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Malaysian Wealth Management

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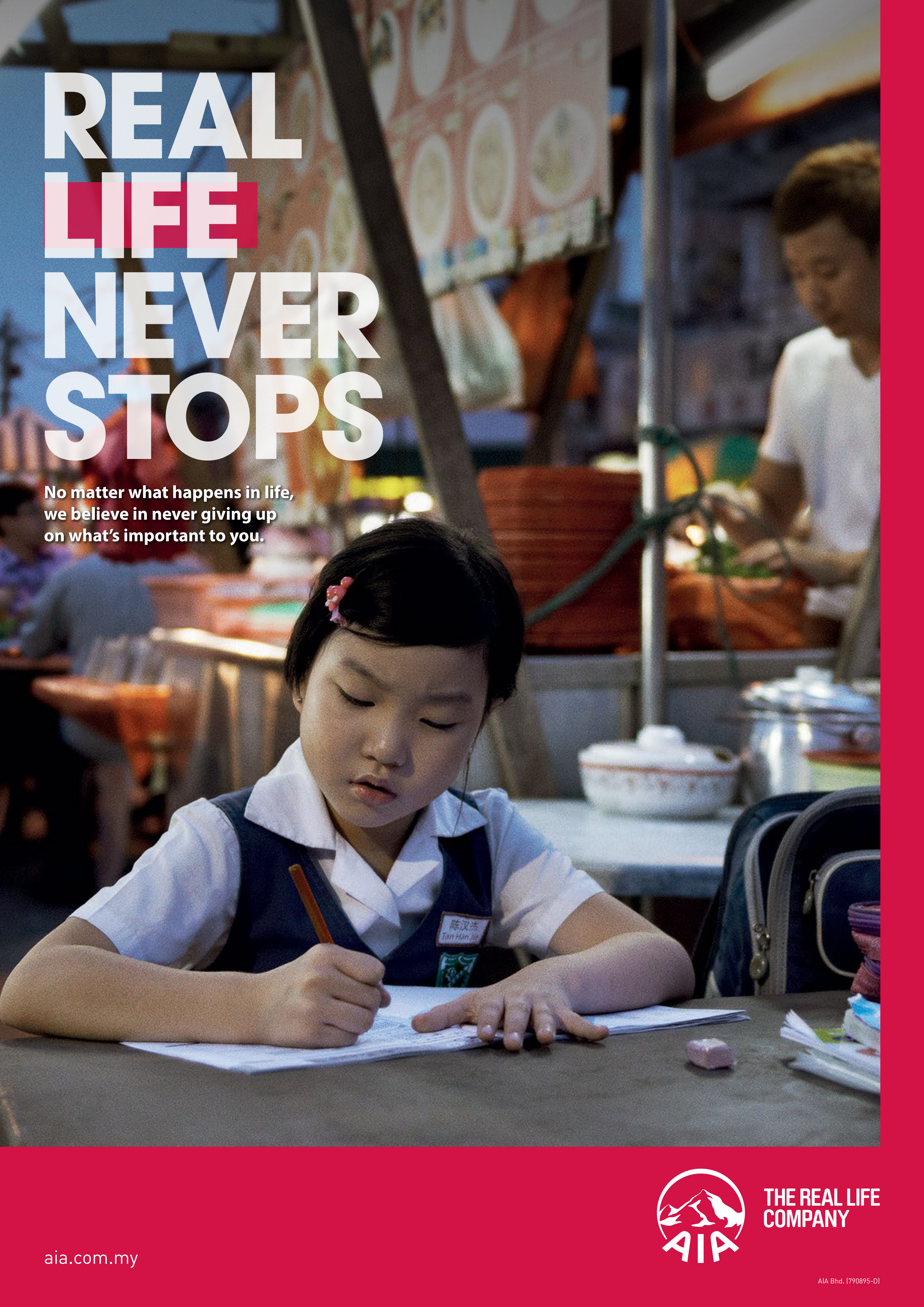
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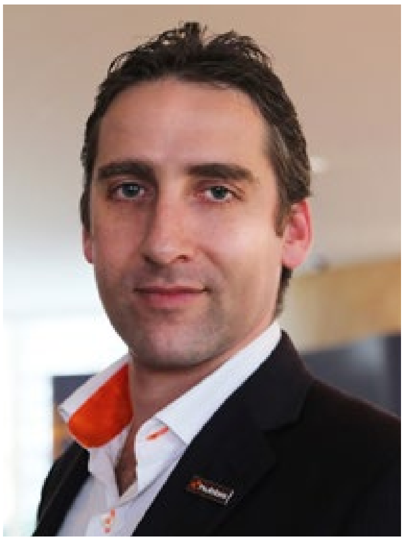


Foreword

This is the 2nd edition of our annual overview and outlook for the wealth management industry in Malaysia.

It is a segment within the country's financial markets which has a huge opportunity to expand to meet the needs of the rapidly-growing mass affluent, HNW and ultra-wealthy populations.

However, industry stakeholders, including Malaysia's financial regulators, still have much groundwork to lay in order to make the most of this potential.

Collectively, they have a role to play in ensuring that the quality of advice improves, and that the sector overall can meet the increasingly sophisticated needs of clients.

For example, there continues to be a need for consistent standards of professionalism within the local industry, as well as more expertise in terms of advising clients on portfolio diversification and asset allocation, and on wealth preservation, succession planning and wealth transfer.

There is also much to be done in the fund management industry, as evidenced by recent moves to liberalise the market, particularly as ASEAN funds passporting levels the playing field for regional players.

The content in this publication covers these issues and more.

It looks across the various segments and players within Malaysian wealth management, covering domestic and overseas firms alike, to assess where the market is at today, the opportunities and challenges it faces, and where it needs to go to take it to the next level.

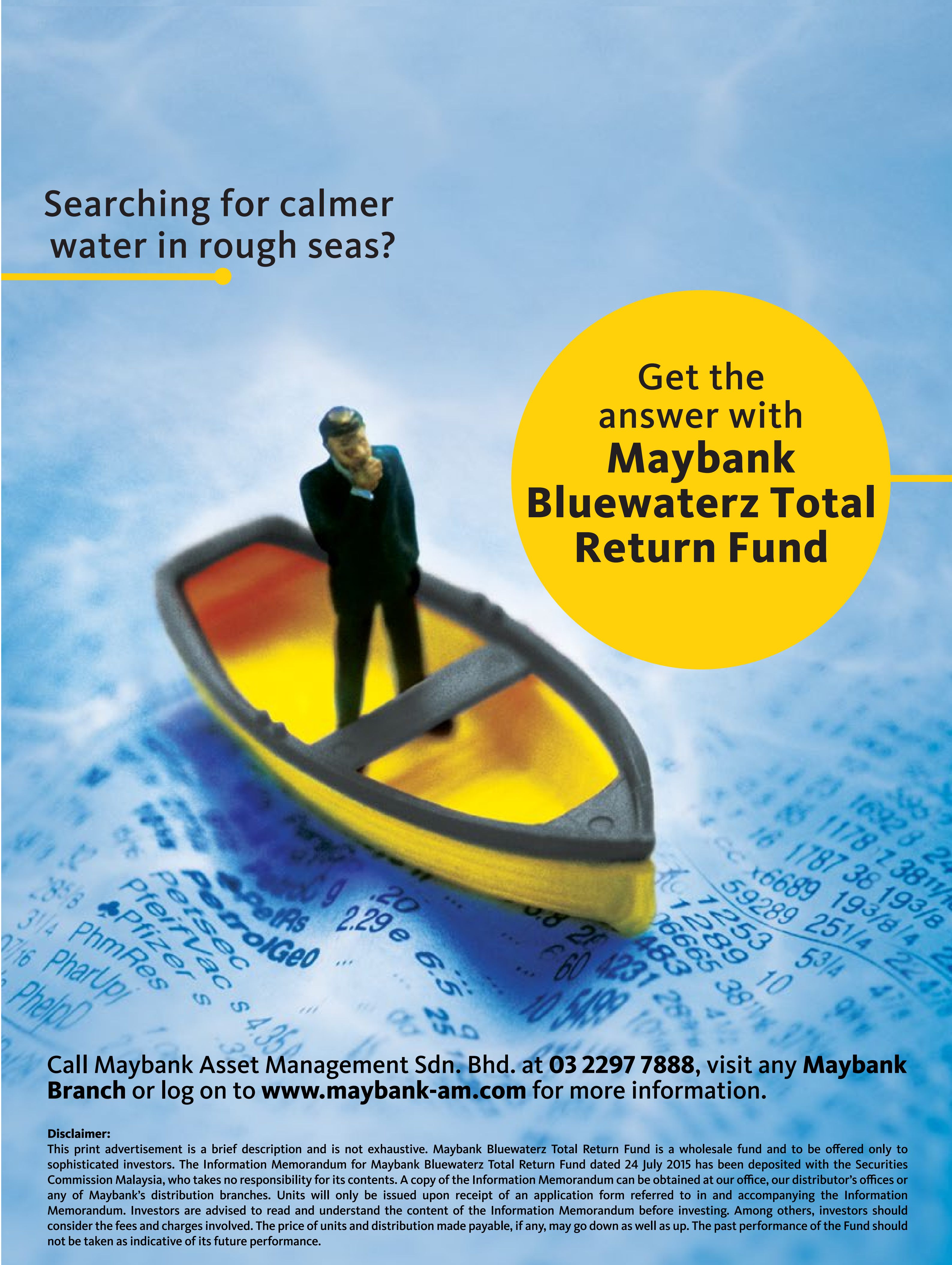
I hope you enjoy reading these insights and derive value from them.

ANDREW CROOKE
EDITORIAL AND CONTENT DIRECTOR
HUBBIS

CONTENTS

Feature Articles

Firm Profile



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Maybank Asset Management

CONTENTS









Expert Insights

Directory

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THOMSON REUTERS™

USD31 bn

The amount of assets which Private Retirement schemes are expected to reach by 2020
Page 8

41

The number of approved fund managers offering wholesale funds locally, according to Malaysia's Securities Commission
Page 11

1.6 million

The number of employees in Malaysia covered under AIA's group insurance plans
Page 12

30

The minimum age a financial planner should be before they give any advice
Page 35

45%

The percentage of Malaysians who own Sharia funds, according to Franklin Templeton's Global Investor Sentiment Survey in 2014
Page 40

USD13 bn

The total AUM of the 187 Sharia compliant-based funds in Malaysia as at the end of 2014, according to the Securities Commission
Page 42

Content colour coding - for articles in this publication

REGULATION & COMPLIANCE	SKILLS
INVESTMENTS	STRATEGY & BUSINESS
FAMILY WEALTH	TECHNOLOGY

The keys to unlocking Malaysia's wealth management opportunity

Conditions remain ripe for the growth of the country's wealth management industry, but there is still more to be done to enhance product options and advisory models.

The growth of personal assets and a rising mass-affluent population mean all stakeholders in Malaysia's wealth management industry will need to up their games.

There has been substantial progress over the past few years, but the industry is demanding more measures to enable it to compete with regional rivals.

For Carolyn Leng, head of private banking, Malaysia at CIMB, recent regulatory moves to liberalise the country's asset management market should enable wealth managers to better meet clients' needs.

One measure introduced by the Securities Commission allows boutique fund managers, or those with AUM of up to MYR750 million (USD198 million) to establish businesses in Malaysia with paid up capital of MYR500,000 versus the MYR2 million required for a fully-fledged fund manager licence.

"Rather than funds and assets going out the regulator wants to bring in bring in global or regional products."

RAKESH KAUL
Citi

"Regulatory moves to liberalise the country's asset management market should enable wealth managers to better meeet their client's needs."

"This will give a tremendous uplift that we very much needed," says Leng.

"Over the years we have been losing out to peers across the border from a

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"Over the years we have been losing out to peers across the border from a solutions standpoint."

CAROLYN LENG
CIMB Private Banking

solutions standpoint. If you are just a wealth manager in the preferred [banking] segment this is not so much of an issue, but if you are in a private bank you have to provide solutions.

"We have to search for global products to fulfil asset allocation needs."

"The ASEAN funds passport could also enhance competition in the industry and bring the best wealth management opportunities to clients."

Rakesh Kaul, Malaysia country head for retail banking, mortgages and wealth management at Citi, was equally impressed by regulatory developments.

He notes there has been continuous engagement between Malaysian authorities and wealth managers to explore new investment options that might be introduced to the country.

Expanding the range of investment options could boost Malaysia's wealth management industry by encouraging HNW and UHNW individuals to keep their money in the country rather than move it offshore.

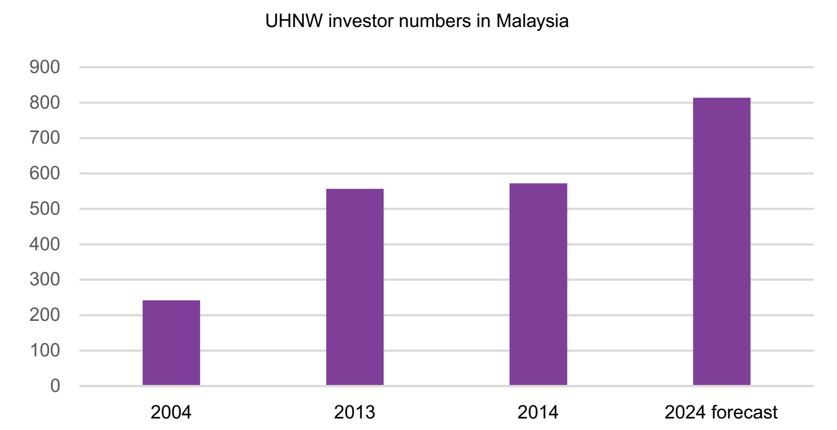
"We have stiff competition from Singapore," says Kaul. "Rather than funds and assets going out [the regulator] wants to bring in bring in global or regional products so clients can get access here to products for which they now have to go overseas."

The ASEAN funds passport could also enhance competition in the industry as successful regional players entered the country, Kaul adds. "Very clearly Malaysia has a fantastic opportunity to leverage these changes and bring the best wealth management opportunities to clients."

The industry would not thrive merely on new products, however, as it still struggled with a lack of acceptance of wealth management as a concept among the Malaysian population, believes Pramod Venturi, Standard Chartered Bank's managing director and country head for wealth management.

"The challenge most institutions face is the penetration of wealth manage-

MALAYSIA'S GROWING WEALTH



Source: Knight Frank Wealth Report 2015

ment solutions within their customer base ranges from [just] 15% to 30%," he says.

"Concepts like regular savings are not big in the market at this stage, [but we still think] they represent a huge opportunity for banks like us."

Wealth managers themselves also have a responsibility to lead growth of the industry, which would include a shift towards moving to an advice - rather than transaction-based model, argues KJ Raju, founder and group chief executive officer of financial planners the Blueprint Group of Companies.

"The key drivers for us as practitioners will be thought leadership, to simplify financial products and effectively use social media and technology," he says.

"The advisory model should take shape quickly and be seen as a profession in itself. This will differentiate the successful practitioners in the wealth management space."

Good, and broader advice would become increasingly important as Malaysian families became more international, according to Leng.

"When talking about advisory services you have to progressively move beyond just saying what you can provide from an onshore perspective, encompassing how you factor family assets into a trust or pass on the legacy," she said. "You have to evolve and growth with your families and your clients to succeed in the wealth management business."

The mass-affluent segment was one area of business worth pursuing, notes Dato' Javern Lim, founder and group managing director at VKA Wealth Planners, particularly with government initiatives to make Malaysia a high-income nation. "The latest survey by Datamonitor shows the mass affluent population has grown 16% since 2013. [It now] represents an additional 85,000 Malaysians, and this is a ready market for us," he says.

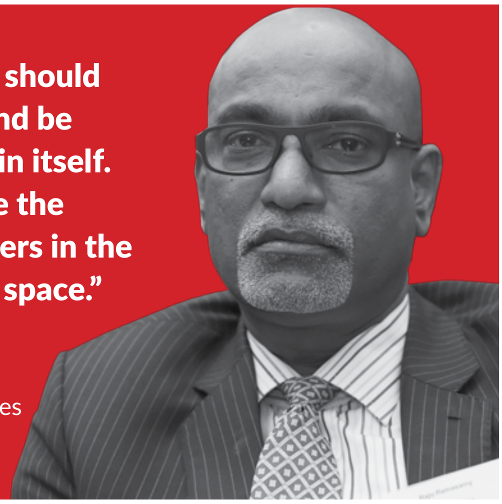
"Concepts like regular savings are not big in the market at this stage, but we still think they represent a huge opportunity for banks like us."

PRAMOD VETURI
Standard Chartered Bank

"It is vital to not only change the basis on which clients' investments are discussed, but also how RMs are compensated for discussing them."

"The advisory model should take shape quickly and be seen as a profession in itself. This will differentiate the successful practitioners in the wealth management space."

K R RAJU
Blueprint Group of Companies



> **"The mass affluent population now represents about 85,000 Malaysians and this is a ready market for us."**
>
> **DATO' JAVERN LIM**
> VKA Wealth Planners

Linking this with the earlier discussed idea of Malaysian wealth management moving to an advisory model, Veturi notes it was relatively easier to advise those with substantial sums to invest, but less so for lower tiers of wealth.

"The reason real estate happens to be the main choice of investment is because they know more about it than other asset classes," he says.

"This is where the notion of building advisory capability that can reach out to different segment of the client base and educate them on the choice of asset clas-ses comes in]. It is probably the biggest gap in the market today."

Education needed to be streamlined and simplified for mass affluent segment to be a scalable business, he adds.

Raju agrees, noting that developments such as the Employee Provident Fund and Private Retirement schemes, with the latter expected to reach USD31 billion by 2020.

Whatever the tier of wealth in question, it is vital to not only change the basis on which clients' investments are discussed, but also how relationship managers (RMs) are compensated for discussing them, believes Leng.

"To provide advice you have to take an impartial position and this means not being compensated based on commission," she says.

"The Malaysian wealth management scene is not ready for fees, so the best way is to manage RMs and make sure compensation is in line with compliance and the way in which they articulate investment advice to the client."

Kaul notes that Citi has already taken this approach, moving to a model whereby sales incentives only count towards 50% of an RM's compensation, and cited another institution that has moved to 100% "client experience-based" commission.

Returning to the theme of segmented advice, Martin Krahenbuhl, chief executive officer of customer communications technology provider Assentis, notes that new wealth in Malaysia meant institutions had a relatively open space within which to apply new business models.

"It is perhaps more simple to operate here in Malaysia than in Europe as you do not have so many old, traditional families," he says.

"Segmentation is more important than it used to be, and ways of communication are also different," he explains.

"With old families you have to have personal contact in all cases. They often refuse to go digital. What I see here is that people are much more into this concept and accept more digital developments," he adds. ■

> **"It is perhaps more simple to operate here in Malaysia than in Europe as you do not have so many old, traditional families."**
>
> **MARTIN KRAHENBUHL**
> Assentis

The importance of putting Malaysia's investor needs first

The country's asset managers often focus on profit over client investment needs. However, competition is building, and companies that genuinely prioritise their customers are likely to perform the best, says Teng Chee Wai of Affin Hwang Asset Management.

The business model of many Malaysian asset management companies is not the most progressive in the world.

Many prioritise selling trendy, high risk and high return funds to their clients for big fees, and frequently churn these assets into newly-created funds for another sizeable commission.

As a business strategy it undeniably leads to good profits. But the ethics of this approach are frowned upon by Teng Chee Wai, managing director of Affin Hwang Asset Management.

His firm believes in offering a genuinely open architecture, giving investors the option to buy into whichever fund they wish.

"We believe the focus should be on the client. We're trying to open up the platforms and allow distributors to sell products that fit the client's needs more closely," he explains.

The asset-churning strategy of many of Affin Hwang's rivals are often lucrative – many earn upfront fees of between 2% and 6% each time they sell or churn a client's assets. But the process is rarely in the long-term interest of the client.

PRIORITISING THE CLIENT

Teng says his firm tries to dissuade advisers from pursuing such actions. Instead, Affin Hwang's ultimate goal is to ensure the client gets the best products at the best prices and enjoys the best risk-adjusted returns.

The key here is risk. Clients might enjoy gaining annual fund returns that can often reach 10% of more, but such investments tend to be into high growth emerging market stocks and bonds.

However, such investments are infamously volatile, and the danger is that they unexpectedly fall, causing losses that outweigh appealing short -term gains.

TENG CHEE WAI
Affin Hwang Asset Management

Teng says local clients need to become better educated to understand these market nuances, and his company is keen to help inform them.

"We want to go out there and educate the public," he says. "We want to explain to them that churning portfolios is a bad idea and that long term investments deliver the real returns."

He believes educating clients about diversifying assets into different geographies and currencies and about the benefits of holding on to investments over a longer period will help them and the industry as a whole.

Shuffling investments into the latest high-return product or the latest fad is unlikely to deliver the best long-term returns, especially when the cost of doing so is so high.

Teng believes the expense customers have to pay to have their assets invested could prove to be a crucial factor.

"Investors are getting smarter and more educated about the fees they pay. I think that is what will change the industry," he says.

Across the world, professionals are debating about the use of discretionary funds to remedy the commission-driven sales practices that harm customers. Managers are incentivised to deliver high returns because this is the metric that their fees are tied to.

The product hasn't caught on in Malaysia yet, but Affin Hwang is working on wooing clients to try their discretionary offering. Teng believes the product will gain much more traction with clients over the next decade.

ASEAN PROSPECTS

Another longer-term goal of Affin Hwang is to expand the services it offers beyond Malaysia's borders.

The Association of Southeast Asian Nations' (ASEAN) collective investment scheme (CIS) is a big opportunity for funds based out of Singapore, Malaysia and Thailand.

The CIS is a regional funds' passport scheme that allows for cross-border fund distribution. Investors stand to benefit as it grants them access to more funds, while asset managers get the opportunity to cater to a wider audience in other markets.

Teng feels the prospects offered by passporting are interesting. Yet he says Affin Hwang will continue to focus on keeping the promises it has made to its Malaysian clients for the immediate future. "Everyone recognises that the ASEAN region will get closer over time because of the initiatives taken by the regulators to integrate the region. While we aspire to compete in those markets, our priority is Malaysia," he says.

"As an asset management company, we have to be mindful that the sole reason for our existence is to help our clients grow their wealth, regardless of market cycles. If the client's assets are not growing, we have no reason to be in the business."

OVERCOMING CHALLENGES

The gradual opening of Malaysia's asset management industry to CIS funds and the debut of global asset managers in the country also poses local firms with more challenges.

Among them is the need to focus on retaining talent and deliver on both investment promises and match past fund performance.

Teng believes there could also be more consolidation among asset management firms, as companies fail to deliver what they promise or the market requires, and experience an untimely demise.

There are currently 42 approved fund managers offering wholesale funds locally, according to Malaysia's Securities Commission.

"I expect this industry to consolidate. It doesn't make sense to have so many players," explains Teng.

"The ability to retain talent also gets more and more difficult, especially since the players are now taking the Malaysian market more seriously."

He believes companies like his that focus on growing the client's wealth first will be the ones that ultimately prosper.

"As an asset management company, we will have to be mindful that the sole reason for our existence is to help our clients grow their wealth, regardless of market cycles. If the client's assets are not growing, we have no reason to be in the business." ■

Taking AIA to the next level in Malaysia

Fresh from meeting its business and financial goals after buying ING's insurance business in Malaysia, AIA is now focused on its next phase of growth by further raising its game in terms of customer service and segmentation, digitisation and product innovation.

Over one of his final breakfasts in Kuala Lumpur before jetting to Hong Kong to assume a new regional role, Bill Lisle said at the time that he sees a bright future for AIA in Malaysia.

His optimism for the firm's growth trajectory is based on a successful past two-and-half years.

Since being brought in at the end of 2012 to lead the complex and large-scale integration of AIA's businesses in Malaysia after it bought ING's local offering for USD1.73 billion, the outcome has been successful, and on target. "We have generated the synergies for our business that we projected at the outset, and we managed it within budget," explains Lisle, the former chief executive officer (CEO) of AIA's business in Malaysia.

At the same time, the firm took the opportunity to transform the business from a product, brand and technology perspective. "The business is now growing quickly," adds Lisle.

For example, for the year ended November 30 2014, AIA saw an overall increase in Malaysia of 34% in value of new business (VONB) – which is an important measure of new business profit for insurance companies.

This made the country the group's second-largest growth market by VONB terms in Asia Pacific.

Key to the firm's success is its multi-product and multi-distribution approach, says Lisle. This manifests itself in the form of a combination of 16,000 life planners, its bancassurance partnerships with Public Bank and Citibank, and its 64% market share in the corporate solutions space, translating to 1.6 million employees covered under AIA's group insurance plans.

BILL LISLE
AIA Group

"Our total client base is over 3 million people," says Lisle," which positions us well for the next phase of our journey."

SUSTAINABLE GROWTH

Adding to AIA's current reach, Lisle foresees a lot of growth potential in Malaysia, in terms of life insurance.

For instance, penetration among the Chinese community is still in the mid-40%, and it is only 13% for ethnic Malays. Added to this, the economy is relatively robust and there is a positive outlook overall.

Making the most of this opportunity, however, depends on getting a few key factors right.

First, says Lisle, is the customer experience. "The insurance industry lags way behind other industries when it comes to service," he explains.

He is confident that his efforts to create fully-digitised sales and distribution mechanisms will play a critical role in putting AIA at the forefront in this area.

That started around two years ago, revolutionising the point-of-sale technology by trading the previously outdated systems for iPads.

The iPads allow AIA's life planners to present each product to the customer via a presentation on the tablet that lasts two to three minutes – therefore preventing any chance of inconsistency in how the message gets delivered. The tablet-based approach has now become a vital tool in the sales process, including product information, multi-media information and client data.

This has made the firm the first insurer in Malaysia to have developed totally paperless point-of-sale transactions for its front-line staff.

"Around 30,000 of the policies we write a month, which represent 94% of the business, are paperless," says Lisle. "The process is much more pleasurable for a customer, as it is a lot more visual."

"Around 30,000 of the policies we write a month, which represents 94% of the business, is paperless. The process is much more pleasurable for a customer, as it is a lot more visual."

He has done the same for AIA's local bancassurance business, and the corporate solutions offering will be at that point by the end of the year.

Around this time, the firm will also have the capability of doing underwriting at point-of-sale, by providing an offer, and even a counter-offer.

The customer is then able to sign and accept, on the spot.

"That results in a policy being issued within 24 hours, and the e-policy being hosted in the portal," he explains.

The second component of taking the AIA business to the next level relates to product.

This must take into account the fact that Malaysia is broadly an investment-linked market from an insurance perspective, highlighted by 11% growth in 2014, outpacing the 5% increase in the traditional life segment.

But the investment-linked policies which get sold tend to be for pure protection purposes, with five or six riders often included. "People in Malaysia use ILPs for health protection, critical illness and other such reasons," confirms Lisle.

Segmentation is an important part of an effective product offering. In this regard, and in providing products which meet the life stages of customers, Lisle sees the biggest opportunities in the mass affluent and HNW segments.

"We see the potential to build some unique and targeted products for Malaysia," he says. "There needs to be this greater focus on product innovation in line with this."

DEVELOPING DISTRIBUTION

Creating a compelling customer engagement and product offering will pave the way for AIA's distribution force to kick into action.

The firm has already made strides over the past 18 months to strengthen its footprint and reach a wider segment, by recruiting more full-time life planners, including younger ones.

In 2014, for example, new recruitment programmes targeted at the under-35 age group contributed to a 29% increase in the number of active new life planners. In this way, Lisle says AIA is able to drive consumer education on life insurance and address customers' under-served life-stage needs.

The need to professionalise agency forces generally ties in with proposals in the concept paper on the Life Insurance and Family Takaful Framework, sent by Bank Negara Malaysia to insurers in late 2013.

Another objective of the central bank is opening up online channels to insurance customers.

Although this makes sense in evolving the industry, it doesn't overcome the issue of some insurance products being more complex than a web-based platform can potentially deal with.

"There might be a level of advice required, depending on a customer's needs and stage of life," adds Lisle.

Where he says he would like to see distribution moving, both in Malaysia and across Asia, is in the direction of multiple firms – IFAs, agencies, banks and online platforms – to ensure customer have a choice.

However, he is adamant that there should always be a role for life planners. "We shouldn't forget that insurance is something which gets sold, not bought," says Lisle, who counts 26 years of experience in the industry. "And the reality is that people are generally under-insured, so we need multiple distribution channels to sell insurance for what I think will be decades to come." ■

Making way for new leadership in Malaysia

With Bill Lisle moving to a regional chief executive role with AIA – overseeing its operations in Malaysia, Korea, Cambodia, India and Sri Lanka – the firm has appointed Anusha Thavarajah as its new in-country CEO.

As an instrumental person in the acquisition and integration of ING, she is well-equipped, in Lisle's words, to take the business forward.

Thavarajah is also the first woman to join the life insurer's rank of CEOs in AIA's six largest markets in the Asia Pacific region.

How wealth managers can retain clients and grow AUM

Improving service and encouraging clients to look at long-term investment will be vital for wealth managers in Malaysia to retain customers and grow their asset bases.

Malaysian investors tend to treat investment products the same way they do individual stocks – as short-term investments to turn a quick profit – and this attitude can make it difficult for wealth managers in the country to retain assets.

To combat this, organisations and advisers need to educate investors about building portfolios to meet long-term needs, and generate a matching mindset among client-facing staff.

For private banks, sucess means engendering client loyalty and delivering investment performance.

"The most important element is that clients want both a core portfolio that is longer term and a smaller, trading-oriented portfolio," says Munirah Khairuddin, chief executive officer of CIMB-Principal Asset Management.

"This can be focused on short-term trends and thematic investment."

"It is not just judging RMs on financial performance but also areas like client satisfaction, regulatory compliance, and being able to give overall advice."

KIN ONN KEE
AmInvestment Bank

She adds that it is often difficult to find relationship managers (RMs) who are able to provide a high level of both client servicing and investment advice, but this could be achieved through a team-based approach.

The development of discretionary investment propositions could help in this regard, believes Steven Seow, head of wealth management, Asia at Mercer, although clients in the region are somewhat resistant to the concept at this stage. "When they make investment decisions with an adviser they want to be very involved in the process. This is why today if you look at the bulk of transactions they are advisory trades or execution only.

"Gradually we are seeing a rise in discretionary in Singapore and Hong Kong.

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*Global Finance rankings, "World's Top 50 Safest Banks," September, 2014

"Clients want both a core portfolio that is longer term and a smaller, trading-oriented portfolio."

MUNIRAH KHAIRUDDIN
CIMB-Principal Asset Management

Many of the private banks have started discretionary portfolio management."

For Marco Kaster, investment director, Asia at rare stamp and coin investment adviser Stanley Gibbons, it is relatively easy to retain clients, as they understood such asset classes were intended for long-term appreciation.

"Most of them invest a very small proportion of their total wealth in non-correlated, non-volatile asset classes with the intention of selling them in 10, maybe 20 years, or some people from the outset put it in their children's names or put it aside for future education or legacy planning," he says.

Better long-term advice required better, more far-sighted advisers, notes Khairuddin, and their development could be encouraged by changes in the way and basis on which commissions and incentives were paid.

"To discourage churning you need to look at the commission structures as well as how you incentivise advisers and salespeople to build longer-term portfolios," she says. "Reward advisers and salespeople on their trail [commission] and they will be incentivised to grow the client's portfolio."

Kin Onn Kee, head of private banking at AmInvestment Bank, agrees, noting that advisers' remuneration should to be looked at from all angles.

"It is not just [judging RMs on] financial performance but also on areas such as client satisfaction, regulatory compliance, and being able to give overall advice," he says.

"This is a trend that will accelerate."

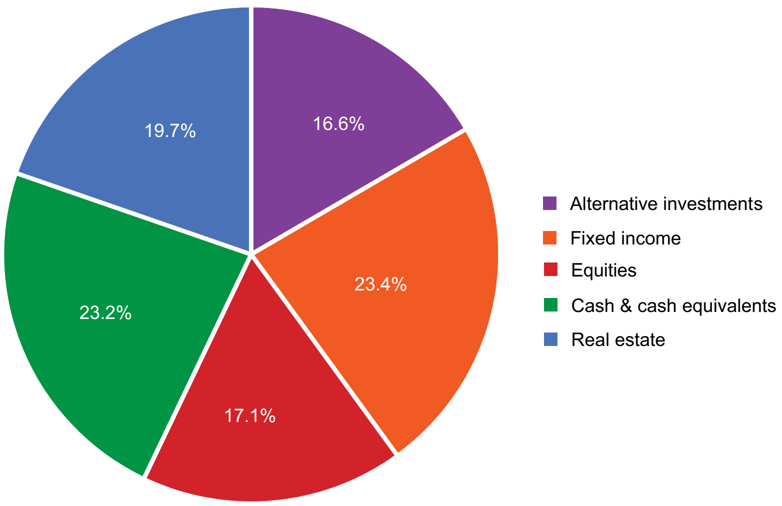
Institutions needed to be similarly outstanding, believes Christian Stauffer, partner at specialist investment firm EFA Group, particularly as they had to compete with other firms chasing the same clients.

"The market in the whole of South-east Asia is over-banked," he explains.

"Although there is still sizeable growth in wealth there are just too many banks and bankers chasing the same dollar."

Khairuddin believes it was not just the responsibility of individual firms to alter the way in which they remunerate staff in order to encourage long-term investment, as her bank and others in Malaysia have done already. She argues it is

BREAKDOWN OF FINANCIAL ASSETS - MALAYSIA



Source: Capgemini, RBC Wealth Management, Scorpio Partnerships Global HNW Insights Surveys (as of Q1 2014)

also up to the industry as a whole. "We need a stronger industry voice and FIMM (Federation of Investment Managers Malaysia) is looking to become that," she explains.

"We need the whole industry to make this meaningful. It cannot be just a few players doing it because there will be others taking advantage of behaviour like churning."

The growth of a cohort of qualified financial planners in Malaysia would also help, she adds.

"Sooner rather than later someone will have to come up and say we cannot pay 4% on your pension anymore."

CHRISTIAN STAUFFER
EFA Group

Returning to the idea of a core-satellite approach to investment, Kee suggests it is incumbent upon the industry to accept that investors, however knowledgeable, could have an emotional approach to their portfolios. "Having a knowledge of equities, fixed income, currency and alternatives does not mean you are a good investor."

"You can have an emotionally-driven portfolio but the bigger part, or core portfolio, should be driven by fundamentals. We keep reminding clients and RMs to emphasise this," he adds.

LATENT DEMAND

The need for long-term investment is also exacerbated by Malaysia's low income replacement ratio, according to Khairuddin, which is currently only 30% versus the World Bank's recommendation of 70%.

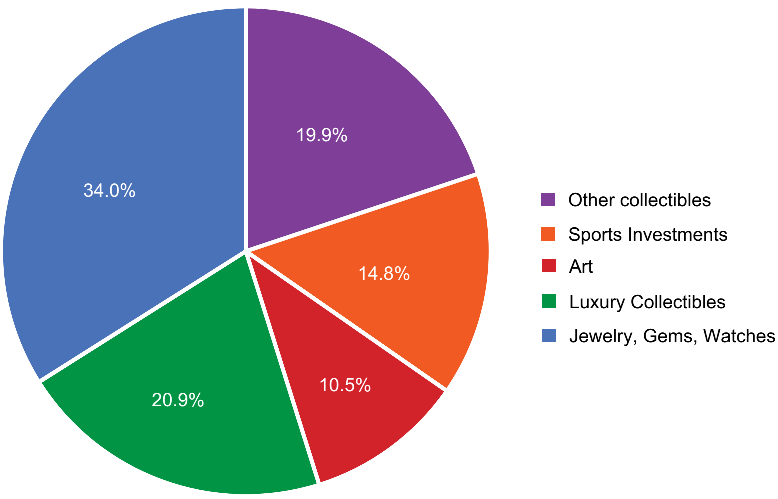
"The only way to encourage this is through the whole [financial services] ecosystem, from the regulators to distributors, employers, people like us, and to the media," she says.

"Today the average income after retirement is MYR850, which is far from where it needs to be."

Stauffer notes, however, that insufficient retirement income is far from just a local problem, and will only become more severe.

"It is incumbent upon the industry to accept that investors, however knowledgeable, could have an emotional approach to their portfolios."

BREAKDOWN OF MALAYSIAN HNW INVESTOR PASSION INVESTMENTS



Source: Capgemini, RBC Wealth Management, Scorpio Partnerships Global HNW Insights Surveys (as of Q1 2014)

"We have had zero interest rates for the last six or seven years," he says. "Sooner or rather than later someone will have to come up and say we cannot pay 4% on your pension anymore."

Social engagement could prove invaluable in promoting the required long-term mind-set in Asia, notes Kee, as new trends such as robo-advisory will for the moment only represent a small part of the market.

"People will normally want to speak to an RM or with a group that shares the same interests, by engaging with a bank or their friends to direct their investment," he says.

At the highest levels of wealth, notes Seow, individuals and families have been adopting more of an institutional approach to investment.

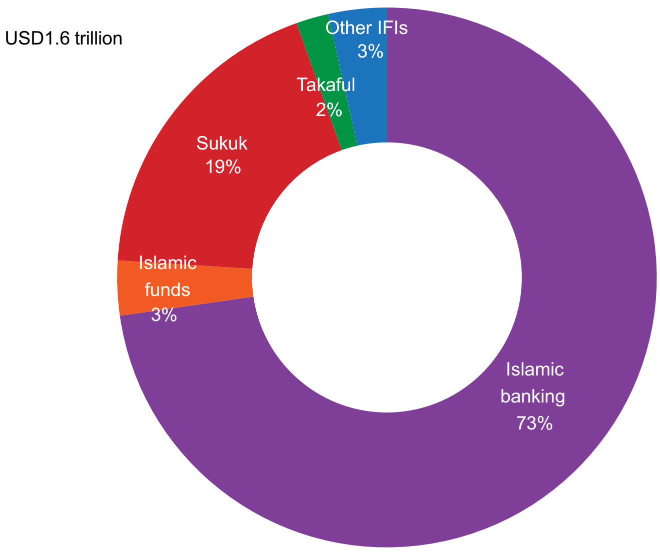
"They will set up model portfolios, establish their risk appetite, create volatility bands and establish an investment committee," he says.

"This is a trend we are seeing in South-east Asia, particularly with intergenerational wealth transfer."

"When South-east Asian clients make investment decisions with an adviser they want to be very involved in the process."

STEVEN SEOW
Mercer

ISLAMIC FINANCE BREAKDOWN BY SECTOR 2014



Source: Thomson Reuters

"Most of our clients invest a very small proportion of their total wealth in non-correlated, non-volatile asset classes."

MARCO KASTER
Stanley Gibbons

Know your customer was increasingly vital in this context, and had to be a continuous process rather than a one-off, Seow concludes.

"From a regulatory perspective giving the wrong advice is a big risk," he says.

"Clients want high returns and low risk but we have to tell them that there are trade-offs. [We need to ask], are they really true to what they said earlier?" ■

Malaysians need to save more for fulfilling retirement

Most of the workforce in the country are not saving enough to support a comfortable retirement. Boon Choy Wong of Manulife Asset Management Services believes there should be a push to educate more Malaysians about retirement planning.

The majority of Malaysia's workforce is not saving enough to enjoy a comfortable retirement, and asset management companies and regulators should work together on greater education efforts to reverse this trend, believes Boon Choy Wong, chief executive officer (CEO) of Manulife Asset Management Services in Malaysia.

The Malaysian government encourages citizens to save through the Employees Provident Fund (EPF) and the Private Retirement Scheme (PRS). Among the risks and concerns related to retirement, over 50% of investors in Malaysia indicated that the healthcare expenses will become unaffordable when they retire. Nearly 40% worry that they will not be able to maintain their current living standard during retirement, according to the Manulife Investor Sentiment Index survey, conducted in Q2 2014.

Wong blames a lack of sufficient understanding about the need for retirement savings, and says Manulife is doing its bit to get investors to understand why they should invest more. "We're trying to educate people about the need to retire and to save for the long term."

He believes the best way asset management companies can educate retail customers is to understand their ultimate investment objectives. Manulife is training its salespeople to ask questions along these lines.

"We are educating our investors by asking them 'Why do you invest?'" explains Wong.

"Most people don't invest purely because they want returns. They have an end goal in mind. So we train our advisers to ask the right questions, such as 'why is it so important for you to invest in unit trusts instead of insurance? What is it for? What is it about unit trust that's so important to you?' Most of the time the answers will be 'I want to save for my retirement,' or 'I want to save more money for my children's education.' These are the two most common objectives."

BOON CHOY WONG
Manulife Asset Management

By forcing customers to consider why they are putting money aside, the advisers can better work out what products fit their needs, says Wong.

UNIT TRUST TRACTION

Compounding interest is a powerful tool when it comes to retirement planning, but most young Malaysians don't realise this until it is too late.

"With the benefit of hindsight, many of today's retirees would have done things differently before they retired, to improve their standard of living in retirement. This regret is greatest in Malaysia – where over half (53%) of retirees admit they should have started saving earlier," says an HSBC report.

While retirement is not a pressing issue – 60% of Malaysia's population are expected to remain working age over the coming 40 years, according to Manulife Asset Management – its people need to save more to avoid experiencing such disappointment.

If the government and asset management companies can persuade Malaysia's citizens of the importance of saving for retirement, they should put aside more. EPF members are allowed to invest into unit trusts, so these funds could benefit.

They are already growing fast. As of December 31, 2014, Malaysia's private sector equity and bond unit trusts had MYR113.35 billion (USD30.94 billion) in assets according to Lipper, a mutual fund data analytics company.

Companies like Manulife stand to benefit from such growth. It ranks sixth in terms of market share in the private sector equity unit trust market, with a net asset value of MYR2.29 billion at the end of 2014, according to Lipper.

Wong says its Flexi Series of funds remain popular, with AUM having closed in on MYR1 billion by the end of last year. The Manulife Investment Asia-Pacific REIT Fund is also a good market performer, and had risen 16.3% year-on-year as of July 30, according to data from Bloomberg.

While Malaysian funds remain the most popular, there is interest in offshore funds – particularly with Europe equity funds, following the European Central Bank's decision to embark on quantitative easing (QE) efforts in February.

"Most people don't invest purely because they want returns. They have an end goal in mind. So we train our advisers to ask the right questions, such as 'why is it so important for you to invest in unit trusts instead of insurance? What is it for? What is it about unit trust that's so important to you?'"

"Ultimately investors are only interested in the performance [of the funds]," says Wong. "I am not surprised when competitors look at Europe because people feel that it is good time to go in from a long-term view.

"They wonder if it will be like the US, where the market starts to recover after QE is over."

CONSEQUENCES OF CHOICE

Rising unit trust assets plus a rising interest in assets outside of Malaysia suggests that retail customers are slowly building their familiarity with investing.

But it's not all good news for Malaysia's asset management companies.

Compliance costs continue to grow, as asset management companies have to consider international regulations such as the Foreign Account Tax Compliance Act and Know Your Customer.

Meanwhile the margins on unit trusts are flat or shrinking.

Wong, who used to be the CEO of MAAKL Mutual before its acquisition by Manulife in January 2014, thinks the combination of rising costs and dropping profits could force consolidation.

"I have been in this industry for the last 24 years," he says. "For that entire time we have tried to manage while charging management fees of 1.5%. If you factor in inflation, 20 years later we are still charging the same rate on most funds.

"The costs are rising, but the fees are stagnant. So the only way to do business is to increase your volume.

"If you have no size it is difficult to compete in this business." ■

How fund managers can serve increasingly demanding investors

Fund managers should focus their attention on generating yield with minimal risk and on creating a better investment experience for clients to thrive in an increasingly competitive environment.

"There is a real battle for yield and there will come a time when the client will not get what they ask for."

GERALD AMBROSE
Aberdeen Islamic Asset Management

Although investors are becoming more demanding, fund managers should not focus on what clients want now if it is at the expense of what they might eventually need.

Gerald Ambrose, chief executive of Aberdeen Islamic Asset Management, says investors' increasingly specific objectives could entrap those fund managers who promise too much.

"There is growth in the solutions business, but this is just another word for using multiple assets and changing their mix according to the risk appetite of the client," he explains.

There are 88 licenced fund managers in Malaysia, he adds.

"Some of them might be quite keen to develop business, so if a client says they want 20% return for the next 20 years the one that is desperate will say 'yes, no problem'."

"There is a real battle for yield and there will come a time when the client will not get what they ask for," he says.

Christopher Geh, regional head of sales and marketing for Maybank Asset Management, agrees that clients were becoming more demanding, particularly given the current low-interest rate environment, and the hunt for yield above all else could be problematic. "Despite knowing the types of risk they have to take on to the kind of yield they want, they pursue it anyway."

"We are focusing on enhancing yield without taking too much risk," he adds.

"We are also looking at ETFs and trying to build a business around the core asset

"You should focus on service culture and if you want to learn about it go to Tokyo, Bangkok or Singapore."

SHAN SAEED
IQI Group

classes, but at the same time look at new ones that clients want."

Clients increasing demands were not just limited to performance, notes Simon Cornwell, co-founder and global sales and marketing director of Vermillion Software.

"They want not only paper but are looking for information to be delivered in PDF, in Excel, and for all different types of data," he says.

"We help organisations automate that process to mass-produce reports and data and help deliver that directly to the client, with personalised branding."

For Shan Saeed, IQI Group's chief economist and investment strategist, there is a danger of Malaysian institutions focusing too much on gaining market share, rather than providing high-quality services and capturing the loyalty, or mind-share, of customers. They could learn from large global players, he notes.

"Since 1991, when BCCI collapsed, banks like Citibank and ABN AMRO have progressed because they focused on giving service. In Malaysia this is a huge topic," he explains.

"You should focus on service culture and if you want to learn about it go to Tokyo, Bangkok or Singapore. The service culture I have seen there is out of this world. It needs a lot of improvement in Malaysia."

Increasing compliance requirements were another major factor affecting the fund management industry, according to Ambrose, and was another area in which the top players could stand out.

"I seem to spend less of my time, as do a lot of my staff, on fund management, and an increasing amount of time on [compliance]," he says.

"Margins are getting narrower and clients will have to learn the hard way that paying a slightly higher fee for a fund manager that has met its regulatory and supervisory requirement is better than paying a lower fee for one that breaks the rules."

Returning to his theme of core asset classes, Geh notes that these typically had fewer compliance issues than more exotic investments.

In response to a question from the audience at Hubbis' annual Malaysian event in June 2015, about how fund distribution in Malaysia might develop, Ambrose pointed out that fund managers could access a variety of media to get their messages heard, but his firm would be sticking to conventional channels. "We have e-marketing campaigns, and have used various Google systems to get to the front of the queue in searches, and we have newspaper advertisements," he says.

"Investors are going with funds that have good track records, strong branding and very simple stories."

CHRISTOPHER GEH
Maybank Asset Management

"Investors want not only paper but are looking for information to be delivered in PDF, in Excel, and for all different types of data."

SIMON CORNWELL
Vermilion Software

"Real estate has become the new global currency, whether that is in Malaysia, Tokyo, Singapore or Spain. People are taking positions in gold and silver and also going down to basics, such as coffee and rice."

"But we stick to the traditional means of distribution, through the banks, and our business development team goes throughout the country training [their] agents to sell our products."

Geh agrees that distribution and information were two separate issues, and that most wealthy Malaysians continue to want to deal face to face with banks, agents and IFAs.

However, he adds: "Clients will have better access to how funds are performing through phone apps. Instead of just listening to your banker asking you to move from one fund to another you will probably see objective commentary about where the market is heading."

Cornwell suggests personalised information will be an essential element of the digitisation of fund management. "By 2020 everything will be online, in an app, but there is only a certain amount that you can do today."

Turning to the issue of which types of fund would find favour in the market, Geh notes that there had been a decline in the number of fund launches in Malaysia over the past 12 months, as investors were becoming wary of new ideas.

"They are going with those [funds] that have good track records, strong branding and very simple stories," he says.

"You will not see anything too thematic.... If there is a gap in the market it is probably in the ETF space."

Saeed has a different view, noting a preference for physical assets, particularly property and commodities.

"Real estate has become the new global currency, whether that is in Malaysia, Tokyo, Singapore or Spain," he says. "People are taking positions in [gold and silver] and also going down to basics, such as coffee and rice."

Returning to the mutual fund business, Ambrose says it could be difficult for independent fund managers to compete with the biggest players in Malaysia, such as Public Mutual, which have dominant market share.

However, he notes that more educated advisers, and a shift away from fee-based remuneration, would be a substantial benefit.

"We and some other fund management companies have been able to distribute our products through IFAs," he explains. "Malaysia is a large country so you would need a large team to distribute unless you use bank branches. A lot of IFAs tend to try to push products with the highest fees, but after a while they will offer a flat fee across all products in order to overcome that problem.

"People need to know the person they are dealing with is truly agnostic as to the origin of funds."

Geh agrees, adding the market holds opportunities as it continues to expand.

"We have many distribution channels so it is hard to quantify what independence means," he explains.

"The banks have a house view and that is brought down through advice to clients; the same thing works to an extent with IFAs. Time will tell how right this advice is." ■

Giving investors options amid uncertainty

A mixture of a declining currency and banking regulations has led to various uncertainties, including a risk-off attitude, among Malaysia's retail investors. Banks would do well to offer new products to take advantage of these, says Evelyn Yeo of OCBC Malaysia.

A combination of high deposit rates and a weak local currency remain key drivers of the behaviour of Malaysian retail investors towards consumption of financial products.

Global and local developments such as lower oil prices, heightened volatility in Chinese equities, and domestic developments that have hogged the headlines, have moved investors to adopt a more risk-off mindset in terms of investments, says Evelyn Yeo, head of wealth management for OCBC Malaysia.

"Given the current environment, until there is more clarity on where the markets are headed, preservation of wealth is a primary objective for many."

Banks remain highly competitive in acquiring deposits, although the second quarter saw a slight rationalisation of rates in comparison with the first quarter of 2015.

"12M FD rates at 4% to 4.2% continue to pose a challenge as even long-dated US dollar bonds with good credit ratings are only yielding around 3.80%."

"Until there is more clarity on where the markets are headed, preservation of wealth is a primary objective for many."

EVELYN YEO
OCBC

So giving customers lower risk investment options (beyond fixed deposits) with a lift in returns remains a challenge.

"But due to the strong US dollar against Malaysian ringgit, some investors are willing to turn to currencies they view as more stable, for example Singapore dollars and Chinese renminbi, at the expense of yield."

In 2014, Bank Negara Malaysia (BNM), the country's central bank, stated that local banks must reach a liquidity coverage ratio (LCR) of 60% by June 1 of this year, to be gradually increased to 100% by January 2019.

The LCR is designed to ensure banks hold enough high-quality liquid assets to withstand a collapse in liquidity over a 30-day period.

The June deadline led banks to raise deposit returns in order to attract them, which in turn led interbank rates to rise.

Three-month Klibor (the Kuala Lumpur Interbank Offered Rate) dropped to around 3.7% as of July 2015, from 3.79%, with deposit rates revised to 4% to 4.2%.

BNM subsequently announced a slight easing of LCR liquidity requirements in February 2015, broadening the definition of applicable funds.

Malaysia's largest banking groups, such as Malayan Banking, Public Bank, RHB Capital, and Alliance Financial Group, have all indicated that they can meet the standards for LCR, according to media reports.

OCBC Malaysia is also set to hit this target, says Yeo.

The bank has over 630 branches in 18 countries and territories, with its key markets being Singapore, Malaysia, Indonesia and Greater China.

It offers retail services in Malaysia through its conventional bank, plus OCBC Al-Amin, its Islamic banking arm.

CURRENCY CONSIDERATIONS

The focus of retail market investors, says Yeo, has been a combination of the strong performance of the US dollar against Asian currencies, lower crude palm oil (CPO) and oil prices, declining export earnings and local political developments. "These have been among the key factors drilling down into the Malaysian ringgit," she explains.

"As a result of the weak fundamentals and expectations of some capital flight, investors now have a more sober outlook and have reverted to a risk-off investment mind set."

"As a result of the weak fundamentals and expectations of some capital flight, investors now have a more sober outlook and have reverted to a risk-off investment mind set," she adds.

In line with this, and coupled with fears of further weakening of the local currency, the past months have witnessed investor preferences shift from equity-linked products such as unit trusts to more conservative foreign currency-denominated instruments such as foreign currency bonds and dual currency investments.

The currency has seen its conversion rate versus the US dollar widen from MYR3.15 in September 2014 to a 12-month high of MYR3.82 on 27 July.

DIGITAL DELIVERY

OCBC Malaysia is also seeking to deliver products to its client base by expanding its online product offering.

For example, the bank recently pioneered the capability to enable Malaysians to open a savings account via the internet, without even requiring them to have a pre-existing banking relationship with OCBC

"Before this launch, in Malaysia, consumers could only open a new savings account if they had an existing relationship with the bank," says Yeo.

While KYC and AML checks are in place, the experience is fairly convenient.

It requires scanned copies of a MyKad (Malaysia's identification card) and any bank or EPF statement or utility bill.

"These customers then have access to online money management tools such as our Money In$ights, which allows our customers to organise, track and manage their savings and spending habits." explains Yeo. ■

Wealth managers 'cleaning house' to embrace opportunity

Like their global peers, Malaysia's wealth managers are under pressure from regulation and thinning margins. Focusing on meeting clients' needs and educating advisers should see them through.

Although wealth managers face difficult questions – such as how to address digital, compliance and adviser education issues – they have a bright future in Malaysia.

Angelo Venardos, chief executive officer of Heritage Trust Group, pinpoints several issues facing the industry. "Depending on your age you may or may not be able to relate to the digitisation of the business model. How you manage your relationship managers (RMs), and how you distribute products leads to efficiencies, possibilities and [an impact on] margins," he says.

"If you stop churning for revenue, and start rebalancing for the sake of the portfolio, you are moving to the next level."

PAUL KHOO
StandardFA

"The other issue is the regulatory tsunami that has already taken place in international centres like Singapore and Hong Kong," he adds.

"In Malaysia the regulator has not been pressured as much by external agents, but there is regulation still to come and that will impact business models."

"Here the regulator has not been pressured as much by external agents [but] there is regulation still to come and that will impact business models in terms of remuneration and transparency of fees," explains Venardos.

For Noor Quek, founder and managing director of NQ International, the biggest

“We will see very strong industry growth because the economies of countries with big populations are growing in many directions.”

NOOR QUEK
NQ International

issue in Malaysia is how new-found wealth would be invested.

“In Malaysia there are a lot of entrepreneurs. Their children are now either working for themselves or taking on the family business. There is a lot of money in the region which does not know where to go,” she says.

Working out how best to serve that wealth, and dealing with issues such as cited by Vernardos, are part of the “house cleaning” that institutions in Malaysia have to undertake over the coming three to five years, she notes.

“There is a lot of housekeeping to be done,” says Quek. “After that we will see very strong growth because the economies of countries with big populations are growing in many directions.”

However, Juerg Steffen, Asia Pacific head for Henley & Partners, believes Malaysia’s wealth management landscape would not change too dramatically as a result of these factors.

“The good advisers are often still with the banks here, whereas in Europe or the US they [have started] their own shops as independent asset managers,” he explains. “Two or three years ago it looked like the same thing would happen here but then [the increase in] started. It is difficult nowadays to comply with all the regulations, particularly for a small firm.”

In Europe, independent asset managers are now either merging to form larger companies where they can centralise compliance functions, or returning to work for larger banks, Steffen adds.

Although it might not change where advisers sat, regulation will have an impact on how wealth management businesses in Malaysia operated, notes Paul Khoo, chief executive officer of Standard FA.

“Regulation is going to evolve. One way to generate or maintain revenue will be churning, especially in Malaysia. Will that model last?” he says.

For Khoo personally, the answer is a clear ‘no’, and institutions will thrive if they start to focus on portfolios rather than profit.

“If you stop churning for revenue, and start rebalancing for the sake of the portfolio, you are moving to the next level,” he adds.

This means it is important to properly segment clients, believes Quek, which in turn makes it incumbent upon wealth management institutions, and their leaders, to train RMs properly.

“You have to invest and work for and with the client,” she says.

“Leaders must work towards client segmentation and train people who serve these different segments accordingly.”

“Banks have to build up long-lasting relationships with clients so the banks are able to make money.”

JUERG STEFFEN
Henley & Partners

The priority, or prestige banking segment in particular is under-served compared to private banking, believes Khoo, but could be equally lucrative.

"There is a big gap between private banks and the next level, which is priority or prestige banking," he explains.

"Servicing just one segment of the market can be lucrative. You need to upgrade to almost a portfolio manager capability ... look to manage portfolios on a longer-term basis, monitoring and testing them and running them efficiently on a risk-return basis."

Steffen agrees that education is vital in this context.

"The banks have to educate their staff about how wealth management works. It is not sophisticated – banks have to build up long-lasting relationships with clients so the banks are able to make money," he says.

RMs have their own roles to play in developing a long-term mind-set, believes Vernardos, who warns against taking a short-term approach to a wealth-management career.

"If you change jobs every 12 months or three years and expect to take your clients with you, you are going to have a very stressful life. It is always going to be about churning," he says.

He notes that most Asian clients have three banking relationships, one with a major Swiss player, one with a local banker, and another in-between. RMs similarly fall into one of three categories, he believes.

"The senior money goes with the people with 'grey hair', the bottom tier has a new RM and in the middle you have a young MBA whose job it is to keep the young RM out and make sure the senior one is doing the right thing on pricing," Vernardos adds.

"If you are going to change jobs every 12 months and expect to take your clients with you, you are going to have a very stressful life."

ANGELO VENARDOS
Heritage Trust Group

"People are given three years to show bottom line in an extremely difficult market with compliance issues, etc. This is not right."

For Quek, RMs could enhance their careers taking on a sense of personal responsibility for client's wealth.

"For someone who has had a business for 20 years [you need to be able to consider] should they sell, should they grow, or enter a joint venture?" she says.

"This is showing the client you are responsible and they will not forget you for being able to bring them to the right person [for advice]."

Despite these positives, she bemoans a lack of such long-term thinking among top management within institutions. "People are given three years to show bottom line in an extremely difficult market with compliance issues, etc., and if they don't they are out. This is not right," she says.

"We need leaders with gumption who can turn around to their bosses and say 'give me five years or kick me out, but I need to clean this house up, get the right people, and put the right compensation model in place."

"Increased AUM does not necessarily give you profit," she adds.

For Khoo, the answer is simply to get back to basics.

"We are in the business of delivering returns and profit to our clients." ■

Funds passporting to broaden Malaysia's investment options

Investors are becoming better informed about investment products, but they lacked local options, until now. The recent ASEAN CIS scheme opens a breadth of new options for investors to put their money offshore, says Lynn Cheah of Eastspring Investments.

Retail investors don't have complicated needs. Most like to place their money into funds that perform as promised and are run by a fund manager who keeps them informed.

"Clients want a fund that gives consistent returns. They're not much in favour of funds that take excessive risk to deliver stellar returns one year and rockbottom returns the next," explains Lynn Cheah, chief executive officer of Eastspring Investments.

But while young Malaysians are becoming increasingly aware of the suggested ways to build investment portfolios and reduce investment risk, they lack access to the products to do so in all instances, due to insufficient onshore product development.

"There are gaps in the product portfolio we have here, and product innovation is difficult because there are only so many instruments we have locally to invest in. Which is why I feel the ASEAN CIS funds passport scheme would be a boon to investors here," says Cheah. "Investors can benefit from regional exposure, lower cost of entry and a natural hedge against the Malaysian ringgit by investing via offshore funds."

Increasingly, sophisticated younger clients are looking to diversify their portfolios into offshore funds to reduce their risk. Funds based in Singapore that are denominated in US dollars or Singapore dollars would provide the sort of hedge Cheah refers to.

OUTFLOWS

HNW individuals are particularly keen to invest outside Malaysia, to maximise their investment flexibility. It is harder for local funds to do so.

"Moving investments across borders is not as easy for funds inside Malaysia, as compared to funds in Singapore or anywhere else," says Cheah. "If you add to that the stability of the currency, their policies and the government, I think it will be difficult for Malaysia to attract that money back to the country." ■

LYNN CHEAH
Eastspring Investments

Financial planning with integrity

Armed with a string of finance-related designations, Flora Wong of Malaysian financial planning firm Flora Wong & Associates strives to protect her clients against poor financial advice in a commission-hungry industry.

Just over a decade ago, Flora Wong found herself drafting wills for clients who were struggling under the weight of poorly-structured investment portfolios. These were generally the outcome of misguided financial advice from young financial planners who had conflicting interests based on commission-led incentives.

Yet a will, no matter how well it was drafted, couldn't solve the problems of her clients.

Wong decided to find a more permanent solution. With the passion that she felt for doing the right thing for her clients, she decided to acquire the technical skills and knowledge to give them the wealth management advice she felt they needed.

To do so, over the next few years, she armed herself with the required qualifications and accreditations.

"To me, financial planning is about understanding my client, to get close to them and build the relationship."

The list is impressive. She became a Chartered Financial Consultant (ChFC), Chartered Life Underwriter (CLU), Registered Financial Planner (RFP), Islamic Financial Planner (IFP) and Licensed Financial Planner in Malaysia.

FLORA WONG
Flora Wong & Associates

Today, she is the principal of Flora Wong & Associates, running a tightly-knit firm that provides financial planning, estate planning, risk management, and will and trust planning services. She considers herself to be an extension of a client's family, knowing each family member and handling all of their assets.

Clients trust her, she explains, because they get rounded advice that is comprehensive and dependable. For this, they're willing to pay a fee, which is relatively rare in Malaysia, as it is in many other parts of Asia.

"To me, financial planning is about understanding my client, to get close to them and build the relationship by knowing their children and grandchildren, and also how I am going to help them," says Wong.

She adds that this approach also enables her to become familiar with her clients in such a way that she can assess and pre-empt many issues and problems that can arise, including needs the client may have but might not be aware of.

AN ALL-ENCOMPASSING WAY OF ADVISING

Wong and her relatively small team mostly handle clients who give her their entire portfolio to manage.

She believes this is the only way to give the right kind of advice.

"First you have to know your client's portfolio," she explains. "Then, you need to understand the family background. Next, you have to decide how you are going to advise [the client]."

After doing her analysis on the various assets these individuals have, Wong often finds they hold investments that aren't very good for them. What she means is that they tend to have been sold the wrong products by other advisers, and for the wrong reasons.

Insurance is high on this list. Fire insurance, for instance, is sold to clients on the value of the property itself even though the cost to re-instate a property damaged by fire is only a fraction of the value, she explains. However, most clients don't know about this; neither do their advisers. But clients still have to pay high premiums for unnecessary products.

When it comes to legal and tax structuring, Wong is practical enough to know she needs the support of third-party professional services firms. To her, it is all about ensuring her clients get the service they deserve.

She is also outcome-focused. "I am very hands-on in my approach and I know it should work," says Wong. "So if something takes longer than usual, I know that the work is not being done, and I will then find a firm which will do a proper job."

MATURITY COUNTS

With her experience in Malaysia's financial services industry, Wong knows how advisers are recruited and trained. And in her opinion, many of the practitioners are too young and focused on selling. "They need to sell products because that's how they get their commission, which is what they work for," she explains.

Yet a good financial planner is generally someone who is a bit older and has experience in investing their own wealth first, she explains.

"A financial planner should be at least 30 years old and they should have invested their own money before they give any advice," says Wong. "Buying their own insurance or investing their own money is how they will get first-hand experience."

The difference this makes to financial advice is very apparent, she claims. For example, while most financial planners in Malaysia draw up wills for her clients, Wong advises to create a living trust. Not only does a trust make transferring wealth easier; it also avoids the litigation or in-fighting that wealthy families might encounter after the elders pass away. This is why Wong also runs her own trustee company.

> **"A financial planner should be at least 30 years old and they should have invested their own money before they give any advice."**

Her philosophy about what constitutes the right type of advice also influences her hiring process.

"I look for people who have passion and don't just focus on the money," she says.

Wong aims to train a few advisers so they can learn and start their own practices which provide advice in the way she thinks it should be done. ■

Helping Malaysia maintain its lead in Islamic investment

Malaysia's Sharia-compliant funds and sukuk are maturing rapidly. They are becoming an essential portfolio tool, and in everything except their investment principles are increasingly indistinguishable from conventional funds.

The greater understanding of Sharia-compliant investment is a substantial boon for the industry, and is an area in which Malaysian institutions could lead the world, according to Hanifah Hashim, executive director and head of fixed income for Malaysia at Franklin Templeton Investments.

"When I first started managing sukuk business 10 years ago I could not pitch on the basis of performance, but now I can."

HANIFAH HASHIM
Franklin Templeton Investments

The opportunity to invest in Sharia-compliant or conventional products is now available within the private banking arena," she explains.

"In Malaysia the availability [of funds] and the fact that a lot of people representing the financial industry have an understanding [of them] means they can serve investors who are seeking Sharia-compliant investments."

Angela Chin-Sharpe, chief executive officer, country head Malaysia and Brunei for BNP Paribas Investment Partners, reserves special praise for Malaysia's regulators and organisations like MIFC (Malaysia Islamic Finance Centre), which she believes have played essential roles in the development of the country as a centre for Sharia-compliant investment.

"They work very closely together [with institutions] in developing the Islamic capital market and making sure it and the practitioners understand the opportunities," Chin-Sharpe notes. However, she added, the opportunity is as international as it was local.

Malaysia has signed agreements with jurisdictions like Dubai, Hong Kong and Saudi Arabia for the distribution of its Sharia-compliant products, and established networks with international investment houses.

"There is acceptance of these products by Muslim and non-Muslim investors and advisers on both conventional and Sharia-compliant products."

ANGELIA CHIN-SHARPE
BNP Paribas Investment Partners

Hanifah notes the role of the private sector in helping to create a wider variety of product offerings, including sukuk (Sharia-compliant bonds).

"The sukuk market has grown to become a big asset class, and is not just being invested in by typical Islamic investors," she says. The Malaysian Government sukuk was recently added to the Barclays Global Index.

"When I first started managing sukuk business 10 years ago I could not pitch on the basis of performance, but now I can present the performance, [including a] higher return with lower volatility," Hashim adds.

"This is partly technical because of the ample liquidity chasing Islamic assets. [Performance with low volatility] has grown to be a strong value proposition for Islamic wealth management."

Another attraction of sukuk is it tends to offer more protection from volatility than conventional investments.

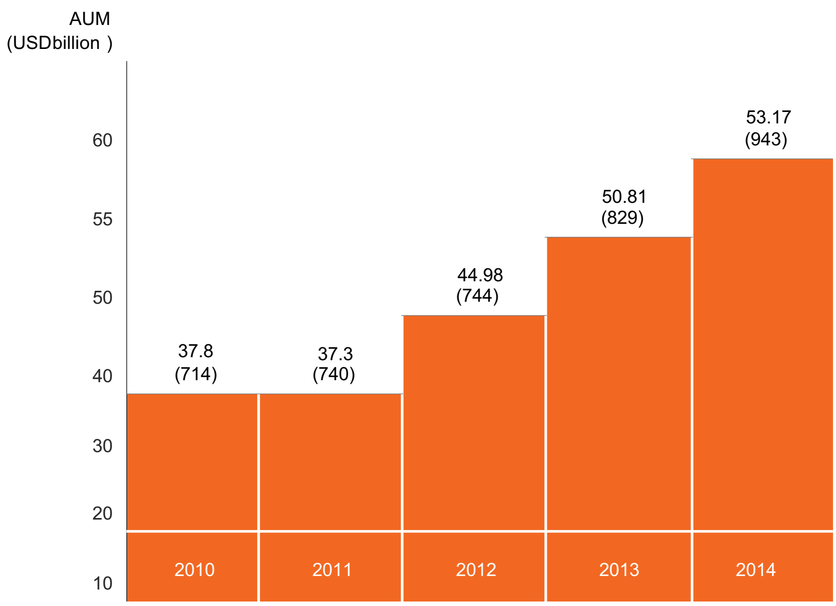
This meant Sharia-compliant products are not just for Muslim investors, notes Chin-Sharpe, adding that demand is typically client-directed rather than adviser-driven.

"Today people are chasing yield," she says. "Sukuk can fit even into a conventional asset allocation. During the GFC there was volatility in emerging and developed market bonds, but sukuk yields were quite sustainable. They could absorb the shock because of the liquidity issue."

The introduction of a Sharia-compliant pension product under Malaysia's EPF (Employees Provident Fund), and new Sharia-compliant issuances throughout the world, should further boost that liquidity, adds Hashim. "Issuer type was quite restricted but now you have the UK, Hong Kong, and Luxembourg and a variety of other issuers so you can achieve diversification [through Islamic investment]," she says.

Despite these encouraging signs, there is further room for the number and variety of issuers to increase, believes Chin-Sharpe. "The sukuk market today does not have enough people in it," she explains. "If corporates start to seek out Sharia compliant investment it will drive issuers to come up with more

GLOBAL ISLAMIC MUTUAL FUNDS OUTSTANDING (2010-2014)



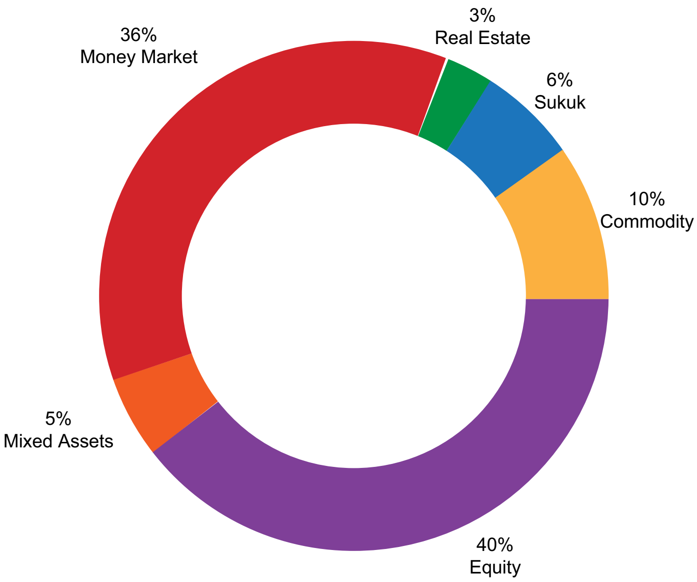
Source: Thomson Reuters

SUPPLY AND DEMAND GAP FOR ISLAMIC AUM

YEARS / USD BILLION	2014	2015	2016
SUPPLY			
Islamic funds	52.20	56.38	60.89
LATENT DEMAND			
Islamic banking deposits	647.81	699.63	755.60
Total available Islamic investment (deposits + funds)	700.01	756.01	816.49
Islamic funds to available Islamic investment ratio	18%	18%	18%
Latent Islamic funds demand	126.00	136.08	146.97
GAP	73.80	79.71	86.08

Source: Thomson Reuters

AUM OF GLOBAL ISLAMIC FUNDS OUTSTANDING BY ASSET CLASS (FYE 2014)



Source: Thomson Reuters

products. We want to see Fortune 500 companies greating sukuk."

Malaysia has the benefit of tax incentives for issuing Islamic funds, notes Hashim, with sukuk less expensive to issue than conventional bonds.

As with conventional investments, adviser education will be a key component of development of the Sharia-compliant investment market, according to Chin-Sharpe. "There is acceptance of these products by Muslim and non-Muslim investors and advisers on both conventional and Sharia-compliant products," she says.

"The products that are entering the market are becoming more sophisticated and there are more advisers coming who need to be educated and kept abreast of market developments, especially in Malaysia today which is opening up to encourage more innovative and alternative products."

She adds that authorities in Malaysia have made big strides across all types of investment. "They have education programmes throughout the country not just for advisers but also for investors. They have even started going into schools and universities to educate younger generations about investment."

From an international perspective, Franklin Templeton has introduced SICAV-bases sukuk, says Hanish, and received interest in these products from investors in a variety of jurisdictions.

"It is very encouraging to see investors subscribe to our funds from non-Muslim jurisdictions. We are seeing countries like Switzerland, France and even South Africa. Interest is increasing, it may be slow but it is there." ■

Hubbis at-a-glance

We focus on the Asian wealth management industry and produce high-quality, localised content that is practical and independent. This includes news, articles, research, reports and conference-related content, and is available in multiple formats including video, web and print. The Hubbis e-learning platform consolidates this wealth of knowledge into an indispensable training and development resource for all professionals.

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Events Presentations Thought leadership	Publications News & videos Online content	Online learning Case studies Assessments

Topics we cover

REGULATION & COMPLIANCE	SKILLS
INVESTMENTS	STRATEGY & BUSINESS
FAMILY WEALTH	TECHNOLOGY

Who it is for

Hubbis offers a unique platform that brings together content, thought-leadership and collaboration - to challenge and provoke conventional thinking, with an aim to innovate and improve the Asian wealth management industry across the following segments: Private Banks, Independent Wealth Management, Retail Banks, Asset Management, Insurance, Technology, Professional Services. Through our events and content channels, we reach senior management, business heads and other key stakeholders from the top international, regional and domestic organisations.

Key highlights

- **120,000** monthly unique website visitors
- Weekly email newsletter to over **34,000** regional & global professionals through our proprietary database
- More than **10** annual publications
- Dozens of thought-leadership discussions and surveys featured
- 80+ proprietary training courses and over 200 hours of live learning content

hubbis

Malaysia funds can target Sharia investing to excel offshore

The country's asset managers should use the ASEAN funds passport scheme to issue Sharia funds, but they face competition from regional fund companies on the conventional side, says Sandeep Singh of Franklin Templeton Investments.

The ability of Malaysian local funds to distribute offshore to Singapore and Thai investors via ASEAN funds passporting could shake up the local mutual fund industry, with local funds boasting an advantage in terms of Islamic finance but also facing mounting competition from aggressive market entrants.

Malaysia is an international leader in Islamic finance, and the country's Sharia, or Islamic law-compliant asset management products stand head-and-shoulders above those of regional asset management companies.

The introduction of the Association of Southeast Asian Nations' Collective Invest Scheme (CIS) – popularly known as the funds passport scheme, offers an effective avenue for these local Islamic funds compete for investor assets elsewhere.

Sandeep Singh, country head for Malaysia at Franklin Templeton Investments, supports the idea. "One area where I think Malaysian fund houses would gain and stand out is on the Islamic side, because of the large expertise available in Malaysia," he says.

Islamic finance refers to the practice of financial management within the boundaries of Islamic law. Malaysia has earned a name for itself as the leading Islamic finance jurisdiction, having actively worked to build this financial industry for over 30 years.

According to a report published by the Malaysia International Islamic Finance Centre (MIFC), the estimated asset size of the global Islamic finance industry was USD2.1 trillion as of end-2014. Malaysia is at the forefront of this activity in terms of innovation, ahead of the United Arab Emirates. Although concrete statistics aren't available, it is believed that Malaysia's share in the global Islamic finance industry is almost 20% of assets.

SANDEEP SINGH
Franklin Templeton Investments

Franklin Templeton's Global Investor Sentiment Survey (GISS) Malaysia in 2014 reported that 45% of Malaysians owned Sharia funds. The country houses the highest number of Islamic funds globally. It possessed 187 unit trust Islamic funds worth a net asset value of MYR47.75 billion (USD12.95 billion), and 69 wholesale funds worth MYR24.13 billion, as of January 2015. About 20 local and foreign companies hold Islamic fund management licences, some of which focus much more on retail products.

Singh believes the asset management industry in Malaysia can draw on the country's reputation and prowess for funds creation using Islamic finance to construct a variety of funds that are Sharia-compliant and attractive to investors overseas.

"Sharia products in Malaysia, whether they are international or local, have a great opportunity to be showcased in both Singapore and in Thailand and any other country which joins the passport."

"Sharia products in Malaysia, whether they are international or local, have a great opportunity to be showcased in both Singapore and in Thailand and any other country which joins the passport," he says.

INTENSIFYING COMPETITION

The advent of passporting offers little direct upside for Franklin Templeton and other foreign fund managers operating in Malaysia.

"The scheme is more beneficial to local names than to foreign ones in the current form, especially because a lot of funds are not eligible to be brought into the country," says Singh. Franklin Templeton has five funds in the country – global fixed income, Asian fixed income, US equity, global equity and global balanced – all of which are feeder funds. It intends to continue offering similar structures for the immediate future. Singh says these funds would largely be focused on a mix of international fixed income and equity assets.

He is relatively optimistic about the demand for such offshore funds, noting a gradual shift in local investor preferences away from local or South-east Asia equity and towards fund portfolios focusing on the US and, most interestingly, on Europe.

"There is a growing acceptance of international products, which I think is down in part to the fallout from the drop of some emerging market currencies," says Singh. "This is especially true of the Malaysian ringgit, as the market links the currency to the oil price drop. It's still early days but I think this could lead investors to look more at funds focused on other regions."

PASSPORTING LIMITATIONS

This rising interest in international products could prove problematic for local fund managers, particularly given the spectre of greater offshore competition presented by passporting.

To compete effectively the local fund managers need to offer funds with regional or international investment themes. For many this is not a core strength.

Most local equity and fixed income fund managers offer domestic equity and fixed income funds, but fewer have top quality regional funds and very few can boast true international ones. While such local products may interest some off-shore investors, they are unlikely to buy them in great amounts because of the single country exposure they provide.

In contrast, countries like Singapore already possess dozens of international funds. In Singh's words, "there is a big choice of international managers already available in Singapore".

More than five funds from Singapore have reportedly been approved for passporting under the CIS scheme. If they can demonstrate strong performance, they are likely to quickly gain favour with Malaysia's yield-hungry retail investors and bank distributors.

This pressure is likely to mount, as the passports scheme is likely to soon extent to countries beyond Singapore, Thailand and Malaysia. Plus Malaysia could join other funds passporting schemes in the region, such as the Asia Regions Fund Passport being created by Singapore, Australia, New Zealand and South Korea. Malaysian fund managers seeking to be winners from this liberalisation had best move quickly.

Islamic finance products might offer them immediate advantage, but in the longer term they will need to demonstrate broader investment capabilities if they are to thrive. ■

AmInvest seeks to build best-of-breed Sharia-compliant funds

The fund management company has created international Sharia-compliant smart beta strategies that invest in multiple countries, says Datin Maznah Mahbob of AmInvest.

AmInvest has a simple value proposition. It intends to become the international standard-setter for Sharia-compliant investments.

The idea stems from the current structure of available Sharia-compliant funds. "Most of the supply of Sharia-compliant funds is very domestically-focused," says Datin Maznah Mahbob, chief executive officer of AmInvest.

"Malaysian fund managers generally offer Malaysian funds, and Middle Eastern fund managers do the same in the Middle East," she explains. "The biggest Sharia-compliant equities fund in the world is American, and yet even this is US equities only."

This domestic focus makes it difficult for fund managers to supply Sharia-compliant investments to global retail distributors and investors. "There are investors who may be interested in Sharia-compliant investments but are used to investing in a diversified risk-adjusted portfolio of investments, and it's currently hard to construct that kind of diversified portfolio using the existing building blocks," says Mahbob.

"We are trying to create those core comprehensive building blocks, leveraging on the same infrastructure and platform which they are used to using in developed markets."

BREAKING NEW GROUND

AmInvest's desire to push the boundaries of Sharia-compliant funds management in Malaysia is a logical strategic step for the company to take.

Malaysia is leading the world in most aspects of the Islamic finance industry.

At the end of 2014 the country had 187 Sharia-compliant-based funds, worth a combined MYR47.75 billion (USD13 billion) in AUM, according to the Securities Commission.

DATIN MAZNAH MAHBOB
AmInvest

AmInvest enjoyed a market share of about 11% of the entire unit trust funds industry in Malaysia (as at the end of March 2015).

The company's AUM was approximately MYR39 billion as of March (comprising conventional and Sharia-compliant AUM), a level that is about 8% higher than a year previously. AmInvest's Sharia-compliant AUM is about MYR6.9 billion in total.

AmInvest has proven to be an important player in the Sharia-compliant funds space. Its core strengths are Sharia-compliant mandates and funds with a niche in active Asian equities and global sukuk, as well as global equities with a smart beta approach. It has also established partnerships with several reputed global fund managers to offer unique Sharia-compliant fund themes.

AmInvest's aim is to offer varied products that can fit into a well-diversified portfolio for every investor. "We really like to put the best-of-breed mandates and funds on our menu," says Mahbob.

The company will initiate its global Sharia-compliant funds strategy by offering "smart beta strategies".

This is an alternative investment approach to add value to investors' equity investments that can deliver better risk-adjusted returns, consistent returns at lower volatility compared to equity indices, whether Sharia-compliant or otherwise, all at a lower cost, according to AmInvest.

"We hope to fill in these gaps by leveraging on our quantitative approach to managing global investments, which has allowed us to manage foreign assets while maintaining our headquarters in Malaysia," says Mahbob.

The fund management company can already point to strong success in the regional Sharia-compliant space.

Its Sharia-compliant AmASEAN Equity fund ranks number one against all its conventional fund peers in the Asean universe. For the 12-month period, (as at March 13, 2015), the fund clocked in returns of 18.42%, said Lipper.

PARTNERSHIP APPROACH

AmInvest has grown its unit trust assets in a healthy manner despite not pursuing the more traditional means of doing so in Malaysia, which involves fund companies employing a small army of sales agents.

Instead, AmInvest sells its funds via third party distributors such as banks and independent financial advisers.

"We have 25 institutional distributors, the most in the country, and we cover most of the market segments in Malaysia through those distributors. This includes international banks, local banks, and independent wealth advisers who are licenced. AmBank, which is under AMMB Holdings, is one of the distributors," says Mahbob.

The use of multiple distributors is designed to dovetail with the company's mass-fund approach. "Some distributors have an average client profile that is more mature, for example over 50 years old. They might well prefer income-focused funds over growth," she says. "Another distributor has younger clients, who may want higher risk investments.

"Then some clients are more entrepreneurial and want to take bigger bets on thematic investment strategies. By having multiple distributors, we can cover all these approaches."

Focusing entirely on a third party distribution model also has the advantage of minimising conflicts of interest when it comes to selling. "We wanted to be the preferred investment solutions provider and fund provider to our distributors in Malaysia," says Mahbob.

"We didn't want to have a competing force of tied sales agents, as it could create conflicts of interest between them and our distributors."

RAISING STANDARDS IN MALAYSIA

Malaysia's fund management companies would be wise to be mindful of conflicts of interest.

Mahbob believes that unit trust sales agents at asset management companies and banks should prioritise the needs of the end-investor over earnings commissions. Another way to improve fund investing behaviour is to enhance investor education.

The level of investment understanding among Malaysia's citizens is quite low.

That makes it easy for poor sales practices to thrive and raises the risk of mis-selling.

Mahbob thinks fund houses should contribute to investor education, and believes they will need to become more innovative to engage younger people in particular.

"In the long term you probably need to adapt strategies from early education upwards," Mahbob explains.

"For example, formats like game shows on television and actively using social media to educate might help. We need to create fun approaches to engage the younger generation because they are the ones who will make the financial decisions of the future." ■

Joining the dots for Malaysian wealth managers

All stakeholders in the country's wealth management industry have a role to play to ensure the quality of advice can improve, and that the overall sector can meet the increasingly sophisticated needs of clients.

One of the ways to assess where Malaysia is at today in terms of wealth management development is to look at how it compares with some of its neighbouring countries.

In exploring, for example, the relative statuses of the industries in Malaysia and Indonesia, Maikel Sajangbati, founder and chief executive officer of consultancy MCI, says there are quite a few similarities in both the challenges and opportunities.

This includes a bank-dominated market for funds, with AUM of about USD500 billion, compared with just USD40 billion in insurance.

"It is difficult to sell mutual fund products if [the fund manager] is trying to set up their own distribution, as this is too expensive," adds Sajangbati.

"The stakeholders in the wealth management profession should blaze a trail to see how the industry has to change in order to serve clients properly."

ROBERT FOO
MyFP Services

"The [Indonesian] industry should benefit from an increased amount of assets coming back to the country, particularly if a proposed tax amnesty comes to fruition."

"Collaborating with a bank is a lot easier, and since insurers and mutual fund firms started [to do this] in the last 13 years revenue has grown very quickly."

He suggests the wealth management industry looks set to benefit from an

“By doing extra research we have a lot of bullets – stories and concepts that we can share with clients. They will really appreciate this.”

MAIKEL SAJANGBATI
MCI

“The ASEAN fund passport is facing a lot of challenges in implementation as the local players are resistant to it.”

increased amount of wealthy individuals’ assets coming back to the country, particularly if a proposed Indonesian tax amnesty comes to fruition.

“If this comes in we expect approximately 30% of the AUM which is right now in Singapore to come back to Indonesia,” he adds.

Focusing on Malaysia, Robert Foo, managing director at MyFP Services, says many of the conversations around wealth management had not changed for several years, and returned to the topic of leadership. “The stakeholders in the wealth management profession should blaze a trail to discover how the industry has to change in order to serve clients properly.”

However, he also believes that regulators need to take a more prominent role in growing the industry and should not just leave this to market partipants. “If regulation is not conducive to allowing the industry leaders to change I do not think they will change,” says Foo. “You have the UK Retail Distribution Review (RDR) and many other countries are pushing for a fee-for-service model.”

On the product front, he says the ASEAN fund passport scheme has been something of a disappointment.

“We were expecting a flood of different investment options coming into Malaysia with all these tools to service our clients, but this is facing a lot of challenges in implementation as the local players [in ASEAN countries] are very resistant to it.”

For David MacDonald, head of learning solutions at Hubbis, change in the industry must also be driven by the players within it developing a new, client-focused mind-set.

“It is unfortunate that the regulator has to step in for us to reassess our behaviour,” he explains.

“We have to think seriously about what we want to be, what the future looks like, how long we want to be in the industry, how strong our relationships are with clients and how we measure that, and how we are led and managed.”

He believes a return to people-led values would help in this regard.

“We have to develop our skills and credibility to have the self-confidence to look anyone in the eye regardless of their relative age, wealth and experience.”

DAVID MACDONALD
Hubbis

"I have met too many managers throughout the world who barely see their people, and who manage by text or whatsapp, and email."

"They have no real clue what their people are good at and only look at outcome and numbers to measure how good their people are," he adds.

Sajangbati believes one way of measuring the value a wealth manager was by the range of advice they are able to provide to clients. This could also create value for a wealth management business via differentiation.

"If you met a client who had consolidated companies or wanted to go public you could add some value by searching how to do this for them," he explains.

"By doing this kind of research we have a lot of bullets – stories and concepts that we can share with clients. They will really appreciate this. It may not be our business but it is part of our value."

"The client expects you to provide them with unbiased, objective, independent advice," adds Foo. "If you are basically saying to clients you have a ready-made option and pass it to them, is that advice or is it just selling?"

Selling is not necessarily a bad thing, however, according to MacDonald, particularly if it is well-executed.

"Work out where you could explore for new opportunities, just don't wait for it to fall into your lap," he advises.

"Referral seeking is the most powerful way to build any business. [Yet] so few people seem to be confident enough to ask for one. We should be proud to get them because they reflect on us."

Advisers also needed to find other ways to build up their confidence in dealing with clients, and not get stuck in an 'adult-child relationship' with those who might be wealthier and more worldly than they were.

"This often makes the relationship manager feel intimidated from the outset," MacDonald explains.

"We have to develop our skills and credibility to have the self-confidence to look anyone in the eye regardless of their relative age, wealth and experience, and know that in a discussion we can add value."

Adding value is key to being able to ask move away from commission based churn to taking fees from clients, believes Foo, something many in the industry were under the impression would never be possible.

"It is a misconception that people are not willing to pay a fee. What's the difference between paying a fee and paying commission? The client still pays," he says.

"As long as how the fee is computed is transparent and agreed between you and the client, it is okay. The problem comes when you are not transparent [about fees and charges]."

All three individuals stress the growing need for advisers to develop their professional expertise.

"We should be absolutely focused on where we want to improve, not just by numeric measures but by improving our skills," says MacDonald. "You need support to make sure you are doing something different and give you feedback on whether it is working or not."

This also means that Malaysian advisers need to develop an international perspective on their client relationships, according to Sajangbati.

"As long as how the fee is computed is transparent and agreed between you and the client, it is ok. The problem comes when you are not transparent."

"Go outside and meet people from different regions and share their experience, knowledge, experience and stories," he says.

"This is what professional development is already about," he adds.

That knowledge would not only add value to a wealth management business, but also to the RMs' own value as they develop their career, believes Foo.

"If you are a wealth manager who sells products and is driven by targets your motivation to acquire knowledge is restricted," he concludes. "Go on courses that add value to what you already know." ■

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.

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

GROWTH POTENTIAL

The population in Malaysia grew from 18 million in 1990 to 30 million in 2014

ROSLINA ABDUL RAHMAN
Amundi Malaysia

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.

"The first question investors on the street want to know is the return they can get. But they don't tend to think about the risk associated with funds that offer such high returns."

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." ■

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Thursday 20th October, Shangri-La Hotel, Jakarta

Forum
SWISS-ASIA Wealth Exchange
Tuesday 25th October, ConventionPoint, Zurich

High-Impact Briefing
DPM
Wednesday 26th October, Hong Kong

Publication
Special Report on Insurance in Asia

Publication
Wealth Management in India

NOVEMBER

Forum
Asian Family Wealth Forum
Thursday 3rd November, Pan Pacific, Singapore

Forum
Digital Wealth - Asia
Thursday 10th November, Four Seasons Hotel, Hong Kong

Forum
Taiwan Wealth Management Forum
Tuesday 22nd November, Le Meridien, Taipei

Forum
China Wealth Management Forum
Thursday 24th November, Grand Hyatt, Shanghai

Publication
SWISS-ASIA Wealth Exchange

Publication
Wealth Planning

DECEMBER

High-Impact Briefing
Real assets
Thursday 1st December, Singapore

High-Impact Briefing
Independent wealth management update
Tuesday 6th December, Hong Kong

High-Impact Briefing
Independent wealth management update
Thursday 8th December, Singapore

Publication
Wealth Management in China