A RECIPE FOR SUCCESS
Making Malaysia a World Class Fund Administration Centre
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The State of the Industry Today
The asset management industry continues to face headwinds in today’s volatile environment, and industry players face many challenges in seeking growth, containing costs and creating new avenues of business. According to the PwC 19th Global Asset Management CEO Survey 2016, only 30% of global asset management (‘AM’) CEOs expect global economic growth to improve. Despite the gloomy outlook, global AM CEOs have greater confidence in their own company’s prospects for revenue growth over the next 12 months.

A number of trends and developments in Asian asset management is also changing the operational landscape, creating increasing competition and margin pressures for asset managers. This includes the faster adoption of disruptive technology, the rising need to upscale operational infrastructure, on-shoring and creating substantive presence to penetrate domestic growth opportunities, and ambitions to grow regionally and globally.

Overall, the outlook for the future remains bright: PwC’s Asset Management 2020 report projects that global assets under management will exceed US$100 trillion by 2020, up from slightly under US$65 trillion in 2012. A large part of this growth will be led by Asia as part of the SAAAME region (i.e. South America, Africa, Asia and Middle East).

From a fund administration perspective, this has immense implications, as well as opportunities. As assets under management grow in Asia, asset managers in this region will look to outsource more non-core activities. There is a growing view that investment spend on new technology is expensive and will need constant innovation and change, thus being better left to those who are in the business. Regulators and investors are also demanding more information, better transparency and faster reporting response time over a multitude of areas, and asset managers who currently manage their own in-house fund administration and back/middle-office functions will face pressure.
Fund Administration

What Does Success Look Like?

There are many jurisdictions today competing to be fund administration centres, including Luxembourg, Dublin, Singapore, Hong Kong and Cayman Islands. It is no doubt an attractive proposition, as fund administration is part of an ecosystem for the asset management industry which also encompasses a broader economic profile, including custodians, lawyers, accountants and asset managers. But what defines success as a fund administration centre? From PwC’s research, there is no one-size-fits-all solution. Different permutations may exist, playing on each jurisdiction’s key strengths and competitive advantage. What is clear is that successful fund centres aren’t necessarily where the portfolio managers are based. A strong legal, tax and audit ecosystem is critical for future-proofing the hub status, and the existence of a broader financial services arena is also critical to creating a sustainable business – i.e. custody, trust, prime brokerage, treasury, financing and OTC clearing.

In particular, to be a successful fund administration centre, the infrastructure, talent and regulatory environment needs to be able to cater for more than just retail fund net asset value calculations; it needs to consider diversified asset classes, segregated mandates for institutional clients, regulatory and tax reporting, risk reporting, global compliance reviews and customised investor reporting.

An important consideration to become a successful fund administration centre is also the ability to be seen as a fund domicile – this means having a robust investment fund structure which will enable investors to use that fund jurisdiction to base its investment holdings. Most of the established fund jurisdictions globally have dedicated investment fund structures of varying characteristics to fit investor needs. More recently in Asia-Pacific, Singapore, Hong Kong and Australia have each announced the introduction of their own domestic open-ended investment company vehicle (OEIC) or corporate-form funds to allow global investors to domicile their funds ranges in-country.

In addition to the above, other important ingredients to being a successful fund administration hub are:

- Full service capabilities
- Talent availability and competency development
- Sustainable infrastructure
- Technological connectivity
- Low (relative) cost of operations

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Malaysia – What Will It Take?

Over the past decade, Southeast Asia has become an area of interest for many investment houses. The widening of the middle income class, outstanding talent and abundant natural resources have contributed to this growth. Over the past year, the Malaysian capital market has also played a pivotal role by providing access to capital and value creation. That, coupled with the economic success of Malaysia, is the recipe of a healthy asset management marketplace.

Still, the Malaysian mutual fund industry is relatively small even when compared to more underdeveloped neighbouring markets. It is not just the mutual fund industry that needs nurturing and developing but a broader development of the capital markets.
Malaysia can be credited for its introduction of strategic policy measures that have led to the growth of its capital markets. Some of the notable ones are: comprehensive revamp of the exchange board structure and equity fundraising framework in 2009; amendment to IPO rules; listing of foreign-owned corporations; listing of special purpose acquisition companies; introduction of Business Trusts; government contributing to venture capital funds; and tax incentives to venture capital investing. The Malaysian government has played an instrumental role in Islamic finance's fast expansion in the country, including taking steps to establish forward-looking market infrastructure, institutions, and regulatory frameworks. Malaysia is also among the first countries to revise its tax regime to ensure tax neutrality for Islamic financial instruments. In addition, the Malaysian government provides substantial tax incentives to Islamic finance beyond tax neutrality, including tax exemption of Islamic banks and Islamic insurance companies, tax deduction on issuance costs of Islamic securities, and tax relief for Islamic REITs. Malaysia also has tax exemptions specifically for international Islamic banks, Islamic insurance companies, and Islamic funds.

Looking at the key components within a successful fund domicile, how does Malaysia fare in each of the key components?

Malaysia’s Proposition Today for Asset Management and Fund Administration

Asset Managers - The Malaysian asset management regime is the only one that has a distinct regulatory license for Islamic fund management, which enables the industry to remain agile to adapt to its specific development.

Investors - The Malaysian mutual funds market has seen a significant growth more specifically, the growth of the Islamic funds has shown great promise. Malaysia ranks second in the top 10 countries with high Muslim population.

Service providers - Today, Malaysia has attracted global players to set up their regional hubs or processing centres in Malaysia. For example, globally renowned fund administrators and custodians such as Standard Chartered Bank, BNP Paribas, HSBC and Deutsche Bank all have a presence in Malaysia. The healthy and competitive mix of local and foreign players today is a good indication of a developing asset management servicing market.

Products & Structures - Malaysia offers a healthy mix of fund products to customers today ranging from REITs to ETFs, to Unit Trusts. However, a product that is lacking in Malaysia’s asset management offering today is the corporate-form fund. As described earlier, Singapore, Hong Kong and Australia are currently in the process of introducing legislation for corporate-form funds. Other developing Islamic dominated fund centres such as Luxembourg, Ireland, UAE - DIFC and UAE - ADGM offer company-form funds in addition to trust-form funds. Therefore, to be regionally competitive and to enhance its position amongst Islamic fund dominating or growing centres, it would be strategic for Malaysia to also consider the creation and introduction of company-form funds.

Taking lead from the above, two specific areas in the growth that would build Malaysia’s value proposition have an underlying common theme in the Islamic funds market. First, further development of Malaysia’s value proposition as a fund domicile hub for Islamic funds. Second, to position Malaysia as the fund administration hub for Islamic funds.

To achieve this ambition of being a global fund administration centre, especially one for Islamic funds, requires the consideration and assessment of the following:
Overall, fund administration and asset servicing is becoming a fiercely desired space by many fund jurisdictions, and finding the competitive advantage will be key to success. Growing the overall financial services area would also be critical, as without this, fund administration would be limited in its offering by simply calculating net asset values. Developing the talent pool and supporting infrastructure to create more value is necessary to ensure that the sector is well-serviced and remains operational and cost-effective. Lastly, having a national corporate-form fund vehicle to entice global investors to use Malaysia as a fund domicile would anchor and accelerate the role of Malaysia as a global fund administration centre.

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