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Chicken-and-egg: Malaysia's asset management dilemma

Boosting fund penetration in the country relies on several factors: wealth managers delivering real advice, compensation and incentive structures better aligned with clients' needs, a greater take-up of digital platforms for distribution, and investor education.

Panel speakers

- ***Munirah Khairuddin**, Chief Executive Officer, CIMB-Principal Asset Management*
- ***Ai Mei Chan**, Chief Marketing Officer, Affin Hwang Asset Management*
- ***Yap Ming Hui**, Independent Financial Advisor, Author & Managing Director, Whitman Independent Advisors*
- ***Alvin Tan**, Chief Executive Officer, StandardFA*
- ***Steven Seow**, Head of Wealth Management, Asia, Mercer*
- ***Anthony J. Harper**, Chief Executive Officer and Co-Founder, Managed Account Partners*

There are many reasons for wealth and asset managers in Malaysia to be optimistic. For example, industry practitioners have seen what they describe as stronger retail flows over the last six months than they have witnessed for a long time – showing that money is there and ready to deploy. Distribution by local banks has also picked up, reflecting the rise of the middle-income segment of the population, plus highlighting the growth potential for the wealth management industry as a whole.

Yet there are still some big stumbling blocks in terms of the need for advice and advisory-led solutions, where clients also see the value and willing to pay. Positioning the model correctly will therefore determine the real scope for sustainable growth and the potential for greater funds penetration in Malaysia.

In the meantime, ongoing education to raise financial awareness and literacy of Malaysians is still a national concern gripping the country. Recent statistics by Bank Negara Malaysia (BNM), for instance, suggest that only 40% of Malaysians are financially prepared for retirement.

A decade from now, however, there is belief among market players that change will come on the back of the evolution of a combination of technology, consumer behaviour and regulations. This makes remaining relevant the key for wealth and asset managers to be able to succeed.

These were some of the views of practitioners speaking at the 7th annual Hubbis Malaysian Wealth Management Forum 2017 in Kuala Lumpur in July.

Munirah Khairuddin
CIMB-Principal Asset Management

DEEPENING MUTUAL FUND PENETRATION

Being able to more consistently drive the take-up of funds in Malaysia relies on a few key developments and evolutions in the local market. For example, wealth and asset managers alike need to put themselves in the shoes of their clients first, to better understand their needs. This is ever-more important, too, given the increasing complexity of the investment landscape and competitive nature of asset management. This all warrants a more personalised and tailor-made approach to investments.

An extension of this is the need to deepen relationships with a new generation of investors looking for the ability to compare their investments with peer groups. In line with these trends, successful wealth and asset management companies will be those that are able to adapt their product management and marketing strategies to the mentality of this new group of investors.

This inevitably involves greater use of fintech solutions and new online platforms, to create more of a one-stop service for funds. In short, investment solutions and distribution channels need to go beyond mere product-pushing – and instead towards a more advisory-based and bespoke approach.

Ai Mei Chan
Affin Hwang Asset Management

46%
Respondents who said investor and adviser education is the most likely way to increase mutual funds penetration in Malaysia

The proliferation of new robo-advisory capabilities should help – for example via features such as personalised wealth reports, risk and performance metrics, investment goals, market insights and investing ideas.

This will enhance the client experience and create more meaningful relationships with stakeholders. Further, enhanced digital platforms will stimulate direct-to-consumer distribution, too. Ultimately, creating a hybrid model will be the way for the industry to increase value for clients across the wealth spectrum.

Yap Ming Hui
Whitman Independent Advisors

EXPANDING THE PRODUCT RANGE

To further expand what's on offer in the Malaysian market, ETFs will need to play a greater role within the investment management business. This has been a challenge to date since active managers in emerging markets generally have been able to continue to add alpha by exploiting price inefficiencies in the market. Investors therefore still prefer unit trusts over ETFs. Plus, general awareness of low-cost solutions like ETFs and index funds is still lacking in Malaysia.

This is partly due to the fact that, since ETFs are traded like stocks, they don't get actively marketed to investors in the way a unit trust does by an agent – based on current commission structures; growth is impeded due to the lack of an effective incentive mechanism in the ecosystem. More innovative ETF products are also needed in the local market, along with lines of the smart-beta, inverse and leveraged ETFs seen in developed countries.

Alvin Tan
StandardFA

A MOVE TOWARDS ADVICE?

A lot of the hurdles can be overcome when – and if – Malaysian investors start to place more value in advisory services in general. Some practitioners believe this is inevitable over time. For example, as markets mature and with new developments in technology, the expectation is that investment services will converge to become more personalised.

Portfolio-led conversations can then emerge as part of a broader investor education process, to help them understand that investment solutions cannot be a one-size-fits-all approach. An important stepping stone, however, will be the alignment of client interests through changes in the remuneration model within the industry. This can also include more incentives for advisers to grow client AUM. Most importantly, there must be no incentive for product churning, say practitioners.

Anthony J. Harper
Managed Account Partners

MODEL FOR MILLENNIALS

A key target for wealth and asset managers is the growing crop of younger investors who are entering the market in larger numbers. For example, statistics from Bursa Malaysia reveal a 36% jump in the number of Central Depository System (CDS) account holders aged 25 years and under. Such figures are encouraging; they point towards growing interest and awareness by Millennials to 'dip their toes' into investing.

However, asset managers need to figure out new distribution channels to market and reach this group, given that they are tech-savvy and socially conscious, but often fickle and price-sensitive. Perhaps a total online experience from client onboarding to account management to portfolio monitoring to asset rebalancing can be adopted to make investing easier, as well as reduce operational expenses. Certainly components like gamification, in the first instance, will make financial matters livelier and more engaging. ■

Steven Seow
Mercer