

Opportunities and challenges in **Malaysian wealth management**

Hubbis' inaugural Malaysian Wealth Management Forum in June 2011 sought to foster open dialogue and debate on high-level issues facing the industry, while presenting specific ideas on international best practices as well as recent developments in the domestic market.

THROUGH A combination of presentations and panel discussions, the event was structured as a professional education forum for diverse groups of stakeholders in the industry.

Around 250 delegates attended, including relationship managers (RMs), frontline advisers, investment specialists and product gatekeepers at private banks, consumer banks, wealth management firms and other key distributors in the local market.

Key issues covered by the panel discussions included:

- Why many wealthy Malaysians still choose to have their wealth managed in offshore private banking centres
- Reasons for attrition and effective ways to hire and retain staff
- The importance of aligning the interests of wealth managers and clients, and the role of incentives in facilitating this
- The appeal of Islamic wealth management, beyond faith-based reasons
- The increasing role of independent asset managers and other advisory models in Asia

The presentations focused on equity fund selection and analysis, the building blocks of portfolio construction, ETFs as an alternative investment tool, and the effect of quantitative easing on the US dollar. The presentation material is available at this link: <http://www.hubbis.com/forum/awmf2011/lk/presentations.php>



PANEL 1: BUILDING A SUCCESSFUL WEALTH MANAGEMENT SERVICE IN MALAYSIA

THE PANEL speakers looked at the industry in Malaysia in comparison with other wealth management centres in Asia. They highlighted areas of concern in growing a wealth management offering in a credible and sustainable way.



CJ Ong
Head of Wealth Management, Malaysia
OCBC Bank

CJ Ong, head of wealth management at OCBC Bank in Malaysia, said the industry had grown since recent liberalisation moves in the financial services sector, with strong demand for Islamic finance services in particular.

Pointing to challenges in terms of client understanding of asset allocation and risk, she said: "Clients still do not look at investments in terms of a portfolio concept, but rather as a series of separate holdings."

Robert Foo, managing director of MyFP Services, gave the perspective of an independent advisory firm (IFA) offering a fee-based service: "There are too many people loosely calling themselves



Robert Foo
Managing Director
MyFP Services

financial planners or wealth managers, due to a lack of enforcement."

Further, he explained how fund platforms have helped IFAs tailor a wider range of options for clients, without related administrative issues. Added Ben Ng, managing director of Total Financial Planning Advisory: "Clients are willing to pay substantial fees for holistic wealth management services, if they can see that other professionals too, like lawyers and accountants, are involved in the process and are working together as a team."

The panelists also discussed why Malaysian high net worth (HNW) individuals are drawn to regional wealth management centres based outside the country. Among some of the reasons mentioned for this were the lack of transparency in fees, a limited range of products available, and the paucity of in-depth local research in Malaysia.

Commenting on this situation, Foo added: "Besides money leaving the country, the wealth managers suffer due to the loss of relationships."



Ben Ng
Managing Director
Total Financial Planning Advisory

PANEL 2: LEARNING FROM OFFSHORE WEALTH MANAGEMENT MODELS

SHARING THEIR international experience, panelists touched on recent developments in the industry such as regulation, talent shortages and client segmentation in discussing best practices in developed wealth management markets, and their potential applicability in Malaysia.

Richard J Piliero, managing director and regional executive of EFG Bank, pointed out some of





Richard J. Piliero
Managing Director, Regional Executive
EFG Bank



the salient trends in wealth management in Asia: "Clients are better educated now," he said. "The era of buy-and-hold is coming to an end. The effect of currencies and volatility has made the landscape much more complex."

Hansi Mehrotra, Mercer's head of wealth management in Asia Pacific said that regulation, technology and training are key components of a successful wealth management industry, pointing to the Australian model as a good example.



Hansi Mehrotra
Head of Wealth Management, Asia Pacific
Investment Consulting
Mercer



"Australia's single regulator with strict know-your-client and product requirements, and with teeth to enforce, has proven effective."

Indeed, the key role that regulation is playing in developing wealth management industries was a recurring theme throughout the forum.

Presenting a Malaysian perspective, Carolyn Leng, head of CIMB Private Banking in Malaysia, said: "There is sufficient wealth and talent within Malaysia to grow the industry. Yet coordinated

regulatory efforts are needed, with a better attempt to understand sophisticated products."

Mehrotra added that in her experience, where multiple regulators are involved, such as in India, the wealth management market tends to develop at a slower pace.



Carolyn Leng
Head
CIMB Private Banking, Malaysia



Meanwhile, Anthonia Hui, chief executive officer of Singapore-based AL Wealth Partners, explained how the model of independent asset management (IAM) companies has evolved in Asia. "IAMs are seen as trusted advisers and business managers, and work closely with banks," she said. "This model will grow in all wealth management centres."

Piliero added that with operating costs for all types of private banks and wealth management firms going up and revenue becoming more difficult to generate, the trend of private banks engaging IAMs would grow.

The discussion also emphasised the importance of winning client trust and building on that as



Anthonia Hui
Chief Executive Officer
AL Wealth Partners





Mykolos Rambus

Chief Executive Officer

Wealth-X



an integral part of being successful in managing wealth effectively.

In outlining key client initiatives, Mykolos Rambus, chief executive officer of Wealth-X, said questions that private banks should be asking include: "What should be the typical profile of our clients? Who would we like to work with, and why?"

Added Rambus: "Winning the trust of clients goes beyond products and services."

PANEL 3: ISLAMIC WEALTH MANAGEMENT

THE PANELISTS representing different parts of the Islamic finance community concurred on the growth potential of this segment of the wealth management market – both in Malaysia and internationally – as well as the appeal of Islamic finance for non-Muslims.

Commenting on product development, Yasmin Junus, senior vice president for affluent banking



Yasmin Junus

Senior Vice President, Affluent Banking

Al Rajhi Bank



at Al Rajhi Bank, said: "The fact that funds meet Shariah principles is in itself unique and an innovation to offer to customers."

According to Bryce Fegley, president and chief information officer of Saturna, his firm's experience in the US has been that if the value proposition of Shariah-compliant funds is clearly explained, it can appeal to a wider customer base.

In fact, panel speakers identified wealth distribution through Shariah-complaint structures such as trusts as an area of growth.



Bryce Fegley

President, Chief Investment Officer

Saturna



Yet this has its challenges. "Trying to make a conventional trust Shariah-compliant is like fitting a square peg into a round hole," said Aziz Hassan, head of the Islamic financial planning division of A.D. Financial.

"Scholars need to help in developing Islamic products from the ground up, without trying to adapt conventional products."



Tuan Haji Aziz Hassan

Head of Islamic Financial Planning Division

AD Financial





Datuk Syed Othman Alhabshi

Chief Academic Officer
INCEIF



Added Datuk Dr Syed Othman Alhabshi, chief academic officer for INCEIF: "There are new structures in Islamic wealth planning based out of Labuan, like foundations, which have attracted interest locally and from overseas."

In addressing the broader appeal of Islamic finance, Datuk Alhabshi said: "For a recently-launched Shariah-compliant banking facility for small- and medium-sized enterprises, every applicant was a non-Muslim. This was because there were specific features that appealed to them on a commercial basis."

Added Junus: "Wealth management according to the principles of Shariah law is not just for Muslims; there is also significant interest from non-Muslims."

PANEL 4: THE IMPORTANCE OF ASSET ALLOCATION AND GETTING THE MIX RIGHT

SPEAKERS ON this panel broadened the discussion from the tactical subject of asset allocation,



Lillian Long

General Manager, Wealth Management, Malaysia
Standard Chartered Bank



to more strategic topics of interest, including: banks' or wealth managers' objectives in providing such a service; clients' needs and wants, and the extent to which wealth managers should be more assertive in engaging with clients; and the effect of incentives for RMs in determining theirs and the firms' behaviour and service.

Referring to prevalent practices in Malaysia, Lillian Long, general manager for wealth management at Standard Chartered Bank in Malaysia, said: "When product pushing is referred to in the local context, it is about hard-selling and the giving of gifts, rebates and discounts to the customer to secure business."

The need to align firms' and clients' interests was brought up repeatedly.

"There is the larger question of whether the organisation takes a customer-centric or a profit / shareholder-centric approach, which will in turn determine the kind of KPIs (key performance indicators) applicable," said Joshua Lim, head of wealth management solutions, retail distribution at AmBank Group.



Joshua Lim

Head of Wealth Management Solutions
Retail Distribution
AmBank Group



At the same time, clients' expectations regarding their investment returns are getting harder to manage.

When asked to share his views on what "long term" means today in the context of asset allocation, Anthony Siau, head of strategic business and market development at RHB Investment Management, said: "It may have started with five years, but now could be down to three months. The instant riches from IPO listings has changed the expectations of investors."

The panelists also discussed needs-based selling and client engagement generally in this context.





Anthony Siau
Head, Strategic Business & Market Development
RHB Investment Management



YT Kum
Senior Research Analyst
Morningstar Asia



Carol Yip, founder and chief executive officer of Abacus Advisory, called for a much deeper engagement with the client.

"We should challenge clients and not accept completely what they say," she explained. "Unspoken words are more important. Proper advice would mean going beyond their finances to probe into their values, beliefs and lifestyle."



Carol Yip
Founder, Chief Executive Officer
Abacus Advisory

PANEL 5: CREATING A WINNING SALES PROCESS

THE DISCUSSIONS in this panel highlighted the consultative nature of private banking and wealth management – with the ever-growing need for a long-term perspective and commitment from management.

Given that staff turnover in the industry is an ongoing challenge, the panelists shared their views as to why this happens and considered what can be done to address it, starting from the hiring stage.

"Fundamentally, wealth management is about the practitioner understanding the benefit for his/her customer, and being able to explain that benefit to the customer," said Marc-Olivier Francq, senior vice president and head of integrated wealth management at Alliance Financial Group.

The panelists also shared their views on the sales process. David MacDonald, managing di-



Commenting on the importance of incentives, YT Kum, senior research analyst at Morningstar Asia, said: "Investor-first becomes an empty slogan unless the incentives for RMs are closely aligned to clients' interests." Long added that incentives should be tied to what is needed by the customer.

Incentives should be tied to what is needed by the customer



Marc Olivier Francq
Senior Vice President
Head of Integrated Wealth Management
Alliance Financial Group



David MacDonald

Managing Director
Head of Consulting & Learning Solutions
Hubbis



Director and head of consulting & learning solutions at Hubbis, pointed out that in most instances, RMs are not managing a relationship.

"Managing a relationship is a special skill and you cannot do that effectively with 300 or so

needs of the organisation. "Wealth management has a longer gestation period, while in the short term there is a push for results," said Foo at MyFP services. "Building trust takes time."

Francq said that building a wealth management business needs a huge investment, adding that it cannot be seen as a transactional business.

Echoing a frequently-heard viewpoint, Frances Lee, head of sales methods and effectiveness, retail distribution at AmBank, said: "There needs to be a balance between the management's objectives and the customers' objectives."

On retaining employees and creating loyalty, panelists agreed it is difficult to engage staff.

Among the reasons cited for this were the image and credibility issues related to the profession.

For example, Foo said that within the Malaysian context, the profession, as it is being practised today, is not highly respected.

"Wealth management has a longer gestation period, while **in the short term there is a push for results**," said Foo at MyFP services. "Building trust takes time."

clients to look after. The focus then becomes on selling and not on the relationship. "

The discussion focused in more detail on the overall mismatch in the way the industry is structured in terms of meeting clients' needs versus the

MacDonald added that not enough people in the industry look upon wealth management or financial planning as a long-term career path.

View more details about this event at this link: http://www.hubbis.com/forum/awmf2011_1k/



Frances Lee

Head, Sales Methods and Effectiveness
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