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The Rapid Evolution of Malaysian Wealth Management

A panel of experts cogitated on the state of the Malaysian wealth management industry, as it grapples with rapid growth in numbers and asset of Malaysia's high net worth clientele during the first panel discussion of the Malaysian Wealth Management Forum.

These were the topics discussed:

- *How do the different players - wealth management, insurance and banks compete or complement each other?*
- *Asset management companies - growing well, broadening distribution and improving processes?*
- *How important is digital today?*
- *Offshore / onshore. Where is the long-term opportunity?*
- *Who is making a commitment to building an onshore business and why?*
- *Is there a hybrid model where international banks can work with onshore banks?*
- *What changes are we seeing in client expectations and behaviour?*
- *Where will the continued growth come from and what are your priorities?*
- *Are more advisory firms adopting a fee-based concept instead of product based selling?*
- *How is Malaysia continuing to develop as a centre of excellence for Islamic wealth and asset management?*
- *How would the Common Reporting Standards (CRS) and Automatic Exchange of Information (AEOI) affect HNW Malaysian clients having offshore accounts?*
- *Where can we find talent?*

PANEL SPEAKERS

- **Pramod Veturi, Managing Director & Country Head, Wealth Management, Malaysia Standard Chartered Bank**
- **Lin Wein Khoo, Head of Private Wealth, Maybank**
- **Edmund Lim, Executive Director, Swiss-Asia Financial Services**
- **Kimmis Pun, Head of Private Banking - Singapore, VP Bank**
- **Hash Piperdy, Chief Executive Officer, Malaysia, Mercer**

EXECUTIVE SUMMARY

The Malaysian wealth management market is enjoying a period of rapid growth as the country's economic expansion continues. The growing sophistication of the high net worth segment and the ultra-HNW market is encouraging the banks and other wealth providers to offer a far more diversified range of assets and services than ever before.

As CRS and other regulations roll out globally, market experts expect more Malaysian offshore wealth to return onshore and the leading banks are preparing to be able to offer these HNWs a similar range of opportunities and ideas onshore as these clients have been used to obtaining offshore in Singapore or Hong Kong.

Fees are high for products and there is little doubt that these will gradually fall due to regulatory demands for additional transparency and due to rising competition from international banks and wealth management firms. However, to achieve this and for the providers to remain profitable the industry must be careful about segmentation and must gain the confidence of clients in order to increase the volume of assets under management. The industry must also invest wisely in digital as well as upgrading the expertise and quality of the relationship managers and other client-facing professionals.

EDMUND LIM
Swiss-Asia Financial Services

KIMMIS PUN
VP Bank

HOW DO THE DIFFERENT wealth management and insurance firms, and banks compete or complement each other? Is the asset management offering diversifying and become more sophisticated? Are more Malaysian going offshore, or staying onshore? Are there partnerships between offshore and onshore providers? How is the client evolving in terms of expectations and digital requirements? Is the market evolving towards advisory fees rather than product sales? These and other matters were debated by the expert panellists Hubbis assembled.

A senior banker opened the discussion with an overview that in the five years he had been in Malaysia the clients had rapidly evolved their approach to the management of their wealth. Firstly, he noted, clients are more open to offering their wealth management advisers a more complete view of their holdings, even if those assets are held across multiple financial institutions.

Taking a more holistic view

"The availability of a more holistic view and therefore a more transparent asset allocation perspective has accelerated in the past three years," he observed. "This is very good news for us because the result is a better relative performance for their portfolios."

The same banker reported what he considers the second key change, notably the proliferation of new products and services. "Even as little as three years back a typical investor would have only a few asset types in their holdings, whereas today their portfolios are more diversified across three or four asset classes and most customers today demand to diversify their portfolio beyond one or two asset classes."

The third noteworthy change this banker has witnessed is the greater demand for foreign currency assets. Five years ago, he reported, some 80 per cent or more of the HNW investment market was Ringgit denominated, but in the last three years, the market has evolved significantly towards foreign currency and hedge fund solutions to the point where his bank is seeing more than two-thirds of activity in foreign currency assets.

Clients need greater accountability

He also noted that the clients in Malaysia are likely to demand greater transparency and accountability from the private banks and other wealth management firms in the future. "The way fees are levied here in the longer perspective is not sustainable," he observed. "Clients will increasingly demand accountability to know that they are receiving fair value for the product or service. I expect to see lower fees and higher volumes. Meanwhile, the financial planning advisory models will benefit."

"For institutions that are completely customer-centric and financial planning kind of advisory models being in place," he continued, "I guess there is an opportunity to establish the value for the charges that

LIN WEIN KHOO
Maybank

are being levied. But in the meantime, I have seen the industry has started dropping its charges although there is still a long way to go. I am convinced that volumes have to make up for lower charges, which can happen; the market is gradually moving in the right direction."

Lower fees mean higher volumes required

An expert in investment advisory noted that he observes a chicken and the egg situation in Malaysia. "The market needs more assets under management before the fees can really drop lower. To achieve that the market needs to invest in digital distribution in a market that is primarily led by the human connection. There are positive steps being taken, but there are also plenty of barriers as well. I would like to see more encouragement, more incentives for the smaller players to compete with the major players including the state-run competitors."

He also noted that his firm sees a strong global trend towards digital, but he also sees that the returns are not yet resulting from this investment. "I think we are at a bit of a tipping point, but the market needs to scale up and achieve operational efficiencies and only then can fees generally fall. The regulator wants naturally to protect the local players as foreign competition increases, so charges will gradually come down. However, this is not happening fast enough from my viewpoint and therefore the regulators should give the market some additional encouragement to do so."

Another banker agreed and added that the wealth management market needs to move more towards

PRAMOD VETURI
Standard Chartered Bank

ARE FEES IN MALAYSIAN WEALTH AND ASSET MANAGEMENT TRANSPARENT AND CONSISTENT?

Source: Malaysian Wealth Management Forum 2018 the mass affluent and retail. "The banks are making a big move into digital because they want to reach out to this broader market and if they can do so without requiring the traditional manpower to do so then the assets and the returns can improve even as fees fall."

Another expert who is closely involved with the Financial Planning Association in Singapore and Malaysia noted that the evolution towards advisory fees in Asia is so far lagging well behind hopes and expectations, but as the regulators have been encouraging a more fee-based model and greater transparency as well as trying to outlaw retrocessions the drive towards advisory and discretionary is inevitable, albeit a slow evolution.

Another wealth management specialist argued for the market to set its own fees so that the market can secure the profitability it needs to survive and offer a good service. "I completely agree," said one senior banker, "because we should not have the regulator deciding what is the range at which the fees are charged. However, the market needs to prove that customers know what is being charged and why and see that they are getting value."

"Clients nowadays look for a total banking relationship solution," another panellist observed. "They need corporate banking support in terms of loans and advances, they need investment banking if it is a big listed company to raise funds, and of course they need private wealth management. If a bank can provide these three things they will be better able to service their clients and that is why we see the big local and regional banks gaining so much AUM."

He added that his bank does not like to compete purely on price and prefers to focus on the level of service across all areas. "We offer a very diversified range of mainstream investment and structured products and services. With the upcoming CRS and other

HASH PIPERDY
Mercer

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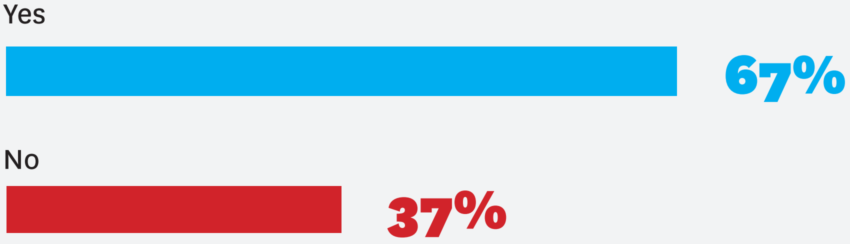
IS THERE REALLY ANY DIFFERENCE BETWEEN WHAT A PRIVATE BANK OFFERS AND A RETAIL BANK OFFERS IN MALAYSIA?



Source: Malaysian Wealth Management Forum 2018 regulations, we expect more offshore Malaysian money to return home, so we want to be able to offer those clients a similar range of products and services and quality as they have been used to offshore in Singapore or Hong Kong."

Wealth services as an adjunct to corporate services

Another senior banker concurred, adding that in his analysis some 50% of the wealth management clients of his bank are clients of the other banking services on offer. "Many come from the commercial, corporate or investment banking sides to wealth management as a natural extension of the relationship with us," he noted. "It is completely natural to offer these discerning clients an ever-wider array of asset opportunities and services."

Segmentation is essential, noted another expert from a private bank. "It is appropriate for the wealthy, sophisticated investors to buy into hedge funds or structured products or to take on more risk, but we must be cognizant of not imposing too much complexity or risk on the general market."

The discussion turned to the needs of the HNW clients in the future as they continue to expand their wealth and their assets. "The RMs need to upskill and expand their product knowledge as well as expanding their dialogue with the clients to offer them a greater range of ideas and solutions," said one expert. "The advisory requirements in the future will be more and more diverse and that is what will help RMs retain their clients and do more with them. In the future, the RM will need to continuously educate themselves and also understand new products, new ideas and new services. Right now, too many banks are product and sales oriented, sales oriented but I would like to have a bank in which we have a treasured culture of client relations."