



**Keynote Address**

***“Embracing Challenges and Opportunities in the Investment Management Industry”***

**by**

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**at**

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**Salutations**

Yang Berbahagia Datuk Siti Hadzar Bt Mohd Ismail, Chairman of the Federation of Investment Managers Malaysia,

Members of the Board of FIMM,

Distinguished speakers and guests,

Ladies and gentlemen,

A very good morning to everyone.

**Introduction**

1. First, allow me to express my sincere gratitude to FIMM for inviting the Securities Commission Malaysia to deliver the keynote address at FIMM’s 2016 Annual Convention. We would like to take this opportunity to congratulate FIMM for successfully organizing this Annual Convention for the 16<sup>th</sup> consecutive year. This is indeed an excellent platform for members of FIMM, distributors and consultants to

discuss recent developments and significant issues of the industry, infused with cutting edge insights from today's line-up of distinguished speakers.

2. The theme of this year's conference which focuses on future challenges and opportunities is timely, given the changes that are happening around us today. I would like to address several key issues which may necessitate a review of current business models and the importance of good business conduct.
3. But before we delve deeper into these issues, let's take a step back to see where we are now and how we have come this far.

#### **Overview of the CIS industry and SC's role in spurring its growth**

4. Within a decade, Malaysia's unit trust industry has recorded tremendous growth from RM164 billion in 2006, to RM687 billion in 2016 – a significant achievement considering that the Global Financial Crisis occurred within that period. The unit trust industry has played an important role in enabling Malaysians to diversify their investment portfolio and grow their wealth. Unit trusts today remains the biggest contributor of assets under management in Malaysia, making up more than half (52%) of the total assets under management at RM349 billion.
5. The steady growth of the unit trust industry over the last ten years would not have been possible if not for the collective efforts of industry players and FIMM; industry players in promoting the products, and FIMM for maintaining investor confidence. SC on the other hand will continue to enhance competitiveness of the Malaysian unit trust industry, expand business opportunities for our industry players and widen investment choices for Malaysians.
6. In the area of competitiveness, the SC had in July this year removed the requirement for annual renewal of CIS prospectuses to enhance cost efficiency, aptly called the "Evergreen prospectus" framework. At the same time, we have also simplified the approval process for non-complex retail unit trust funds. Last year, the Lodge and

Launch framework was introduced, allowing wholesale funds to be offered to investors immediately once the requisite information and documents have been lodged with SC, compared to an approval time of between 14 and 21 days. This framework will enable issuers to tap the market within a narrow window of opportunity, especially during volatile market conditions.

7. The SC has also put in considerable efforts to expand business opportunities for industry players through the ASEAN CIS framework. This regional linkage between Malaysia, Singapore and Thailand has allowed Malaysian investors to benefit from a wider range of investment products, and for qualified fund operators in Malaysia to offer their funds to investors in neighbouring countries. To date<sup>1</sup>, 3 Qualified CIS Operators (2 from Malaysia, and another 1 from Singapore) have launched 7 funds between them (6 from Malaysia, 1 from Singapore). We hope that industry players will seize this opportunity to grow and expand their business regionally.

Ladies and gentlemen,

### **Challenges and opportunities for 2016**

8. The landscape of global financial and capital markets has shifted significantly over the past few years, driven by a number of factors, including:
  - digital disruption;
  - changing demography of the investing public; and
  - issues relating to trust and confidence.

These different factors and their confluence will continue to drive investment choices and behaviour.

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<sup>1</sup> Securities Commission Malaysia, statistics as at 31 August 2016.

## **Digital disruption**

9. Technological advancements and its proliferation are pervasive across all industries – particularly in the capital markets and the wider financial sector. The democratizing effect of technology has disrupted traditional business models and distribution channels, and has consequently changed how and where investors seek information and consume investment products.
10. Where traditional models involve high set-up costs of brick and mortar businesses and large numbers of agents to reach out to their customer-base, newer business models – the “disruptors” – leverage technology to overcome the initial cost barrier, skipping the middleman and targeting their market base with greater precision. Thus, online platforms have been able to provide wider distribution channel for issuers, greater product choice for investors and lower transaction costs (down to even 0% fees). Some of these platforms also allow investors to compare features of different products in real time and enhance investors experience by allowing them to complete their transaction with a click of a button.
11. Robo-advisers are a natural extension of this. Already an industry mainstay in the US, robo-advisers are gaining traction in Europe, Australia, Canada and India. Financial advice and planning was previously seen as impervious to digital disruption due to the level of customization needed to suit the investor’s risk profile. But today, this is a fertile ground for disruption. For a fraction of the cost, investors are able to automate their risk assessment, portfolio planning and asset allocation.

## **How firms can thrive in a digitally disrupted world**

12. As digital technologies continue to transform the investment management industry, many companies are recalibrating their digital strategy and shifting organizational structures in order to maximize the potential of new digital technologies. In order to remain relevant and competitive, traditional business models need to evolve to cater to the emergence of a more sophisticated and tech-savvy generation.

13. As investors look for faster, cheaper and more convenient access to products and services, industry players must constantly seek ways to provide value-added and investor-oriented services. They must move from pure product distribution, and leverage technology and behavioural insights to better understand their investors' needs. Firms that deliver better individualized experiences to their investors are more likely to:
  - build relationships and trust;
  - maintain a sustainable customer base; and
  - outperform competitors in sales and revenue.
  
14. While technology has dominated discussions in the financial sector, we must not forget that many investment decisions include a very important emotional component, and that is best managed through human interaction. Prioritizing the right human touch will help shape investment behaviour and produce positive outcomes, especially when dealing with diverse needs of investors.
  
15. It is therefore imperative that consultants and agents are well-trained and are familiar with the nature and risks of the products which they are marketing to investors. Principals must invest in training and familiarization programmes for their agents, not only at the point of recruitment but on an on-going basis. This will ensure that their agents are kept abreast with the regulatory and market developments affecting the industry and enhance their ability to provide investors with timely and accurate information on their investments.

Ladies and gentlemen,

**A change in demography means a change in doing business**

16. As at September 2016, the working population in Malaysia, i.e. those aged 15-64 years, makes up 69.5% of the total population of the country, or 22 million people out of almost 32 million. This means more than half of the

population in Malaysia will need to prepare for retirement by maximizing their savings and returns on investment.

17. A recent HSBC survey on the 'Future of Retirement' found that in Malaysia, 44% of retirees would have started saving for retirement at an earlier age, while 39% of pre-retirees have either not started saving for retirement or have stopped doing so. We have to be mindful that in just 19 years, Malaysia is expected to reach ageing population status, where 15% of its total population would be 60 years and older by 2035. Compounded with longer life expectancy and rising living costs, there is an urgent need for Malaysians to start planning for a sustainable retirement lifestyle.
18. As different segments of society have different attitudes towards savings and retirement, innovative awareness campaigns are needed to address target segments such as youth, young professionals, individuals with families, the self-employed and employers.
19. Despite being a relatively new sector, the private retirement scheme (PRS) industry continues to chart a steady and consistent growth. As at August 2016, a total net asset value exceeding RM1 billion was recorded. The number of members contributing to the scheme increased to 201,000 members from 180,651 members in December 2015.
20. However, given the importance of this segment of the industry to the general well-being of retiring Malaysians, there is a need to accelerate the growth of this industry. In this regard, the Private Pension Administrator (PPA) and industry players must work together to promote PRS, especially to the employer segment. To date, only 350 employers have participated in PRS.
21. Providing easy access to PRS products for new and existing investors is also important to encourage greater investment into PRS products. We are happy to note that the PPA online top-up system is already up and running.

Ladies and gentlemen,

### **Trust and confidence**

22. Trust and confidence are the bedrock of the capital market. They provide assurance that capital market intermediaries are well managed institutions to which investors can confidently commit their funds.
23. Post the global financial crisis, regulators and international standard setting bodies have taken various measures to rebuild investors' trust, which was severely eroded by, among others, mis-selling of complex products and bad business practices. Regulations were put in place to align sales practises with investors' interests and risk profile and promote greater transparency.
24. Conduct of both intermediaries and their agents is an important factor in maintaining trust and confidence. The conduct of agents is particularly important as they are the primary and in most instances, the only point of contact with investors. The results of our recent Unit Trust User Experience Survey show that sales practices among unit trust agents have fallen short of standards expected of them.
25. We are very concerned with the following findings: A large portion of the respondents have said that they have pre-signed blank forms. Some of the respondents said that they did not receive explanation on sales charges and fees, while others have said that they were not assessed on their suitability to purchase the unit trust product. Some respondents said that they were not provided with the necessary disclosures like the prospectus and Product Highlights Sheet.
26. Intermediaries must urgently take steps to address these shortcomings.

27. I would like to take this opportunity to reiterate our principles on fair treatment of investors contained in the Guidelines on Sales Practices of Unlisted Capital Market Products. The salient features are:
- Ensure that the product is suitable for investors;
  - Disclose the salient features and risks of the product; and
  - Ensure that fees and charges imposed are fair.

Ladies and gentlemen,

### **Conclusion**

28. A capital market intermediary, whether an institution or an individual, serves as an important bridge or conduit in an investment transaction. Investors place their reliance on you to provide them with the necessary information so that they can make informed investment decisions. They also place their trust in you to manage their funds responsibly.
29. Investor trust and confidence can have a direct and profound effect on an intermediary's reputation and profitability. The impact of loss of reputation can be seen in the recent case of Samsung's Note 7 failure. Samsung's expected loss from this event has soared above US\$5 billion.
30. As such, we urge you to always put trust and confidence at the forefront of your dealings with investors. Let us all work together towards building an innovative and vibrant unit trust industry.
31. With that, I wish you all a very productive programme today. Thank you.

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