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Thomas Tan, CIMB

maintained or exceeded,” he says. Along with a push to move away from manual processes, providers are expected to further develop client-facing technology. He also refers to an increasing need for providers to meet growing compliance demands: especially in relation to the segregation of Islamic funds.

The advance of technology is having an impact on both banking services and client needs in Malaysia. Maybank, for example, now offers retail clients the opportunity to open and manage a Unit Trust Investment Account on the go. CIMB offers a similar service, the app for which also enables customers to convert currencies. Both providers market their service as a “one-stop financial portal,” including banking, insurance and share trading.

The idea that new technology might influence their decisions going forward is also a popular view among institutional custody clients, who generally consider technology to be of growing importance, as communication standards need to be improved.

Thomas Tan, CIMB Group’s head of Global Sales, Foreign Exchange and Transaction Banking agrees, noting that “Technology is changing rapidly... There are plenty of solution providers out there... Some will build a customised solution for you.” Tan considers this to be the service area where there is the widest service differentiation, and does not think this will change in the near future.

The emphasis on technology does not, however, mean that automation is the norm when it comes to serving a domestic client base. Although most custodians have begun implementing online systems, one client complained

Technological tipping point

As reporting requirements increase and custodians prepare for the implementation of The Goods and Services Tax, Malaysian custody clients and providers agree that technology is of paramount importance.

Generally, custody clients and providers appear to be confident that Malaysia possesses the necessary market infrastructure to support current demands. “It is not often that we hear of security issues or settlement problems,” says one fund manager.

“There are on-going initiatives by Bursa Malaysia to meet investors’ needs,

such as the Central Matching facility,” another client explains. This facility is an automated system, aimed at increasing future trading and settlement efficiency.

One local asset manager is more tentative. “The [Malaysian] infrastructure is sufficient, and will be able to move towards meeting future needs, providing current technological standards are

that providers are still too reliant on phone calls and emails, in order to obtain information.

The introduction of such systems would increase time-efficiency and enable reporting requirements to be met more easily, several clients note. “Software with powerful reporting tools will allow us easy access to data and reports,” says one client.

Providers and their institutional clients are feeling the pressure from both regulators and end-beneficiaries. “We need to enhance our system to ensure that our reporting capabilities match our clients’ needs, and that we are ready to tackle the increased reporting expectations,” says one fund manager. “Otherwise, there will be miscalculations... This is something we’ve been working on over the past year, and it will be on-going, as client preferences alter.” Such requirements will inevitably feed through to custodians.

Reporting compliance

As online systems increase in availability and capability, clients look forward to a decline in manual reporting. “One of our own clients phoned me recently to ask why they had not received their report,” a client of a large custodian recalls. “I cross-checked with the custodian, and discovered that they were still relying on the postal service for delivery.”

Reporting standards across custodian banks are still considered to be an area of wide differentiation, particularly in the servicing of Islamic funds, where compliance and reporting services vary most considerably.

Islamic funding

Current provision often falls short of expectation in the fulfilment of Islamic (Shariah) funding standards. Islamic fund development and compliance is considered to be an area of considerable challenge to the market, according to several clients. “As Islamic finance and investment is fastest growing in the financial services market in Malaysia, we believe that the system must have the capability to accurately monitor Islamic-compliant securities and non-compliant securities,” explains one client.

“Fund managers... have to ensure that the appointed securities services provider does not mix conventional and Islamic investment assets,” says one asset manager. This is not a universal concern, however. One local manager suggests that, “in terms of Islamic compliance, market providers seem consistent.”

CIMB, however, describes itself as the only provider fully supporting the Islamic fund industry via dedicated Islamic vehicle entities. “We have CIMB Islamic Trustee Berhad as trustee provider [and] CIMB Islamic Bank Berhad as the custodian,” the bank explains. “Now clients know that CIMB can offer an Islamic version of these services, demand has also increased.” Islamic compliance is something CIMB started working towards in mid-2013.

The future

Although enhanced online opportunities, including currency conversions, indicate a potentially flexible approach for customers who wish to purchase assets outside of Malaysia, it was recently announced that The Malaysian Finance Ministry is encouraging Government-Linked Companies (GLCs) to invest domestically.

This encouragement to concentrate on domestic investment can be considered “both compulsory and advisory, depending on the company and the purpose of its inception,” explains one GLC employee. “In Malaysia, you can roughly divide the purpose of GLCs into three general categories: those which have privatised previous governmental functions (such as the Malaysian Postal Service); investment vehicles formed to generate profit for the government; and distribution and management channels for governmental projects.” For those whose primary purpose is profit-driven, the advice is more likely to be advisory than compulsory, so “the Board has some leeway... on the areas of investment, as authorised by their mandated scope.”

Whilst the long-term effect of focusing on domestic investment will depend on the Malaysian economy’s overall performance, GLC workers and financial analysts believe the short-term effect will be a stimulated local economy.

Domestic investors are favoured in terms of equity investments within the Malaysian market. Morgan Stanley Capital International’s (MSCI) 2014 review found that: “Foreign investors holding shares that exceed the Foreign Ownership Limits are not treated equally in terms of voting rights compared with domestic investors holding the same shares in the same company.”

Goods and services tax

In April 2015, Malaysia will be implementing The Goods and Services Tax at 6%, which will affect custodian fees across main providers. This is predicted to be an important, local factor within the Malaysian market.

“Clients may complain about increased expenditure, and I think our challenge to overcome that... would be to make sure our performance exceeds operating costs,” explained one fund manager employee.

A number of asset managers note that the impact of GST will depend on education about its purpose, with one suggesting that this burden should be the responsibility of the government, rather than individual financial institutions.

Most agree, however, that the impact should be short-term rather than long-term, because “GST is affecting the whole country,” and “will be implemented across all related providers.” This means that no provider will be at a competitive disadvantage. Tan concurs, although he also points out that the new regulations will have an effect on how taxation is handled for the economy as a whole. ■

For survey methodology, please refer to page 28.

SURVEY OVERVIEW

Value matters most

While service quality cannot be ignored, cost and value for money matter most of all.

Respondents to the Malaysia Survey of Domestic Custody services were asked to identify the most important factors to them in selecting and retaining custodian service providers. Almost 60% placed Cost and Value Delivered as either the first or second most important issue. The priority ranking of 10.65 shown in Figure 2 illustrates that this is clearly the most important issue for clients, ahead of Asset Servicing and Reputation and Asset Safety. Such a focus on costs probably reflects the relative maturity of the market for fund custody and servicing in Malaysia. It is also one where innovation, as in other Asian markets, is seen primarily in asset gathering rather than in administration and servicing.

As Figure 1 highlights, Costs and Value Delivered achieved the lowest score of any of the 10 categories covered in the Survey. This juxtaposition of high importance with low scoring is unusual in the context of most surveys conducted by *Global Custodian*. While it is generally the case that scores for this category are lower than others, it is rarely cited as being of such importance. While the results may not be entirely unexpected they do suggest that clients might be receptive to approaches that focus on offering either lower fees or better value for money, or both. While the market is mature there may be room for a new entrant to make progress.

The same issue also seems to apply in Asset Servicing. This is one area of functional performance that usually attracts relatively little comment either as a priority or as a problematic service area. Such is not the case in Malaysia. The average score of 5.18 was well behind other core service areas such as Settlement and Reporting. Yet this is an area that was second most important in terms of client priority, well ahead

of its position in other domestic surveys, whether in Europe (Greece), Africa (South Africa) or Asia (China). One logical explanation is that clients are running out of patience with provider efforts to improve asset servicing and so are now raising it as an increasingly important priority. However scores are weakest in Corporate Actions, with 8% giving their provider a score of 3.0 or lower. This could conceivably be the result of a particular corporate action that caused a client financial loss, rather than an endemic weakness. That would be somewhat less damaging and certainly easier to rectify.

Interestingly Technology also saw a significant number of scores at the 3.0 level (11% in this case). As Figure 2 highlights however, Technology was not as prominent in terms of priority as Asset Servicing. The low rating for Technology was somewhat surprising, given prominent client reference to technology within the market review. This could be because the clients who were interviewed use CIMB and/or Maybank's custodian services, whereas the survey itself was open to clients who use a wider range of providers, and may therefore consider other areas to be of greater importance.

Another explanation might be that technology features highly in client and provider comments because it affects other areas of current prominence within the Malaysian market, such as reporting. Technology's low client priority rating is also consistent with the results of *Global Custodian's* previous Greek Domestic Survey, in which technology was considered least important.

As might be expected, and consistent with other domestic surveys conducted by the magazine, Reputation and Asset Safety as well as Relationship Management and Client Service were highly placed in terms of priority. Reputation is often seen as a

Fig 1: Average scores by category

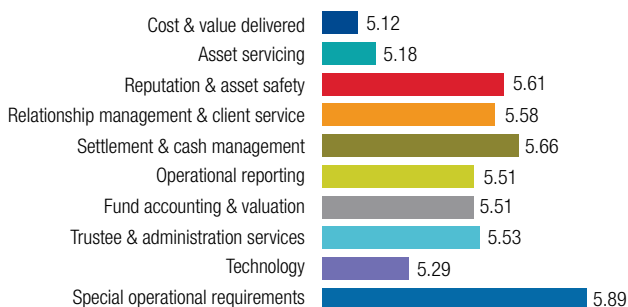


Fig 2: Respondent priorities ranking

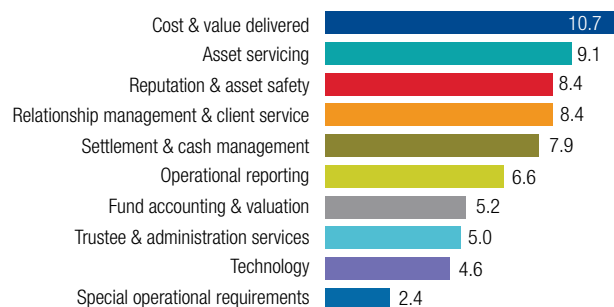


Fig 3: Type of respondent

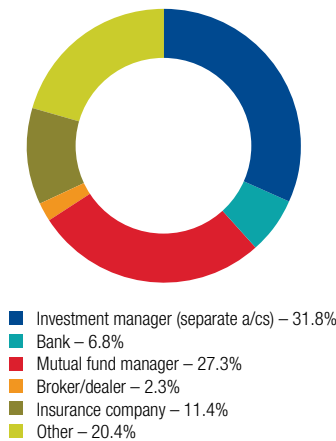
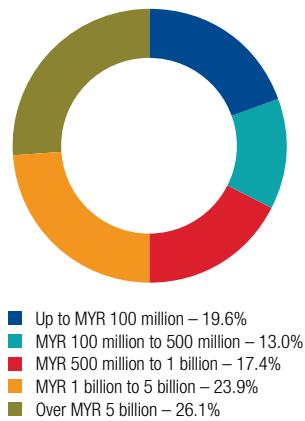


Fig 4: Size of respondent



key attribute. However it is also regarded in the context of the business of the provider and needs of the client. So while cross-border clients may be keen to use globally important banks as their sub-custodians, local asset managers and others view Reputation and commitment from their own perspective. They, and perhaps more importantly their clients, may be happier using a domestic bank they are familiar with, rather than a global 'behemoth'. Certainly this bias towards use of domestic banks to custody, what are usually largely domestic assets, is in-

line with the results of other domestic custody surveys.

The best scores were achieved in the area of handling special operational requirements. In Malaysia these include effectively dealing with the need to run Islamic compliant funds alongside more general funds. It is clear from the average score of 5.89 that the majority of clients are very satisfied with services in this area. Indeed scores for all providers suggest that this is something that the market as a whole copes with effectively. Similarly core Settlement and Cash Management services are mature enough to earn broad praise from clients across all providers.

As with all Surveys it is important that the results properly reflect the business and service providers engaged within it. In that context Figures 3 and 4 show the breakdown of responses by Type of Respondent and Size. As can be seen the Survey was supported by a wide range of asset managers as well as some banks, brokers and other financial institutions. It therefore represents the overall market in terms of users of custody services in Malaysia. When broken down according to the value of AuM, more than 25% of respondents manage over MYR 5 billion in assets. Respondents managing the largest AuM value are therefore the most represented within the survey. Similarly, the second most common AuM size was MYR 1-5 billion, representing almost 24% of respondents. Again the respondents represent a broad cross section of the market from the largest to the smallest of participants. ■

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CIMB

CIMB have generally performed well in the survey: exceeding the market average across half the service areas (5 out of 10). It received a respectable average service score comfortably ahead of the 5.0 Default score.

It achieved particularly high scores in Operational Reporting, where it was awarded the second highest score across providers, and Asset Servicing, where it placed 0.22 points above the average.

CIMB's category score for Relationship Management and Client Service was also above the market average. This reflects the positive comments it has received from several clients. Three clients complimented CIMB's "quick problem-solving for clients' queries." Two clients also expressed high levels of satisfaction with CIMB's communication, regarding corporate updates.

Another client identified CIMB as providing "competitive service fees," which indicates further satisfaction with overall service, and also reflects a high score for Costs and Value Delivered. CIMB achieved 0.13 points above the average score for this category, which was the one that clients identified as most important.

CIMB did not perform as positively in Reputation and Asset Safety, as it was the only provider not to obtain a score of at least 5 (out of 7). Two clients also identified reporting as an

area where amendments are needed. One client said the online reporting portal needs enhancing, while another emphasised that "timeliness and accuracy of verification of reporting" requires improvement.

However, CIMB's average scores for individual service areas were all at comfortably satisfactory or better levels and the bank is well positioned to expend in future. ■

Table 1: Client breakdown

Insurance company	8.7%
Mutual fund manager	39.1%
Investment manager	21.7%
Other	30.4%

Table 2: Service area scores

Service area	CIMB	Malaysia	
		Average	Difference
Relationship management & client service	5.60	5.58	0.02
Cost and value delivered	5.25	5.12	0.13
Settlement and cash management	5.77	5.66	0.11
Asset servicing	5.40	5.18	0.22
Special operational requirements	5.00	5.89	-0.89
Operational reporting	5.52	5.51	0.01
Technology	5.14	5.29	-0.15
Fund accounting and valuation	N/A	5.51	N/A
Trustee and administration services	4.59	5.53	-0.94
Reputation and asset safety	4.80	5.61	-0.81

Deutsche Bank

Deutsche Bank's results were generally disappointing, as its average service area scores were all lower than the market average. This means that, overall, Deutsche Bank's performance was the weakest of all providers.

Deutsche Bank achieved its highest rating for Reputation and Asset Safety, in which they achieved 5.42 (out of 7). This score was reflected in the clients' comments, with one citing Deutsche Bank's "creditworthiness as an institution", and another praising its asset valuation.

Three quarters of participants who mentioned Deutsche Bank's client service did so in a complimentary manner. One client described the team as "flexible in meeting clients' needs," while another considered Deutsche Bank's relationship across staff and clients to be well established.

However, two clients mentioned that Deutsche Bank's support staff and Client Servicing Team need to be more knowledgeable, as queries are not resolved quickly enough. Another client said Deutsche Bank needs to enhance its "understanding of regional and global markets operations."

Despite not receiving its lowest score, Asset Servicing was the area that nevertheless represented Deutsche Bank's weakest relative score. The service areas with the largest discrepancies were Fund and Unit Accounting and Valuation

(0.77 points below the market average), and Special Operational Requirements (0.66 points below).

Although Deutsche Bank's average scores were slightly disappointing compared to other providers, none of its results were alarming low. Scores ranged between 4.57 and 5.42 (out of 7). Despite having the lowest overall average, this is not a cause for specific concern when considered at face value. ■

Table 1: Client breakdown

Insurance company	18.2%
Mutual fund manager	9.1%
Investment manager	72.7%
Other	0.0%

Table 2: Service area scores

Service area	Deutsche Bank	Malaysia	
		Average	Difference
Relationship management & client service	5.24	5.58	-0.34
Cost and value delivered	5.03	5.12	-0.09
Settlement and cash management	5.06	5.66	-0.60
Asset servicing	4.57	5.18	-0.61
Special operational requirements	5.24	5.89	-0.65
Operational reporting	5.21	5.51	-0.30
Technology	5.18	5.29	-0.11
Fund accounting and valuation	4.74	5.51	-0.77
Trustee and administration services	4.94	5.53	-0.59
Reputation and asset safety	5.42	5.61	-0.19

Maybank

In our Malaysian Domestic Survey, Maybank achieved the highest scores across more service areas than any other provider. It is the only custodian to receive an average rating of more than 6 (out of 7), placing it ahead of the other providers.

Maybank scored particularly well in Asset Servicing and Operational Reporting. It was the only provider to receive an average score of 6 or more in these service areas, outperforming the market average by 0.87 points for Asset Servicing, and 0.71 points for Operational Reporting. Maybank's highest score (6.68), for Settlement and Cash Management, placed 1.02 points above the market average.

Although two clients said website access and technical support need improving, the overall high scores received by Maybank are in keeping with the market review. One fund manager stated that, throughout the increasing demand of the last five years, "Maybank Custody managed to assist us in Fund Administration, Technology and Cash Management." This client's comment, alongside Maybank's scores, demonstrates a general sense of satisfaction regarding its services.

Maybank's lowest score was for Costs and Value Delivered, which was the only area where it did not achieve the highest

average. Maybank's score for this category still remains 0.31 points above the market average. It is not, therefore, of great concern in comparison to other providers.

Overall, Maybank have performed very positively. All of its scores are within the range of 5.43 to 6.68 (out of 7). However, clients' survey comments indicate areas for improvement, including timeliness of communication. ■

Table 1: Client breakdown

Insurance company	14.3%
Mutual fund manager	14.3%
Investment manager	14.3%
Other	57.1%

Table 2: Service area scores

Service area	Malaysia		
	Maybank	Average	Difference
Relationship management & client service	6.50	5.58	0.92
Cost and value delivered	5.43	5.12	0.31
Settlement and cash management	6.68	5.66	1.02
Asset servicing	6.05	5.18	0.87
Special operational requirements	6.65	5.89	0.76
Operational reporting	6.22	5.51	0.71
Technology	5.95	5.29	0.66
Fund accounting and valuation	6.54	5.51	1.03
Trustee and administration services	6.53	5.53	1.00
Reputation and asset safety	6.20	5.61	0.59

Standard Chartered

Standard Chartered's performance in the survey was mixed. Although the majority of its scores (7 out of 10 categories) were below the market average, it received some quite positive outcomes.

Standard Chartered obtained the highest score for Costs and Value Delivered, having gained an average of 5.44. Its 'cost effectiveness' was also cited by one client as a provider strength. This result may be especially important, given that this category ranked first according to client priorities. However, its strongest service area was Special Operational Requirements, for which it received an average of 6. A large client also cited reputation and asset safety, which was their second highest score, as a particular strength.

Standard Chartered received mixed comments for Client Service. While one medium-sized client considered this area to be particularly strong, one smaller and one larger client both said it requires improvement. Another client listed speed of reporting as an area which needs enhancing. However, in the context of the market review, this is a typical comment across providers, as manual reporting needs upgrading to reflect technological advances.

Although Standard Chartered received the second highest overall average, its range of scores by category (3.58 to 6.00) is somewhat wider than other providers. This is especially true

for Asset Servicing, and Trustee and Administration Services, in which it received scores of 3.58 and 4.0 respectively. These scores are certainly low, particularly when compared to other providers. However part of this volatility in scoring may reflect the fact that Standard Chartered received fewer responses than other providers. ■

Table 1: Client breakdown

Insurance company	25.0%
Mutual fund manager	25.0%
Investment manager	25.0%
Other	25.0%

Table 2: Service area scores

Service area	Standard Chartered	Malaysia Average	Difference
Relationship management & client service	5.46	5.58	-0.12
Cost and value delivered	5.44	5.12	0.32
Settlement and cash management	5.38	5.66	-0.28
Asset servicing	3.58	5.18	-1.60
Special operational requirements	6.00	5.89	0.11
Operational reporting	5.23	5.51	-0.28
Technology	4.79	5.29	-0.50
Fund accounting and valuation	5.19	5.51	-0.32
Trustee and administration services	4.00	5.53	-1.53
Reputation and asset safety	5.96	5.61	0.35