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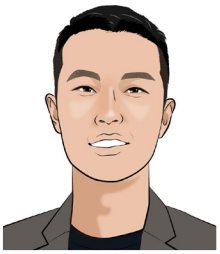
The Drive to Enhance Malaysia's Wealth Management Market and Elevate the Proposition

There is plenty happening in the Malaysian wealth management market, as incumbents and new entrants jostle for position, from new leaders coming to take the reins at some of the bigger name local and global banks and firms, to the arrival of new strategic partnerships, new strategic visions being launched to propel Islamic wealth management, so on and so forth. The Malaysian financial markets are more mature than most of the fellow ASEAN countries aside of course from Singapore, and as HNW and UHNW wealth is relatively older, more of those clients have, for years, and often decades, spread their investments across the border to Singapore, or further afield to Hong Kong or even to London and Switzerland. The Hubbis Digital Dialogue discussion of November 2 analysed how Malaysia's wealth market is evolving to cater to the evolving client base of today and the decades ahead, and how it can compete more effectively with the offshore models that many of the older wealthy in the country have traditionally sought out since the 1990s, when the country's private wealth really started to flourish and boom. Of course, in this day and age and looking ahead, digitisation is also absolutely vital to achieve the key goals for the incumbent players, who are fighting back against some new entrant disruptors seeking to bring a highly sophisticated and user-friendly digital-first wealth management offering to Malaysia's shores, and with some of them already making significant headway. A lively discussion took place on November 2, which we have summarised in this report.

SPEAKERS

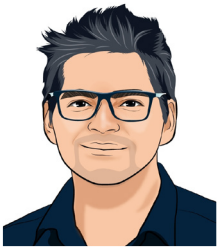
CAROLYN LENG
Maybank



WAI KEN WONG
StashAway

JOVIN SHEN
CREALOGIX

CHAN AI MEI
Affin Hwang Asset Management



LAKSHEY GANGWANI
InvestCloud

PARTNERS

CREALOGIX

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There is certainly plenty of room for Malaysia's market to grow robustly alongside the bigger and better-established offshore financial centres, as long as participants in Malaysia can manage the tighter regulatory demands, boost the array of investment products and solutions, and if they continue to develop the Islamic finance wealth market. At the same time, the incumbent players will need to compete energetically and smartly against new entrants that have been becoming more prominent locally as the regulators continue to gradually liberalise the financial markets.

Boosting the onshore offering

A core challenge for Malaysia has therefore been to boost its onshore proposition and diversify the products and advisory offering in order to draw more of the AUM back onshore, but also to make sure that as much of the newer wealth remains under management in Malaysia, and that the growing ranks of younger wealthy inheriting so much of the founder/first-generation, even second-generation wealth are also properly serviced onshore. And of course, the region-wide drive to digitisation to cater to the newer demographics and the remote working environment is vitally important to the wealth market's development.

Malaysia also has a significant percentage of Muslims in its population, and the drive towards Islamic wealth management is an increasingly important element of the overall model on offer in Malaysia; hence we are seeing some interesting developments there, for example giant Maybank's comprehensive Islamic Wealth Management plan for the future, released this year.

Expert Opinion

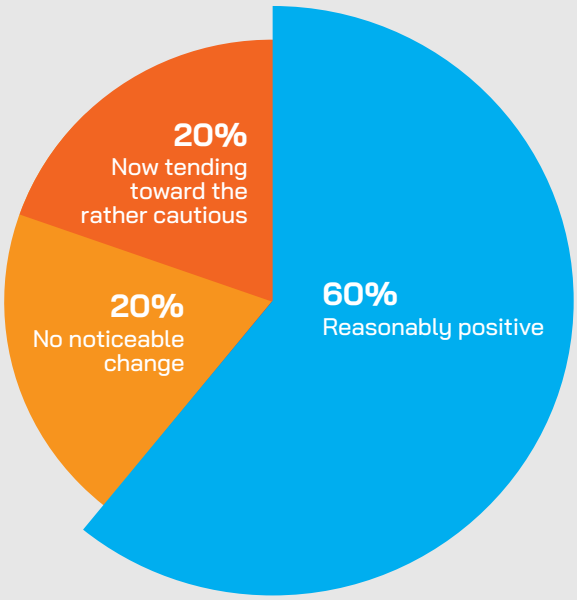
CHAN AI MEI, Chief Marketing & Distribution Officer, Affin Hwang Asset Management

"2021 has been a positive year for asset managers including ourselves. Every year we are given a set of challenging targets, but we are still able to achieve them and scale new heights. We see a lot of opportunities still with deep pockets of liquidity sitting idle in the banking system. Many clients are mainly still holding onto their fixed deposits and are looking to deploy and diversify their savings. With deposit rates at an all-time low in Malaysia, we do see yield-starved investors now looking to shift their funds from deposits into investment products to participate in markets. The wealth pie is growing larger for everyone and there are many segments industry players can tap upon. The HNWI segment is an obvious one which everyone wants a piece of. But the mass affluent and millennial segment is also up and coming. Technology and digital platforms will play a crucial role in capturing this target segment and is definitely a market we are eyeing as well."

The Hubbis Post-Event Survey on Life Insurance Solutions in Asia

The Drive to Boost Malaysia's Wealth Management Market

HOW WOULD YOU CHARACTERISE YOUR PRIVATE CLIENTS' APPETITE FOR MAINSTREAM FINANCIAL INVESTMENTS CURRENTLY?



Stronger markets, diversifying demand

A guest reported how the year had started really well, with markets robust and demand strong, with great appetite amongst investors for technology funds, expressed for example through their next generation and their disruptive innovation funds, as well as strong appetite for country specific funds, such as China. "We then had weaker second and third quarters, although we did continue to see flows into global sustainability type funds, as well as other thematic funds focused for example on the Millennials, changing lifestyles, innovation and disruptive technology, ESG and so forth," they told delegates.

Unlocking the pools of capital

Expanding on these comments, this guest told delegates how the Malaysian wealth management market had continued to grow, year on year, but how there is also still a vast amount of investible money simply sitting fairly redundant in the banking system, earning remarkably low returns in deposits. "With rates at all-time lows, of course there has been a shift from deposits to investments, but there is much further to go," she reported. "As wealth increases and as more of the wealth emerges in the next and younger generations, as digital and virtual platforms play a greater role, then we are seeing much more involvement amongst the Millennials, and even younger generations."

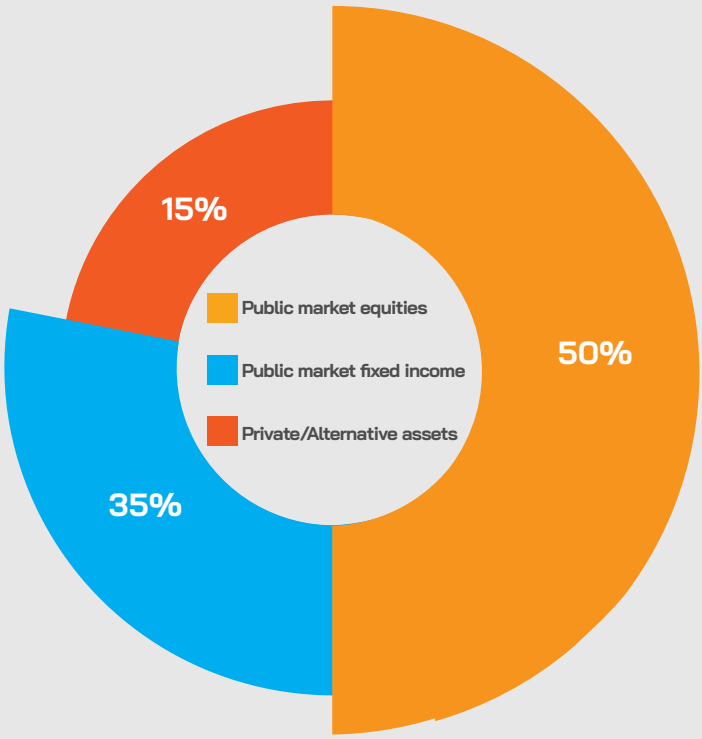
She added that since then lockdowns, the significant improvements in, and greater adoption of digital interface with the clients and partners had definitely boosted activity and of course the user experience.

Expert Opinion

CHAN AI MEI, Chief Marketing & Distribution Officer, Affin Hwang Asset Management

"Client experience is definitely a key priority for us. At the end of the day, we exist only because of our clients. So, we are investing in this area to stay close to them. This is through digitalisation which is a journey that we continue to embark on. Whilst, most asset managers pay close attention to the front-facing aspects which is more visible as clients can see the outcomes, it is also important to focus on the back-end and middle-office. This is particularly in improving turnaround time and transforming the backroom office to improve operational efficiency. Our Managing Director threw a challenge to our technology team to design an app where it only takes just three clicks to open an account. It's a work-in-progress, but it's a journey that we remain steadfast committed to. It's all about pushing the boundaries and finding new ways to make things faster, more efficient and client-friendly."

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



Digital and hybrid

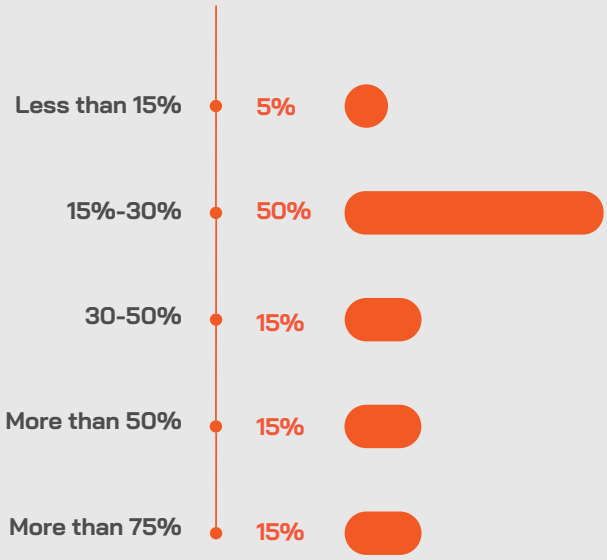
"Whatever lies ahead, we will very probably maintain the hybrid mode of communication with our client," she reported. "Digital has so markedly improved convenience for clients, we can update our clients real-time and virtually, we can provide information seamlessly, we can connect our clients to the global managers we work with, it has all worked really well. People are highly adaptable."

A widening range of choice

As to the diversification of product, a guest told delegates how the firm had been introducing some interesting new products such as funds of funds, with the portfolio rebalanced and re-allocated regularly by the manager, feeding into different fund strategies, depending on the risk appetite of the portfolio. "We see rising demand for this type of approach," they explained. "When clients invest in individual funds, sometimes the advice for clients to switch out of that fund into another more aggressive or perhaps defensive fund might be slow, it could be months later. But having an all-in-one portfolio, where the manager continuously rebalances the asset allocation allows for a much quicker reaction to conditions. This strategy has worked pretty well, with the assets growing in those portfolios and clients staying the course."

An expert zoomed in on investments, identifying the key areas such as technology, innovation and disruption as areas of ongoing interesting, and also highlighting the semiconductor business in Asia as offering significant value.

LOOKING AHEAD OVER THE NEXT 2-3 YEARS, WHAT PERCENTAGE OF YOUR PRIVATE CLIENTS' INVESTMENT PORTFOLIOS WILL BE INVESTED IN OFFSHORE/INTERNATIONAL FINANCIAL ASSETS?



Expert Opinion

CHAN AI MEI, Chief Marketing & Distribution Officer, Affin Hwang Asset Management

"In the new normal where masks and social distancing are here to stay, communicating and engaging with our customers will certainly bring its own set of challenges. However, new digital touchpoints such as virtual events, hybrid communication and even chatbots are tools that asset managers can use to stay engaged with investors. We believe, a hybrid mode of communication will be ubiquitous. It's a lot more convenient and addresses the issue of clients that are still wary of meeting up due to fears of Covid-19. The use of virtual platforms and events will likely prevail too. Whilst, it may not be the preferred approach, it's a lot more convenient and safer for clients who can just dial in from their homes. Internally for Affin Hwang AM, the use of such virtual platforms have given us much easier access to our investment partners who are located abroad to conduct trainings and market outlook sessions."

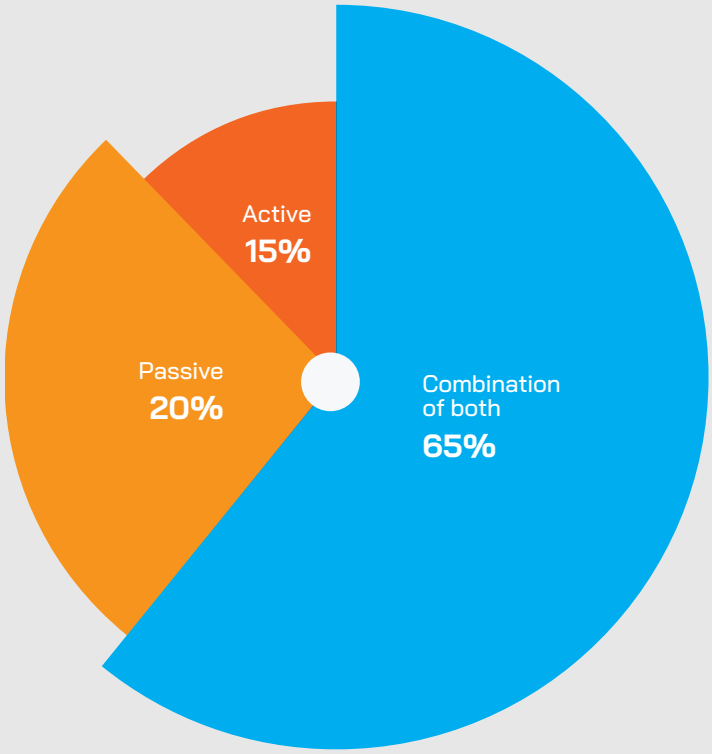
More stable times ahead in Malaysia?

"And there is the onshore opportunity here in Malaysia," this guest reported. "Having gone through three prime ministers in a year here, and heading into the next election in 2020, we actually see good opportunity for Malaysian equities, and we want to start riding that wave. In such a low interest rate environment, where lending is so cheap, we are also helping clients monetise the assets. Some 35% of Asian wealth is in property, and we can help with lending against those properties, potentially in foreign currencies, allowing the clients liquidity and the opportunity to participate on other investments. For Malaysians, we can thereby help them diversify from their local currency assets and invest in equities and other assets, potentially in foreign currencies as well."

Blending the yields

Another opportunity, they reported, is in the fixed income space, taking advantage of a significant amount of collateralised short-term paper that had been issued and that yield in the region of 4.5% to 5%. "We look at blending exposures for clients, helping them assembled deposits, those pay around 1.5% today, then some short-term paper, some other fixed income and then buy into some REITs that are paying about 7.5%. The blended result is fairly good cash flow with low risk. And on the equity side, they can buy into technology and innovation, and even the consumer sector as well, to give them some good alpha. This type of blended approach to the portfolios is a good way forward for our clients."

DO YOU THINK THAT LOCAL PRIVATE CLIENTS ARE MORE INTERESTED NOW AND IN THE FORESEEABLE FUTURE IN ACTIVE OR PASSIVE INVESTMENT FUNDS?



Keeping things relevant

A panellist commented that the mission for their RMs and advisors is to ensure their clients are continually focusing on these issues, constantly updating their circumstances and their coverage and of course their portfolios. "Our approach is not only focusing on investments, but we also try to look at the totality of the clients' situations. As we see it, many client advisors do not take that approach, as they are too afraid, it doesn't generate revenue. But as we see things, the mission is to be the trusted adviser, and to become that trusted advisor, we all need to prove to clients that they should give us their trust."

Supporting the local market's evolution

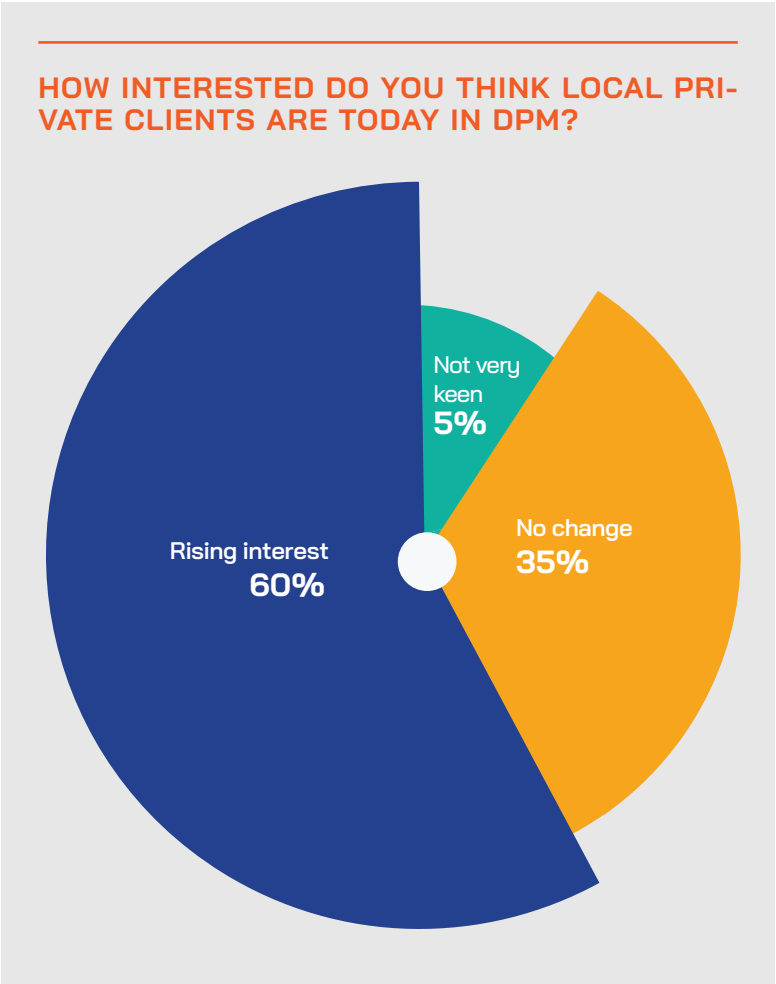
A guest pointed to interesting and worthwhile developments such as the Securities Commission's new Capital Market Plan 3, which also centres on looking after vulnerable investors, those that are senior citizens, or perhaps unable of using technology. "This is an important area for the regulators and the market, to ensure that there are not pockets of investors who have weakened or impaired access," they commented.

And a panellist debunked a myth that fees in Malaysia are remarkably high for investment products. "I can tell you fees and charges for fund products are in the range today of nearer 2% to 2.5%," they stated. "Now, that might still sound high in a global context, but we need to develop this industry, and I think it's reasonable charging somebody 2% on a unit trust fund. If they're holding that for what is a reasonable three to five year period, then the fee is spread over those years. That is entirely reasonable for that type of investment and time horizon."

Liquidity planning via life insurance

A guest shifted the attention to life insurance solutions, which their institution prefers to call liquidity planning. "I think that's a more appropriate word plus as it helps explain to clients how they should incorporate that into their overall wealth planning," they said. "Insurance is in a form of a payout to help you offset your liabilities and provide the family liquidity at difficult times. We all have liabilities, and we need to make sure that at the end of the day, we're very efficient in managing those and with tax optimisation. As so many of our wealthy clients are involved with or own SMEs, we also want to see them address key risks such as keyman risk. And you might have an SME with two founders, one of whom passes away and you need to cover yourselves for that risk. And so forth."

Tax efficiency is also part of this liquidity planning. "As I mentioned, families are increasingly global and looking for ways whereby the life insurance payout can be transacted in jurisdictions where



their children or other family members can receive the money in the most optimised manner. Accordingly, given all these different needs, we make sure we spend as much time and effort as possible to get our clients to sit down and encourage them to run through the checklists and make sure they have the right products and coverage in place, and that they are fit for purpose for today."

Elevating the digital proposition

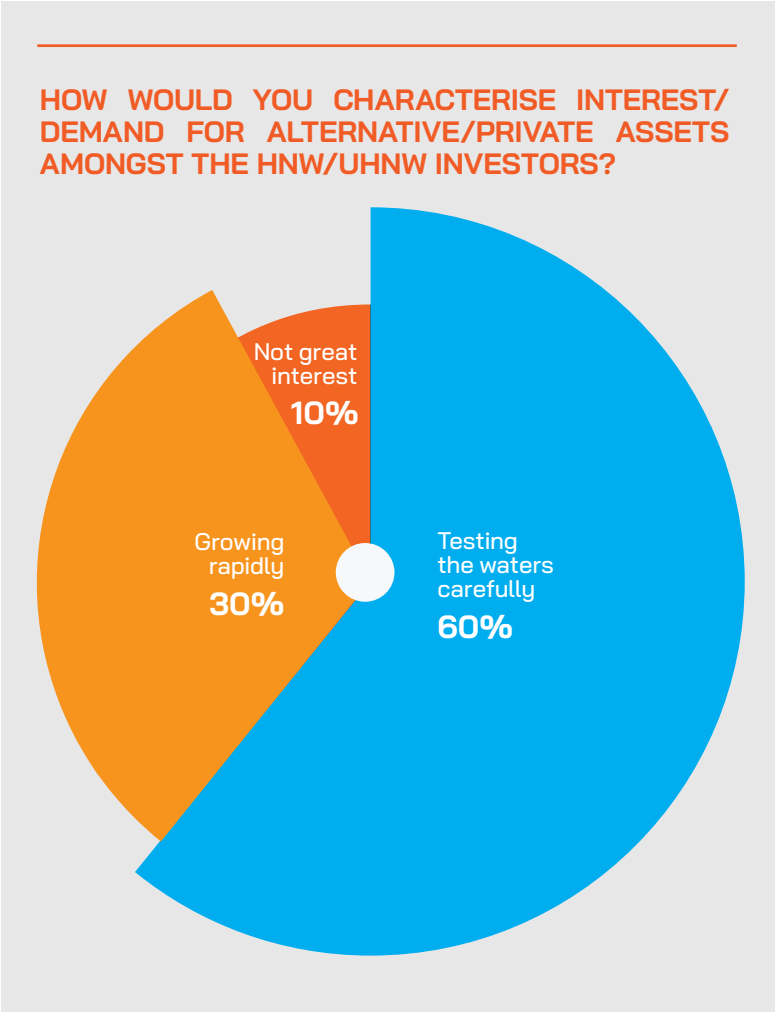
Turning to technology, a guest explained how digital really elevated their bank's proposition in the midst of the pandemic. In the wealth space, they reported that bank had taken the higher road on digitisation, reaching out to clients and making sure they felt involved. "We even did things like getting nice food delivered from a top hotel in Kuala Lumpur and organising a call with clients to coincide, so that we engaged with them in a more interesting and convivial manner, as perhaps we might over lunch or coffee, away from times of pandemic."

They said this was a simple example of how technology was playing a bigger role, and how much more important it will remain in the future. "We even see more and more of our wealthier clients going global, so the ability to connect across time zones and across the world is increasingly vital, if we want to keep in touch and service

them properly," they commented. "Technology has become a far larger part of our lives and will continue to play a bigger role as we continue to go along. We have to learn to keep connected and continue to transact accordingly because revenue will continue, the demand for us to deliver revenue will always be there for as long as we are under the employment of an organisation. We just have to make sure that we know how to get it done."

A panel member said that another noteworthy trend centres on the enhanced client experience. "We must make sure we take care of our clients, so we spend a lot on client experience, and this is closely linked to our digitisation journey," they explained. "It all falls in nicely together in this whole wealth management picture, so we are working hard to digitise internally as well as to enhance the user experience. The front end would be probably the priority, where clients can actually see the outcomes, but I think equally important is digitisation on the back end, improving turnaround time, transforming the backroom office, so that we can serve our clients even better."

Expanding on the topic of the mainstream banks and other wealth management firms and their interface with the clients, a guest highlighted the ongoing and crucial importance of the RMs. "The banks continuously set higher and higher KPIs for these RMs to reach," he said, "so clearly they don't need to be spending time dealing with the mundane work, that needs automating, time needs freeing up for communication with the clients at their preferred times and providing them with a positive experience."



Another technology expert added that a key challenge for the RMs is to handle those clients they already have. "As you go from UHNW to HNW and then mass affluent clients, you see an increasing percentage of customers who are experiencing low or no engagement," he said. "So, clearly making the RMs more productive is vital. And we all seemed to agree earlier that the future of wealth management is hybrid, with customers wanting the personalised RM service and also digital platforms, but we need something similar for the RMs, so we need to leverage AI, ML and need conversations daily about how those can boost the RM capabilities." Hyper-personalisation, he said, was therefore the end goal, but it must be attained with one eye very firmly on the regulatory environment and compliance.

Getting it right...from the outset

A panel member closed their commentary by pointing to a key priority for the bank of improving their client onboarding and their user friendliness, noting that it is far from easy to ensure the right approach to documentation, to client user-friendliness combined with regulatory and legal compliance.

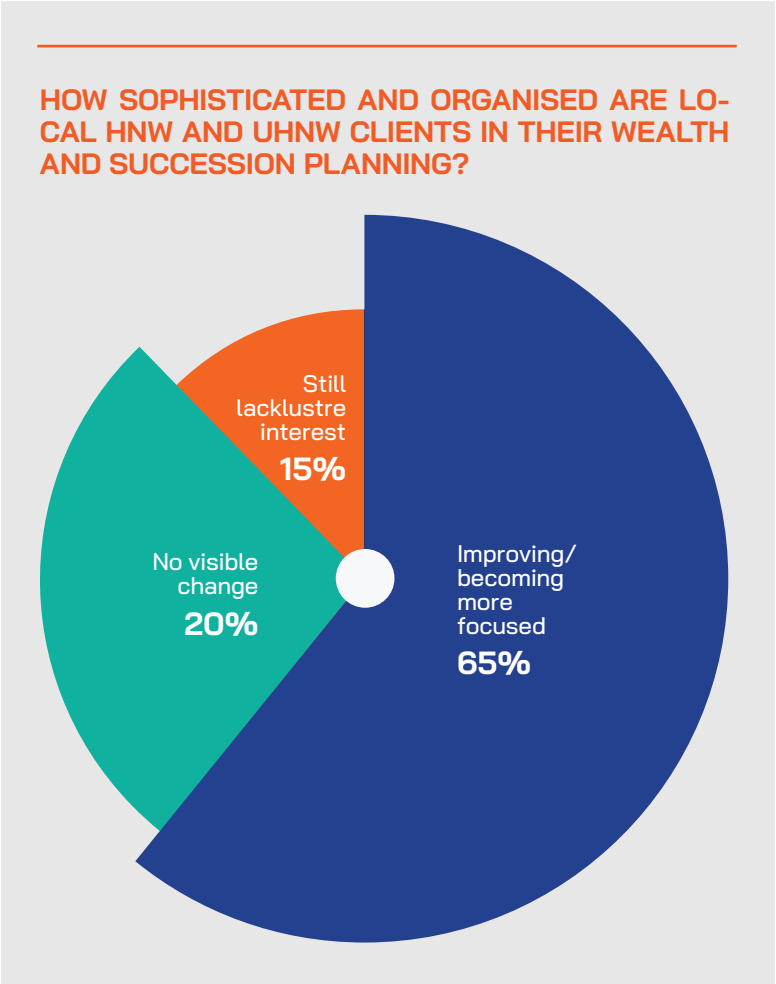
"The most important thing is the processes and ensuring that everything is properly documented, but more importantly the end game

must be for the client to spend the least amount of time having to sign documents, having to worry about all the administrative elements, as those simply get in the way of the communication on investments, wealth planning and so forth, and that's the priority on the productivity side. To achieve all that, we also need to improve our talent, so we are keenly focused on our advisors becoming more rounded and more skilled, as well as more empathetic with clients. If we can, then we will propel ourselves to become more of a world-class player."

Here come the disruptors

The discussion then shifted further along the digitisation road to the impact of disruptors in the local wealth market, and the logic of their positioning and the evolution of client demand for this type of simplified, ease-of-access approach.

Robo advisory for high net worth and sophisticated investors is not necessarily impeded by the lack of a long-standing financial institution brand, an expert reported. "It's about what you can really offer them and whether your product has a clear fit in that segment," he explained. "We offer everyone access and also lower fees, although actually for the wealthy clients, that's not really kind of what they're after, they're happy to pay for personalised advice, something more exotic. We offer multi-asset, factor-based global funds, and people see that as an opportunity to diversify what they already have. They also warm to the technology and across all ages. In fact, these wealthier clients are older, our oldest client being 80, and the average age of our top 20 customers in terms of wealth that



they have invested in our platform is 65."

Making digi-headway

He explained that during the pandemic, they saw some of the biggest cheques that were ever cut for the platforms, with individual commitments of USD0.5 million to USD1 million and more. "We are clearly making inroads in the wealthier segments, but of course the traditional banks have their brands, their range of products and services and many advantages, so we have to give them a hard time by making their digital efforts look basic, by offering strong and healthy competition. And to that extent, we are doing well in our core segment of the Millennials, with the average age of our users around 34 and they feel under-served and are technology savvy. Having said that, we still want to do more in the HNW space."

As to finding and approaching new wealthier clients he explains that human advisors are at hand to offer more of a white glove service to help any interested parties with their specific needs, including on investments.

Catering to 'smart' investors

"We have that approach for those who are more HNW and have more sophisticated needs, he commented. "Some of them want to chat with our CIO, especially

during tough times, some of them want to chat with our CEO, because they want to know if our digital business is really viable. The beauty of that is that we actually attract high net worth clients who are quite efficient in terms of what they expect from a relationship manager, so the key conversations are quite short, maybe 15 minutes to secure their AUM, and then the rest about life in general or the weather. So we have wealth managers who can serve, perhaps 50 to 100 people in a relatively lightweight way, and then after that they pretty much take care of themselves, so the wealth managers can focus on hunting as opposed to just farming."

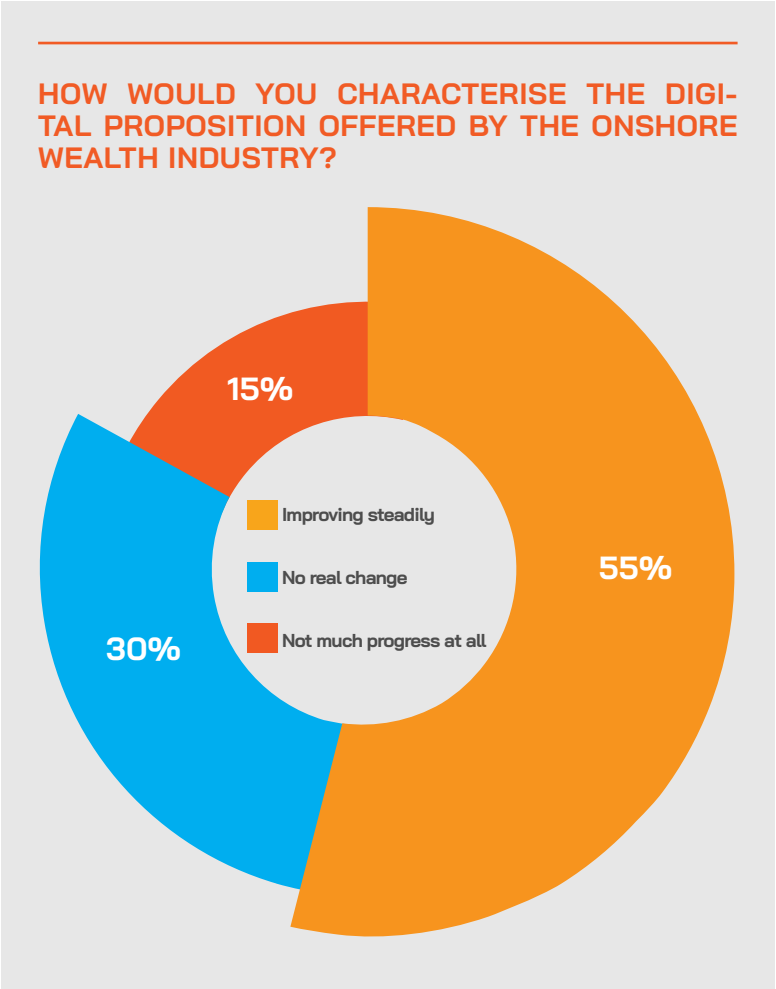
Pitching at the right price levels

He added that he avoids the tech jargon such as AI, machine learning, biometrics and all the rest. "At the end of the day, it comes back to whether we can make the customers money without demanding their vital organs."

He indicated that they charge what is a very fair fee for their curated funds offering, and on top of that really add value for a broader investment framework and more advanced asset allocation. Then they moved more into cash management products, which have proved very positive for the platform. And more recently, they had added thematic portfolios, giving investors easy access to niche ETFs around specific themes in a risk adjusted way that he said has not been offered before.

Tailored and relevant

"We really focus on the first principles in terms of what the client really needs, tailored to their situations and expectations," he said. "From there, we're trying to slowly build out our offering, and in time it will be highly sophisticated, but built on tech. Then we will compete not only on fees, but also on access to product and some sort of service, whether that's light touch, human based, hybrid, whatever. We do not see ourselves as anti-banks, anti-incumbents,



Expert Opinion

WAI KEN WONG, Country Manager, Malaysia, StashAway

"HNWIs are increasingly aware of digital offerings and the value it brings. As StashAway offers multi-asset global exposure, the HNWIs we serve see it as a diversification tool to complement their existing investment exposure. Our goal is to listen to our HNW clients about what they want access to in a convenient and digital way. Understanding their needs and wants will help us navigate the alternative investments space, which has traditionally had very high barriers to entry and tend to be illiquid."

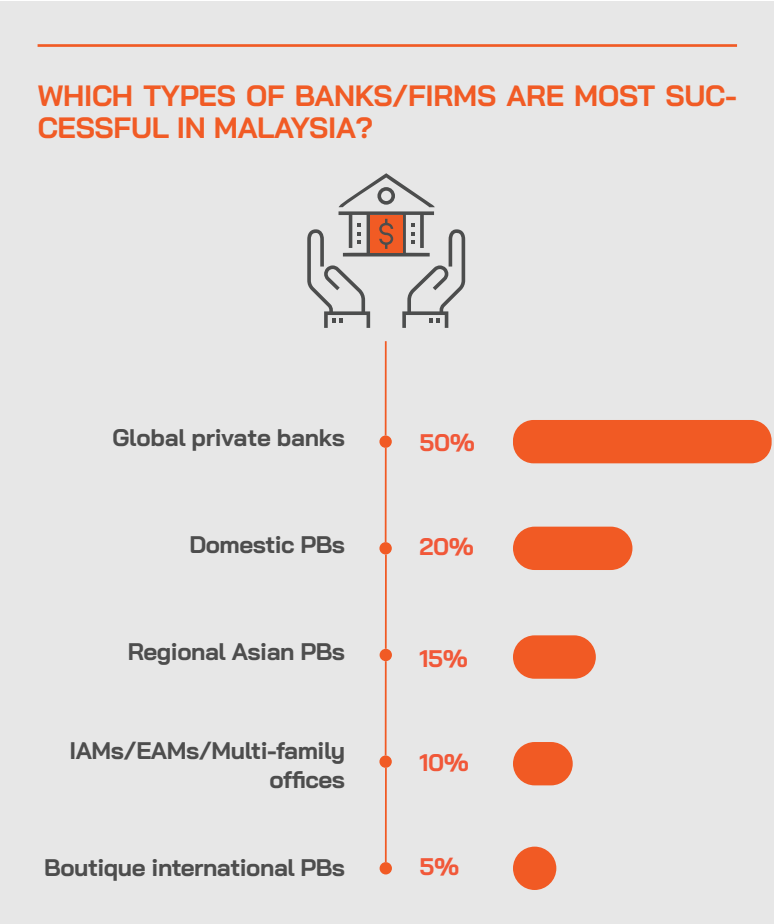
but as pro customer. We use bank products, we use ETFs created by financial institutions, we use active unit trusts where we see a fit, as long as each product has the right fit and value for the end customer."

Prove value and you will survive

Another view came from a technology expert who observed that wealth management success today and tomorrow is more about demonstrating value, as there is somewhat of a race to the bottom in terms of fees. "We try to just take a different look at the industry and create the experience, because that is going to be the product," he said. "The battlefield is no longer the investment product or the portfolio, it how the customer feels about whether you're really adding value to his or her life. If we change that context, we can actually charge properly because people see value in what it is that you're doing. And what we do is we add technology to that human element which people want when it comes to money management. It is such an emotional thing, and what we do is we become that enabling layer to make that experience more valuable."

Benchmarking against digital leaders

Lakshey Gangwani, Regional Sales Director, InvestCloud agreed with all that he had heard, adding that today wealth management is benchmarked against other digital experiences, rather than against other banks and providers.



"They have their benchmark Big Tech experiences, and they then measure what you provide as user experience in the field of wealth management," he observed. "Everything we do is going in one direction, and when clients come to their wealth management app, if they can't access the same level of content or hyper-personalised content as they do with Big Tech brands, they feel frustrated, let down. Naturally, this is even more so for the millennials and those younger customers who are digital first, these are customers who were buying digital assets before there were digital assets and video games. The pandemic has elevated technology from the peripheral and brought it to the centre of wealth management today. When we work with some of the biggest and smartest customers across the region, that is the basis for plotting and enabling their digital pathway to growth."

The discussion closed with the panel agreeing that the onshore wealth management offering in Malaysia had become more diversified, more dynamic, more client-friendly, and better value, and that with greater stability and perhaps greater control over the ramifications of the pandemic, that there was very considerable cause for optimism ahead. ■