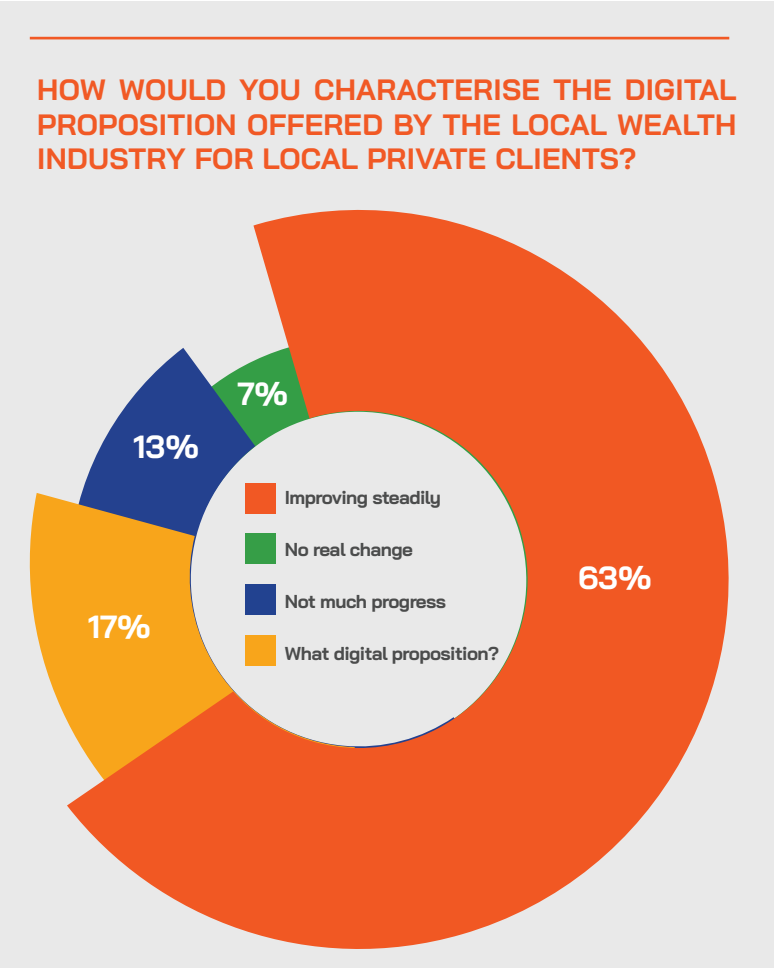
There was a strong call for regulators to embrace the concept of open architecture in order to boost the onshore proposition and to keep wealthy clients from moving their investments through offshore centres.

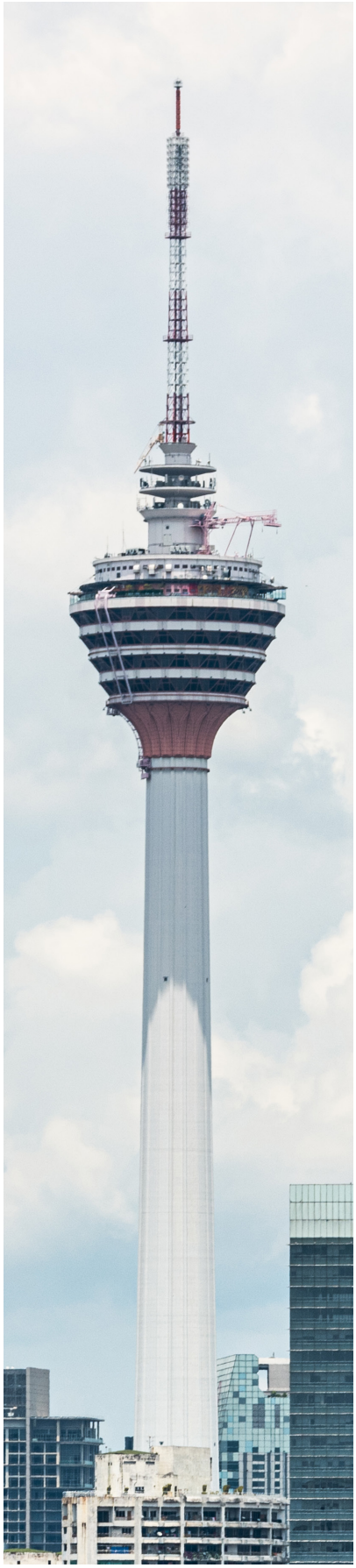
Wealth management is viewed as an industry suffering a deficit in trust by many customers in Malaysia, and to combat this, wealth managers must put in the hours with their clients and educate themselves and their customers better, to prove that they are trustworthy and truly care about their clients.

The process of building trust begins even from the onboarding process, so that relationships managers can build a true engagement with the clients, and fully understand their personal and family needs and aspirations. Taking the time to ensure that despite the ongoing pandemic, there is sufficient face-to-face human contact via Zoom or other apps and media, especially with the HNW and UHNW clients, is very important as a vital bridge to maintaining the necessary levels of communication and trust.

The mass affluent segment is a relatively untapped but fast-growing opportunity. With so many in the wealth management industry fighting over the relatively small group of HNWIs and ultra-wealthy clients in Malaysia, the huge potential within the mass affluent space market lies ahead for those well-positioned firms.

Robo-advisory may be the best way to bring affordable advice to these customers. Wealth management firms must consider the optimal ways of combining both digital with human advisory in order to offer the best propositions to the mass affluent segments, a good number of whom will later grow into the HNWI space.





Post-event Survey

In the Hubbis sent out a survey to all delegates immediately after the event, we gleaned many insights, which we have distilled here as follows:

AMONGST THE MASS AFFLUENT AND HNW PRIVATE CLIENTS, WHAT ARE THE MAIN INVESTMENT THEMES AND PRODUCTS CURRENTLY IN FAVOUR?

- Structured products especially that transcend global markets and environmentally sustainable investing avenues such as ESG are the major themes that resonate with the clients today.
- Life insurance, private equity and hedge fund.
- Preservation of assets is paramount and preparing for legacy/succession.
- Structured products, fixed income, and equities.
- Mutual funds.
- Capital protected investments and life insurance.
- TMT private equities and hedge funds.
- ESG themes.
- Alternative products and hedge funds access. There is a major need for alpha.
- Mass affluent investors - offshore ILP101 Programs, Term Life and International Medical Insurance. For HNW Private Clients - offshore ILP101 Single Premiums Programs, Term Life and International Medical Insurance, as well as Private Equities and Creating Offshore Trusts.
- Equities and yield enhancement products.
- Life insurance.
- Wealth preservation and income generation.
- A well-managed yield enhancement portfolio.
- Focus on the new technology era and investments mostly related to the disruption of the traditional models.
- The new economy, in particular technology.
- Clients are looking for consistent yield in a medium risk portfolio.

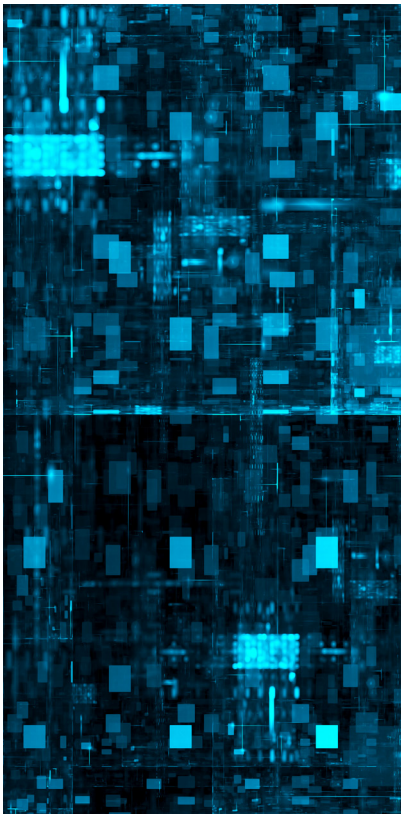
IS THE MALAYSIAN WEALTH MANAGEMENT INDUSTRY SUCCEEDING IN CONVERTING MORE CLIENTS TO DISCRETIONARY AND ADVISORY PORTFOLIO MANAGEMENT, I.E. MORE RECURRING REVENUES? WHY? OR WHY NOT?

- The Malaysian wealth management market is still pretty much concentrated with transaction-based business as the clients are not sticky and prefer to go from bank to bank in search of lower transaction rates. There is lack of any loyalty as of now among the customers in the lower end of the spectrum especially.
- Not really, as this faces difficulty due to difficulty in recruitment of experienced individuals in both advisory and with real product expertise.
- No. Clients' financial literacy and awareness remain generally low and the nett returns of the portfolios currently are not attractive enough.
- Very slowly, but education of the clients takes time.
- Yes, the clients are beginning to believe in relying on professional manager to manage their portfolios.
- No. The issue is two-fold, due to lack of product access and lack of a strong talent pool.
- Singapore attract the best talent, so it is tough to keep the better RMs and fund managers in Malaysia.
- Not really. Malaysians are still resistant to fee-based advisory/investment.
- No, due to limited product diversity to address the solutions clients are looking for.
- Possibly - Malaysian investors somehow need more personal touch, and do not really like talking to machines.
- I think it will take much more time for DPM and advisory solutions really take off.
- There is not enough expertise available here to really gain traction.
- No, due to regulations and the time required to educate the market, although the situation is improving gradually.
- I think more clients will convert to DPM as the regulators continue their ever tighter regimes.

- Yes. The clients are looking more into Discretionary and Advisory portfolio Management as they are looking towards their assets being managed by more professional people and their wealth is seen to be in safe hands.
- Not really. They are less exposed to the Discretionary and Advisory Portfolio Management and they are quite cost conscious when we are talking about the upfront fee. They still prefer the traditional investment products. However, the millennials coming through making or inheriting wealth might be more understanding of these concepts and therefore more interested.

IN THE HNW AND UHNW SPACE, ARE MALAYSIANS WORKING MORE OR LESS THESE DAYS WITH ONSHORE PRIVATE BANKS AND WM FIRMS, OR ARE THEY DOING MORE OFFSHORE, ESPECIALLY SINGAPORE, OR DOING MORE ONSHORE?

- We see more flows from offshore to onshore these days.
- Yes, there is greater competition and wider diversification of product offerings at home here.
- Yes, more onshore, but the range and sophistication of products are not as wide onshore as offshore.
- The onshore market is developing more rapidly due to lower cost for investment.
- Yes, to some extent, there is a move onshore, as there are more funds circulating in the country and the financial institutions. However, the product offering is considerably less extensive than the range provided through Singapore or Hong Kong.
- HNW clients still look more towards Singapore, as the offer of service providers there and of products and investment possibilities are much larger. The knowledge of investment advisors is improving in Malaysia but is still quite far behind Singapore.
- Clients tend to be working more with international private banks as they are well experienced, with higher reputations and more investment and wealth management products.
- These clients still prefer the private banks to the IAMs, both onshore and offshore for obvious reasons, such as better branding and better data security.
- They still really prefer to use Singapore as the offshore WM platform.
- Both onshore and offshore nowadays.



- More offshore for the wealthier segments, given the breadth and depth of product/service offerings.
- More offshore due to the wider range of investment products.
- Malaysians are becoming more onshore focused as they now have a wider range of products available here. However, Malaysian states like Sabah and Sarawak remain relatively under serviced and Singapore bankers are tapping into that potential.
- Malaysians, especially the wealthiest, have been keeping most of their wealth in Singapore, possibly we think due to fear of corruption draining their wealth.
- Offshore mostly, because of the shortage of experience and talent here within the wealth management sector.
- The offshore Wealth management hub such as Singapore will take more important role to provide more diversified products and also avoid certain regulations.
- Singapore offers far more products, such as Structured Products and extensive Life Insurance solutions. ■