
Wealth Management in Malaysia

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Agenda

- **Present State of Affairs**
- **Demographic Drivers of Wealth Management**
- **Islamic Wealth Management**
- **Major Developments and The Next Stage**

Evolution of WM in Malaysia



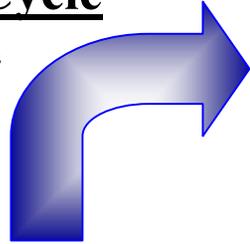
** - HNWI refers to High Net Worth Individuals. Wealth Management solutions are currently confined largely to local products, but foreign products will be available shortly.*

Source: CIMB PB

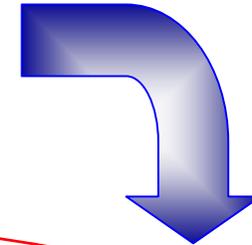
WM Today - Meets Mainstream Needs

The Wealth Cycle

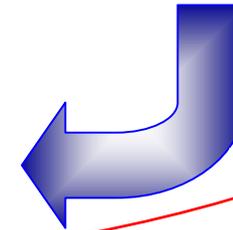
Wealth Management
– process of
providing advice to
help HNWI in.....



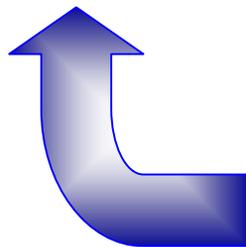
Wealth Creation
From employment, savings
in bank, investment in first
property, etc.



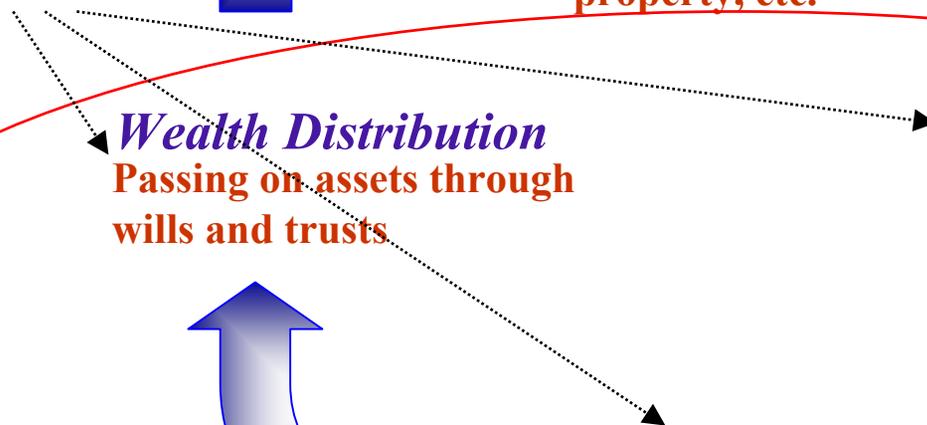
Wealth Enhancement
Enhancing total returns
from capital gains and
income, including via use of
leverage



Wealth Protection
Capital preservations, risk
management, insurance, trusts

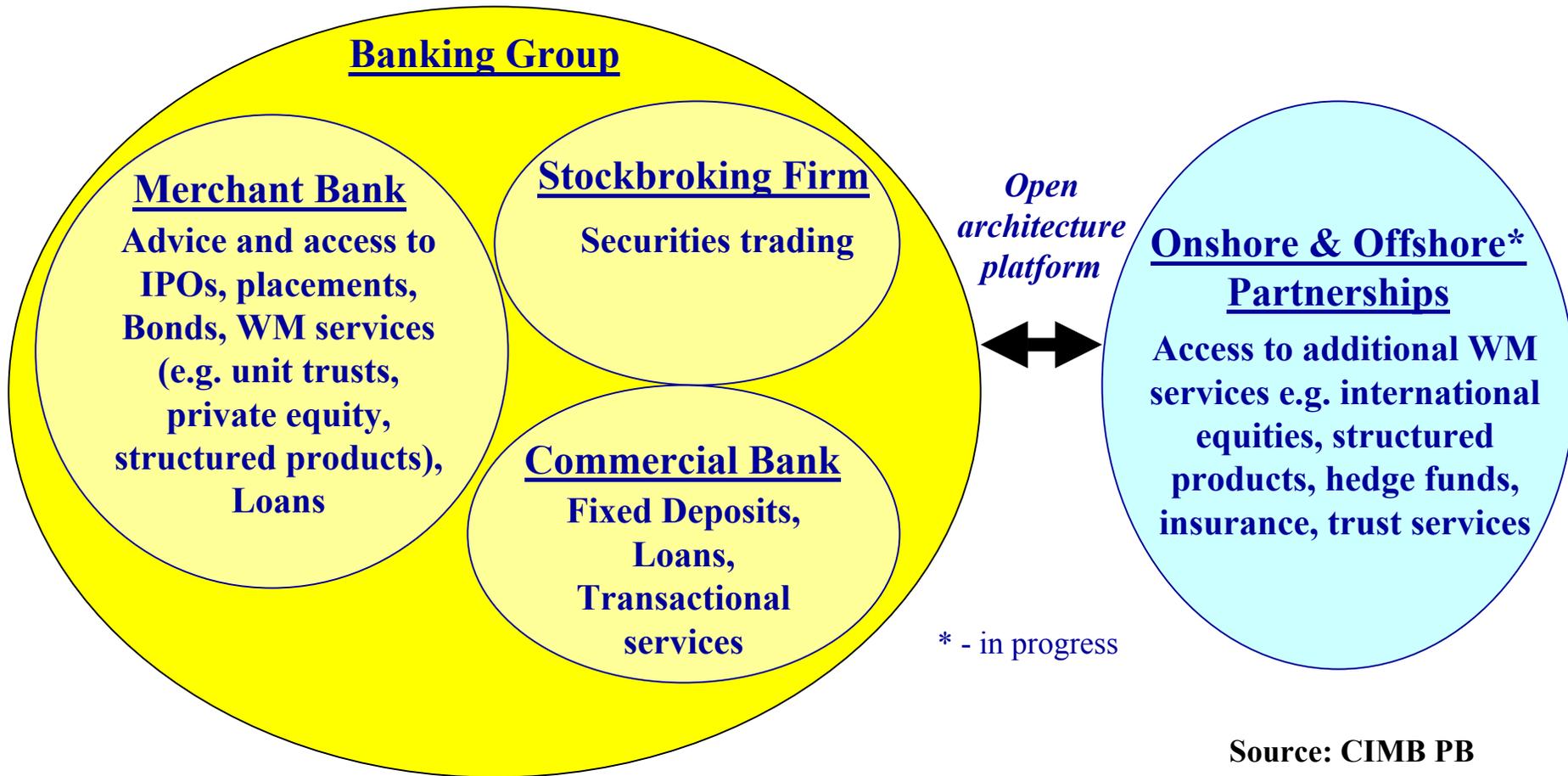


Wealth Distribution
Passing on assets through
wills and trusts



Source: CIMB PB

WM Service Offerings in Malaysia

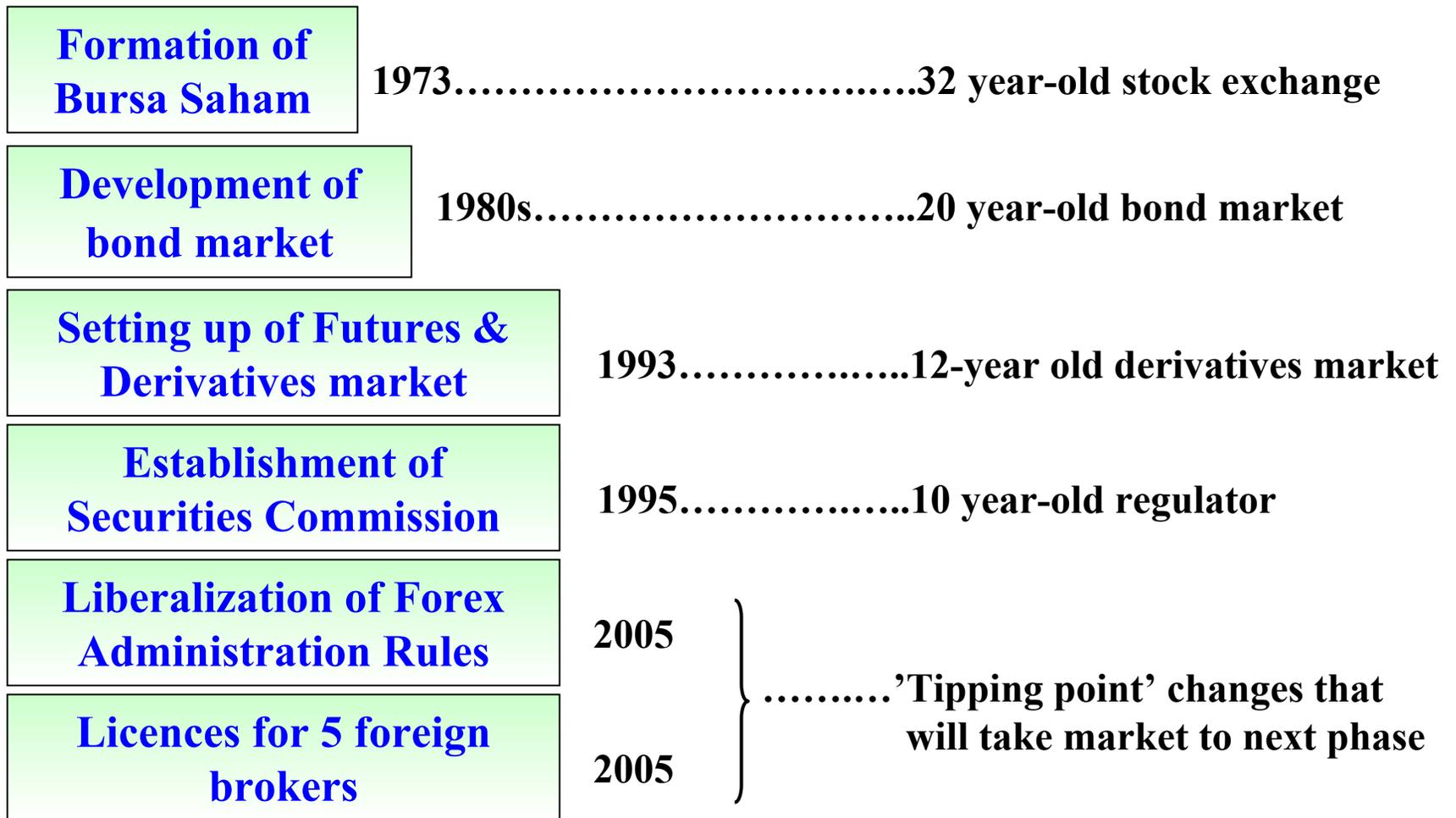


Ingredients to Support Strong Growth

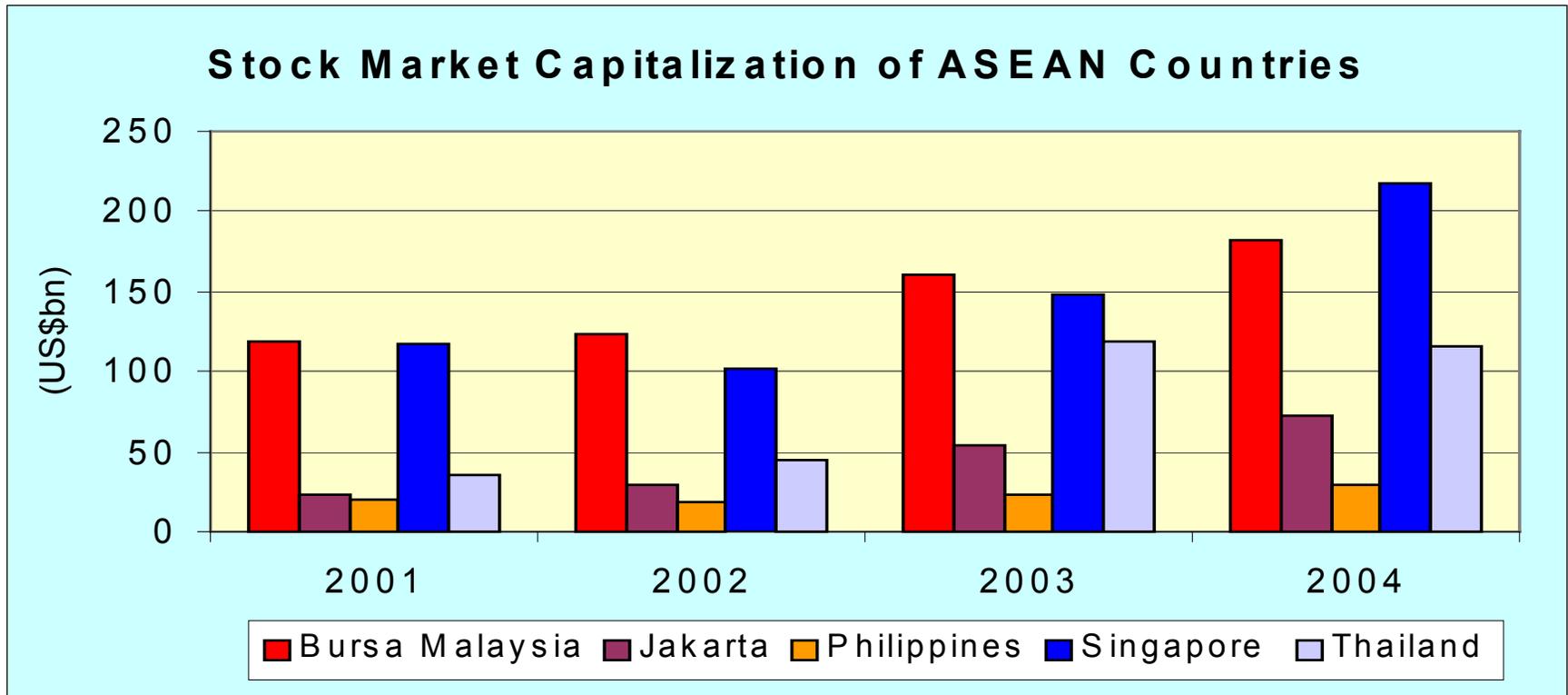
Wealth Management still in early stage development, but enjoying excellent growth. Factors underpinning industry development:

- **Adequately developed capital market, strong intermediaries and fast expanding range of conventional and alternative investments.**
- **Rapidly growing Wealth Management advisory capabilities.**
- **Proliferation of players providing the service.**
- **Strong demand drivers for WM service.**

Relatively Established Capital Market



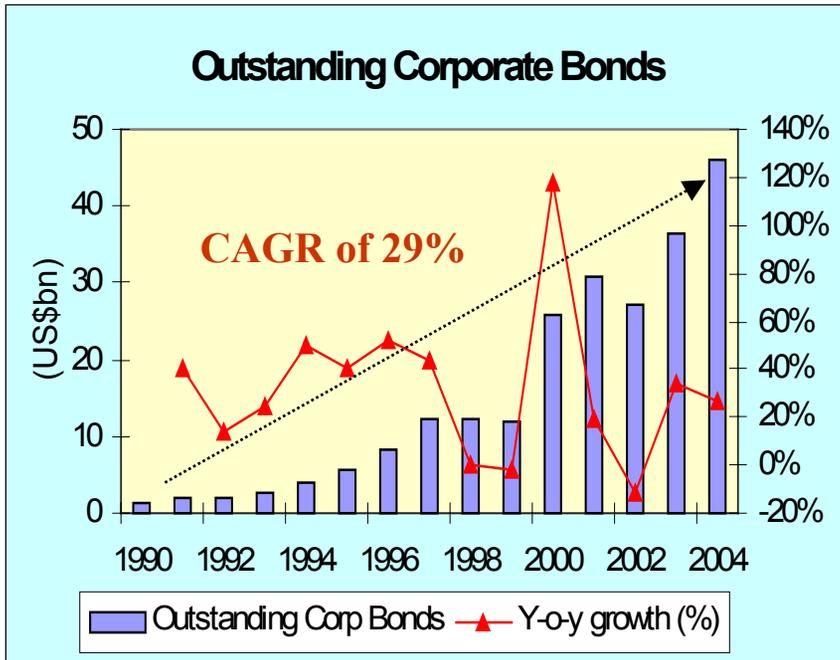
Bursa - One of Largest Markets in ASEAN



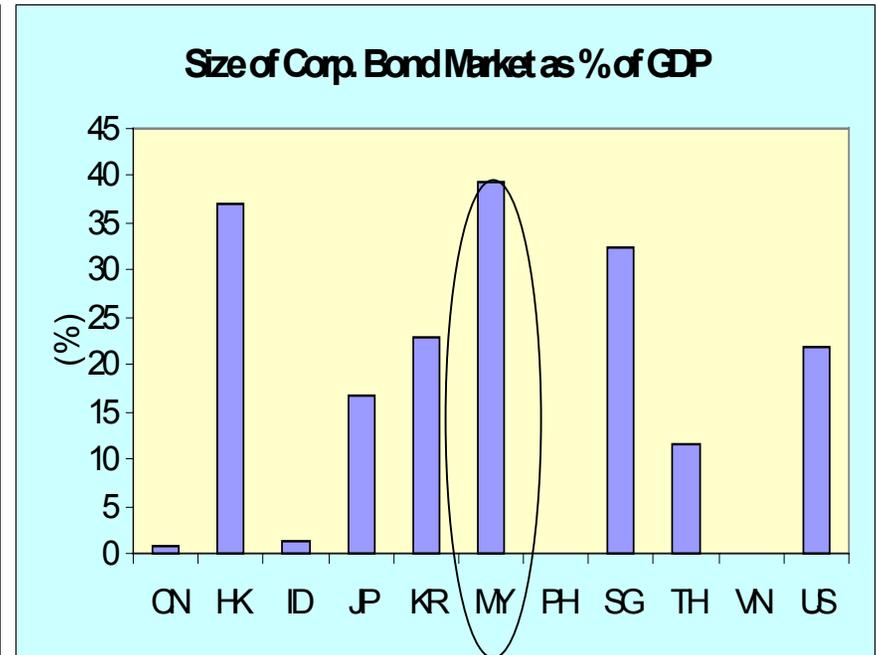
Source: Bloomberg

Bursa enjoys good mix of institutional (local and foreign) and retail participation.

One of Largest Bond Markets in Asia



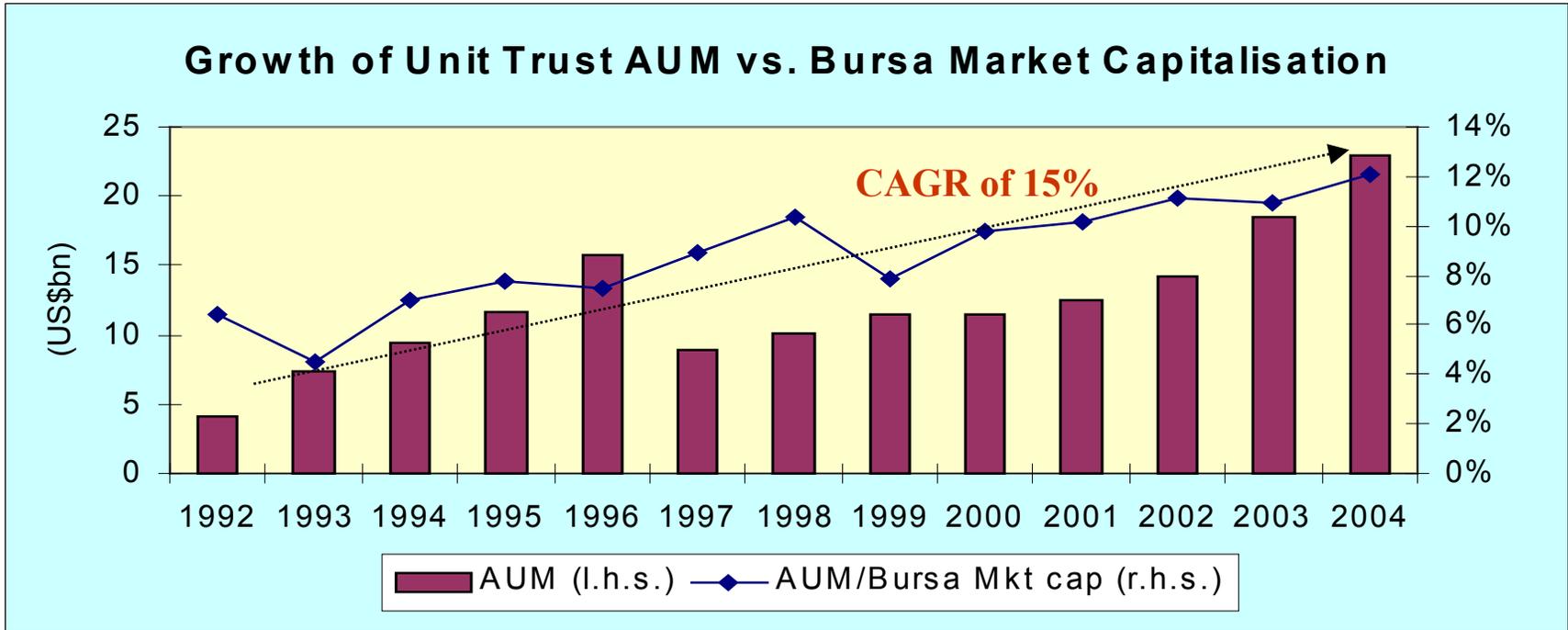
Source: Bank Negara



Source: Asian Bonds Online

Retail interest in bonds has grown significantly, initially via bond funds, and more recently through direct investment facilitated via odd lot trading.

Broadening Choice of Unit Trust Offerings



Source: Federation of Malaysian Unit Trust Managers

300 approved funds with good breadth of coverage – growth, balanced, income, bonds, money market, syariah, closed-ended and guaranteed funds.

Fast-developing WM Advisory Capability

- **Financial planning/investment advisory services relatively new to market, but experiencing exponential growth.**
- **Widening array of increasingly complex products coupled with growing sophistication of HNWI driving demand for advice.**
- **Already 10,000 membership registered with associations overseeing Certified Financial Planning (CFP), Chartered Financial Consultant (ChFC) and Registered Financial Planner (RFP) qualifications.**

Proliferation of Players in WM

More banks expected to join WM race:

- **Nature of business highly attractive to banks – assets accumulated off balance sheet, while associated risks are borne by investors.**
- **Growth potential of business appealing, coming at time when banks facing increasing impact of financial services disintermediation.**
- **Potentially high ROE business once economies of scale reached.**

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Drivers of Demand for WM

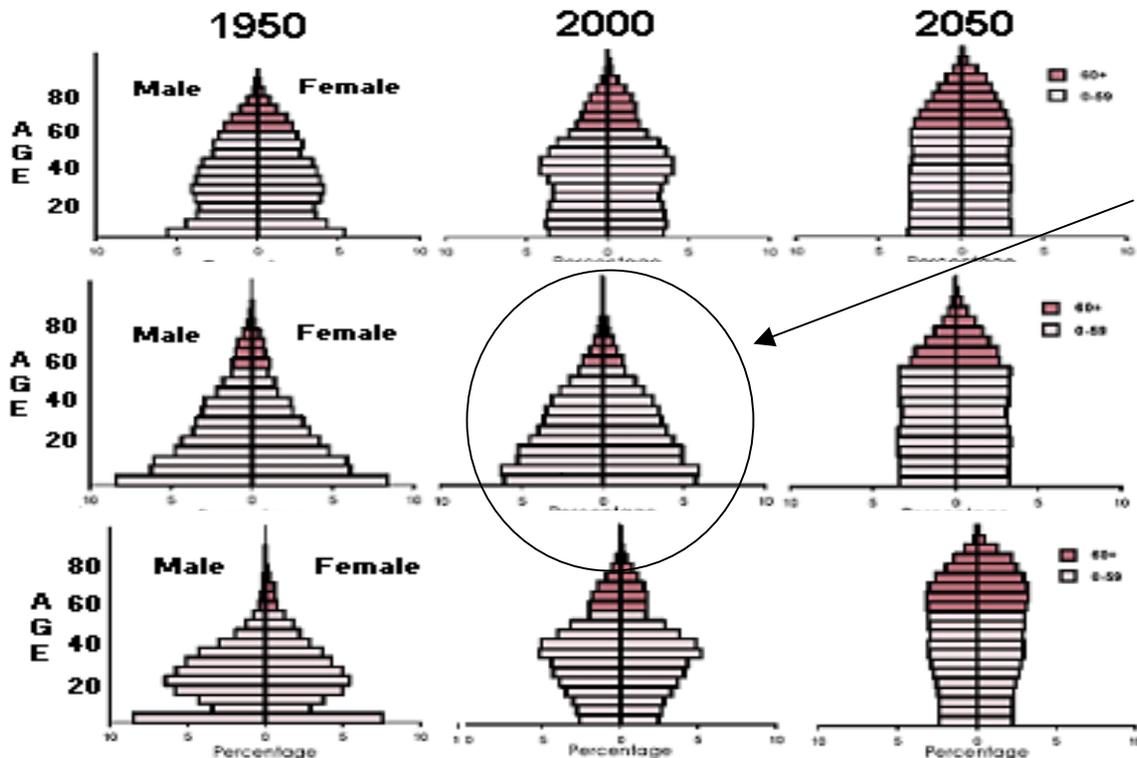
- **Rapid growth in HNW market due to healthy economic expansion, high savings rate (37% of GNP) and population's attractive demographics.**
- **High concentration of wealth in hands of small segment of urbanized population makes clients accessible to Wealth Managers.**
- **Ready pool of investable funds given population's heavy wealth concentration in cash (accounting for ~62% of Malaysians' household assets, compared to < 20% for developed market such as US).**

Malaysia's Attractive Demographics

USA

Malaysia

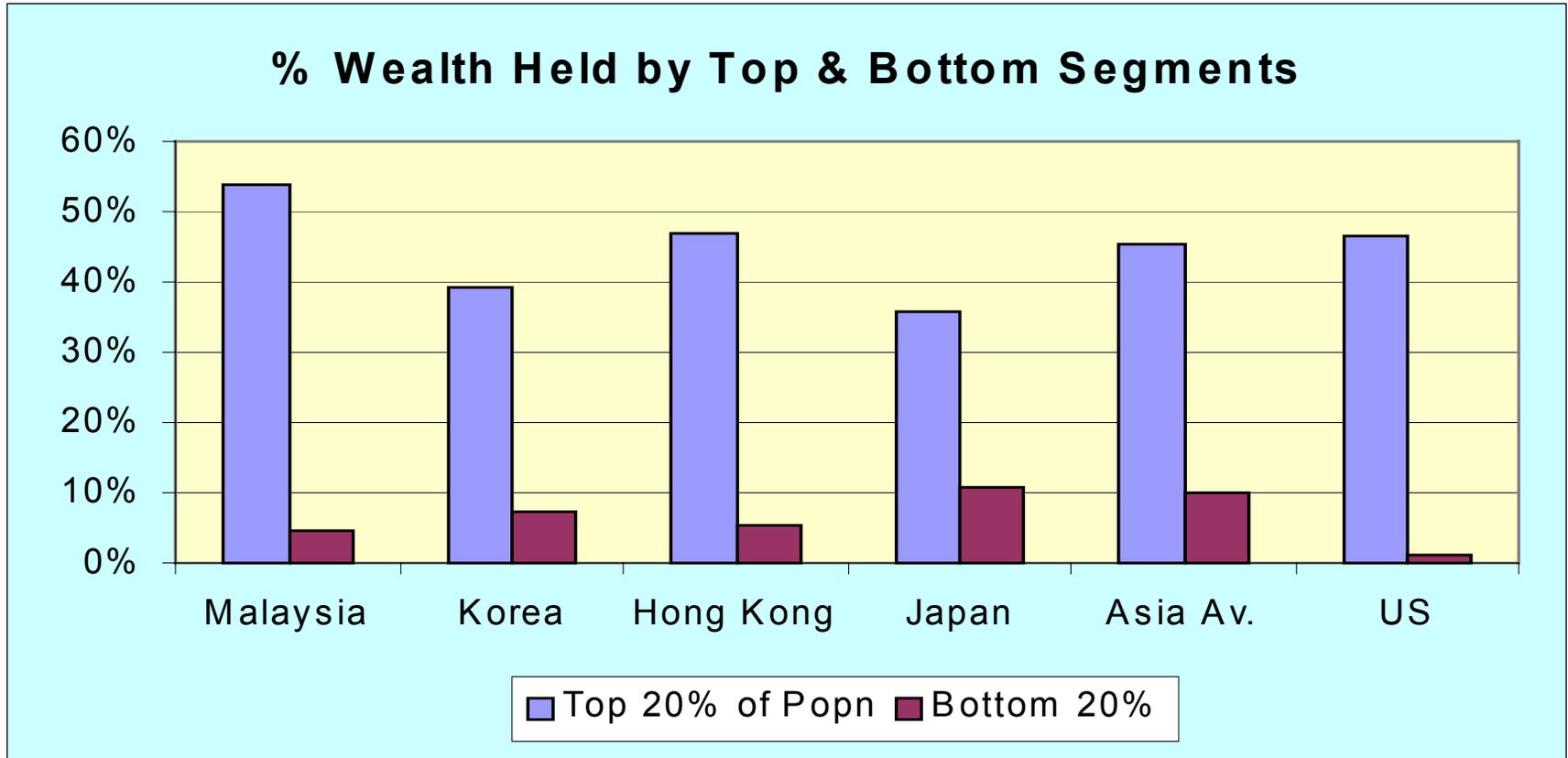
Hong Kong



Pyramid shape →
Demographic sweet spot – expanding workforce, higher productivity, growing savings base – should strongly support WM industry.

Source: UN

Relatively High Concentration of Wealth



Source: CSFB

Attractive Market Potential

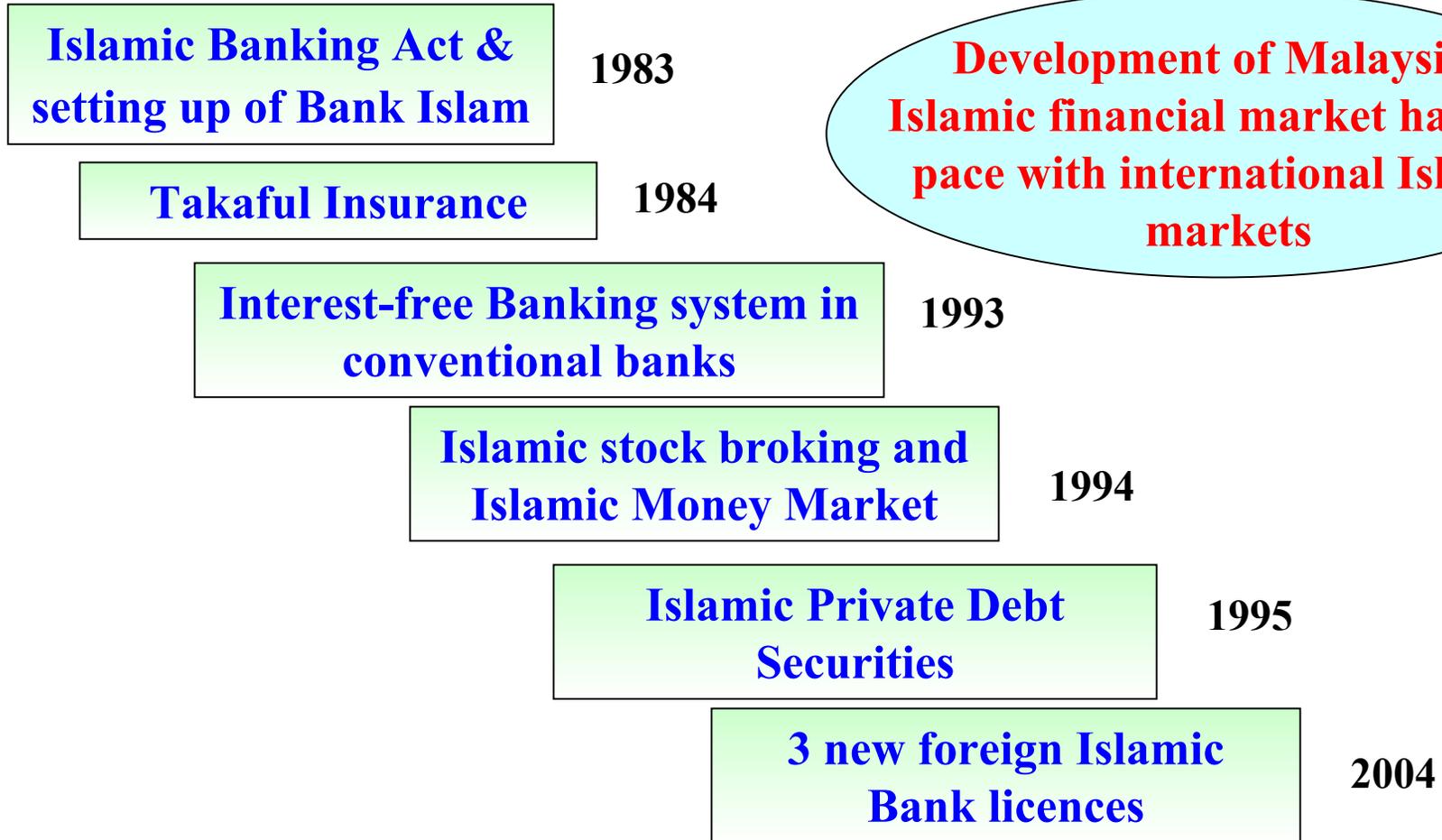
- **Market size – according to survey by McKinsey, 130,000 HNW households (representing 2.5% of universe) in Malaysia control RM168bn worth of wealth (60% of total).**
- **Larger portion of Malaysians' assets retained onshore vis-à-vis many other Asian markets – due to relatively low political risk, reasonable currency stability and local orientation of Malaysians → Bigger onshore WM market.**
- **Low penetration of households serviced by Wealth Managers.**

Main shortcoming - market takes time to develop as HNWI's need to be convinced on benefits of WM.

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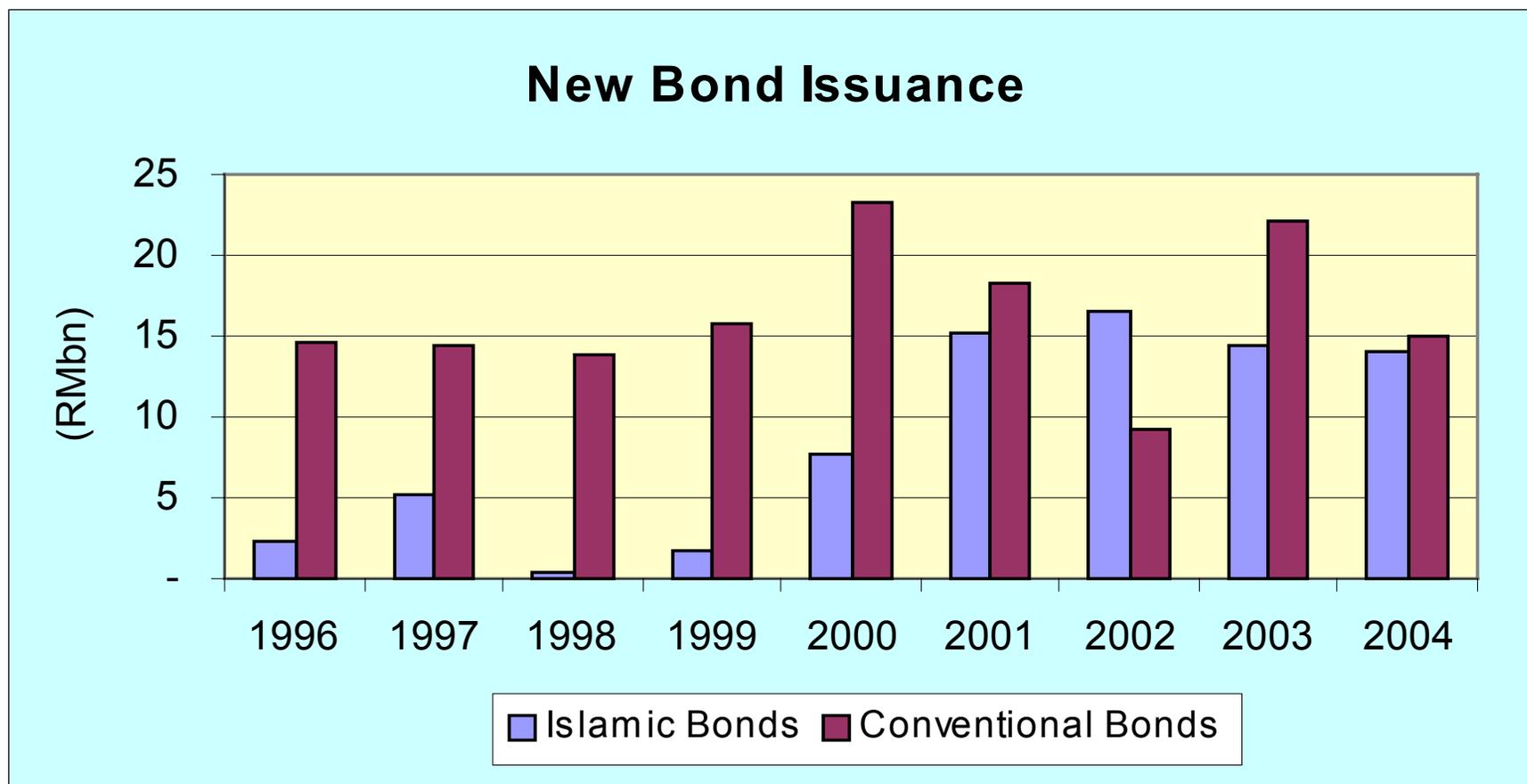
Development of Local Islamic Financial Market



Local Islamic Financial Market

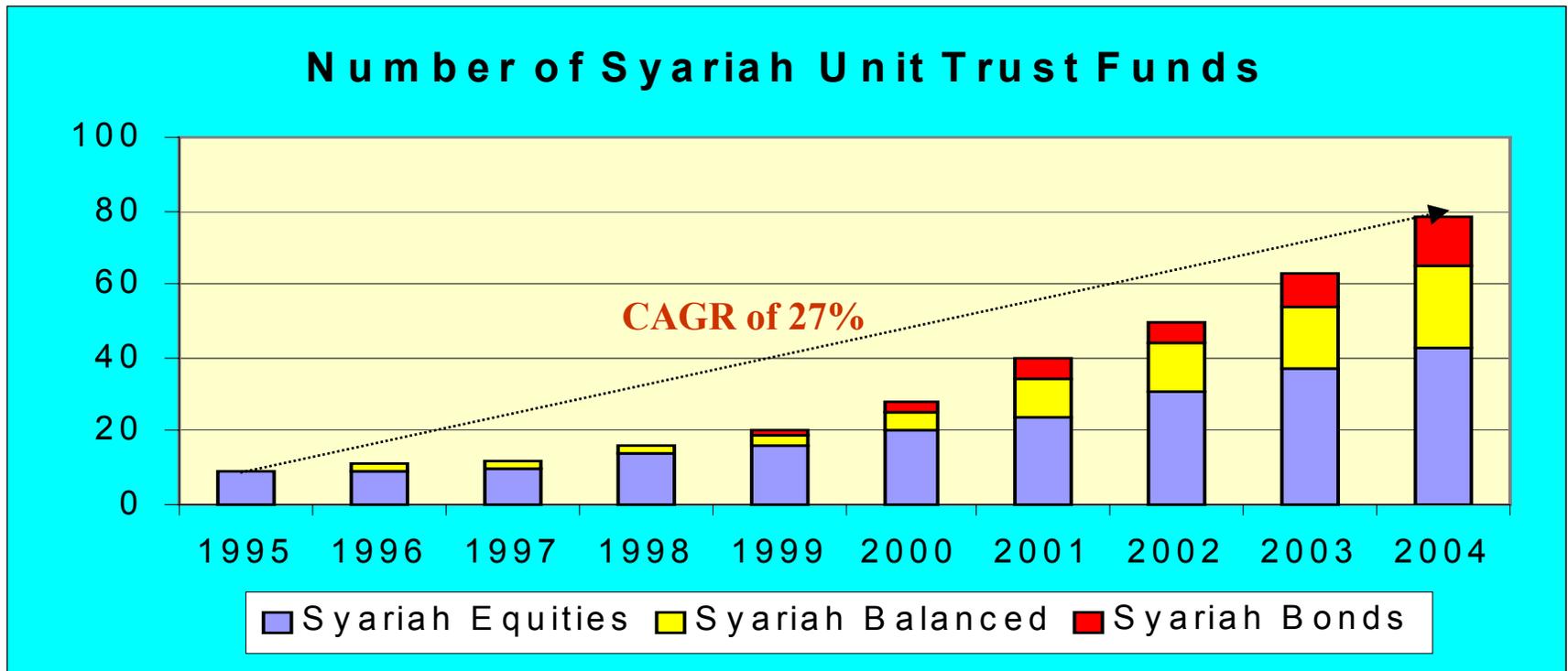
- **Comprehensive domestic Islamic financial system – covering banking, insurance, money market and capital market - parallel of conventional system.**
- **FIs and other capital market intermediaries operate under sound regulatory framework supervised by Bank Negara and Securities Commission.**
- **Wide range of syariah financial instruments well accepted by issuers and investors.**
- **Growing base of Syariah experts trained in international Islamic principles who serve as advisory council members at both regulators' and private sector level.**

Strong Appetite for Islamic Bonds



Source : Bank Negara

Accelerated Growth in Syariah Funds



Source : Lipper

Syariah compliant stocks account for > 80% of companies listed on Bursa

Foundation for Islamic WM Services

- **Sizeable and growing pool of local consumers provide economies of scale for Islamic financial services. Market include non-Muslims.**
- **Constant innovation to introduce competitive Islamic financial products and services, which Malaysia seems to have built a forte in.**
- **Sizeable pool of latent international Islamic capital with potential to be attracted here in line with Malaysia's goal to be an international Islamic capital market centre.**

State of Affairs of Islamic WM

In nascent stage of development compared to conventional market.

- **Islamic WM parallels of conventional WM products already available – savings, equities, debt, unit trusts, private equity, insurance, wills and trusts.**
- **Advisory capability lagging – shortage of financial advisors with sound understanding of Islamic investing principles i.e. Syariah expertise on advisory council level has not cascaded down to other levels yet.**
- **Platform for delivering Islamic WM service to be further developed.**

Challenges in Islamic WM Services

- **Improving platform to offer the service and building Islamic investment advisory capabilities.**
- **Continued product innovation to fill gaps compared to conventional WM e.g. in developing alternative investments and hedging/risk management instruments.**
- **Developing Malaysia as an offshore centre for international Islamic funds.**
- **Continued collaboration with other Islamic jurisdictions so that products created here are acceptable to them.**

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Product Challenges Currently Faced in WM

- **To properly help enhance, protect and distribute wealth, service providers need adequate:**
 - **tools for hedging e.g. using futures and options;**
 - **diversification – across markets, asset classes and currencies;**
 - **trust service options – including choice of jurisdictions;**
 - **instruments to help clients enhance returns under varying market conditions, using products custom-made to their needs.**
- **The situation until very recently:**
 - **products limited to single market and single currency;**
 - **service providers missing out on international product innovation due to inability to import products.**

Exchange controls inhibited the development of WM in Malaysia

Landmark Events for Local WM

- **Product limitations will become less of an issue thanks to two recent developments.**
- **These will enable new Wealth Management products to be introduced at an unprecedented pace.**
- **The two developments:**
 - **Liberalization of Forex Administration Rules;**
 - **Revised Guidelines on Investment Linked to Derivatives (Structured Products) allowing greater flexibility and wider ranger range of products.**

Liberalization of Forex Measures*

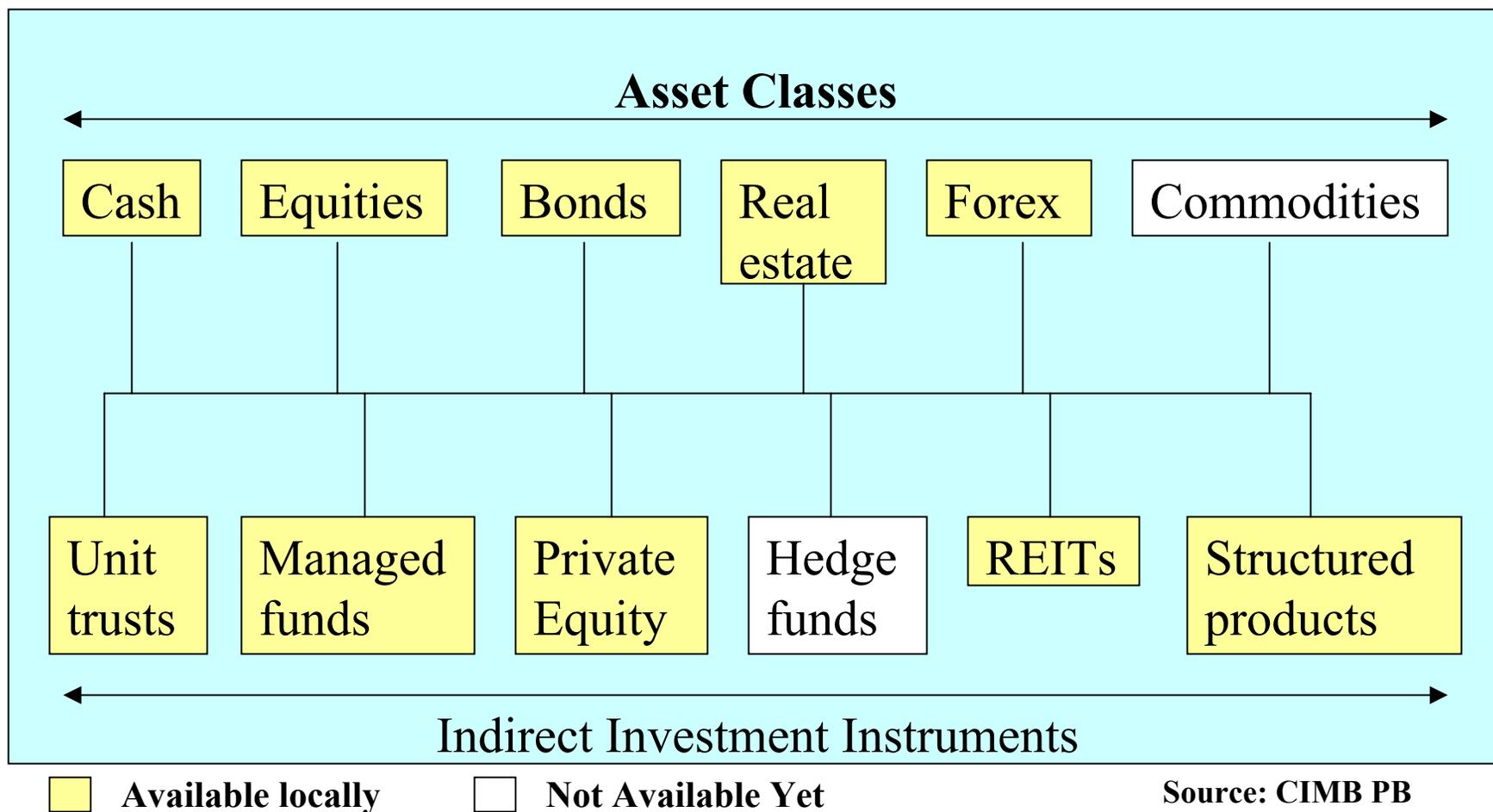
- **Aside from the obvious effect of allowing Malaysians to invest offshore, the liberalization has far-reaching effects on the local WM industry:**
 - **Foreign currency accounts now available locally;**
 - **Local fund managers can set up international funds for local and regional distribution;**
 - **Foreign products e.g. international unit trusts can be registered and distributed locally, and alternative instruments e.g. hedge funds and structured products;**
 - **Local intermediaries can offer trading in regional equities and bonds – once further regulatory amendments are made.**

** - with effect from 1 April 2005*

Structured Products – Key WM Offering

- **Revised Guidelines introduced this year:**
 - allowing wider range of underlying assets based on onshore and offshore interest rates, indices and asset prices;
 - Lowered minimum transaction amount from RM1m to RM0.25m.
- **Structured products are hybrid securities combining fixed income with derivative instruments and offers exposure to non-traditional asset classes and instruments.**
- **A key Wealth Management offering as:**
 - they can be customized to meet specific investor needs;
 - they also give investors the opportunity to earn enhanced returns at all phases of the economic and investment cycle.

WM Products Available Locally



Next Stage – Regional WM Centre?

- **Can Malaysia develop into a regional Wealth Management Centre?**
- **The more developed regional financial centres enjoy a head-start and certain structural advantages, but:**
 - **with earlier barriers already lifted, product availability and funds mobility will no longer be a handicap to providing holistic wealth management solutions in Malaysia;**
 - **Malaysia's Islamic financial services capabilities could be a more telling factor differentiating it from other markets.**

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