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Exploring Growth Opportunities of The Personal Wealth Management (PWM) Industry in Malaysia

Suhaili Alma'amun[1]
Shahida Shahimi[2]
Zurina Shafii[3]
University Kebangsaan Malaysia

ABSTRACT

Asset and wealth management as well as financial planning have a huge potential as income levels and asset possession are rising year-on-year. As one of the components of the financial service, the fast momentum of PWM gives impact and value added to the Malaysian financial service and it receives full support from the government as stated in the Economic Transformation Plan (ETP). This study attempts to establish the potential of the personal wealth management (PWM) industry in Malaysia by means of discussing both conventional PWM and Islamic PWM. It reveals the extent to which the industry has expanded and its constraints including lack of products, talent, financial literacy, financial education and problem of service quality. On top of that, this study explores the growth opportunities of the PWM by presenting a range of reasons to justify it. At the end of this study, it can be found that IPWM is also growing in parallel to conventional one.

Keyword: asset and wealth management, financial planning, Islamic personal wealth management.

INTRODUCTION

New Economic Model (NEM) identifies the current economic situation and reviews some key challenges the country is now facing. It provides an overview on Malaysian economy problems including a slow progress of economic growth and being caught in a middle income trap. The economic situation is not really promising and accordingly, Malaysia needs a new engine of growth. An action plan – Economic Transformation Plan (ETP) is set out to address these challenges. 10 entry point projects (EPPs) in relation to the financial services are identified for which the country will accomplish are expected to grow total GNI RM121.5 billion by 2020. The potential of asset and wealth management to be the new engine of economic growth in Malaysia is clearly reported under EPP 7 and 8 in the ETP report.

We understand that asset and wealth management industry is the main focus of the country as Malaysia is moving to the high-income economy. This industry is crucial to serve the serve the changing needs of high-net worth people. However, we perceive personal financial planning should receive same recognition on the ground that it is a foundation of the asset and wealth management which can be easily applied at individual level regardless the level of income. Hence, his paper uses terminology of 'Personal Wealth Management (PWM)' to represent the private asset and management service as well as personal financial planning.

This paper attempts to provide a survey on the current stage of PWM industry. It consists of four sections. Section one is the introduction and section two discusses the present state of affairs of the PWM. In the third section, we explore growth opportunities of PWM in Malaysia by presenting several reasons for the industry to take place. The penultimate section discusses the Islamic personal wealth management (IPWM) in Malaysia which is also important as ETP also aims to carve a niche of IPWM in parallel to PWM. The last section is the conclusion.

PRESENT STATE OF AFFAIRS

According to the ETP report, "Malaysia's wealth management industry today is at a nascent stage, and is limited mainly to mass affluent banking and financial planning. Industry growth is impeded by the lack of

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[1] Lecturer of School of Economics, Faculty of Economics and Management, National University of Malaysia.
[2] Senior lecturer of School of Economics, Faculty of Economics and Management, National University of Malaysia.
[3] Lecturer of Faculty of Economics and Muamalat, Islamic Science University of Malaysia.

competitive products. For example, hedge funds, structured products and absolute return funds are not widely available." We then explore this further and find that current PWM in Malaysia has been engaging with four main problems:

i) Lack of products offered

In developing countries, the depth and width of the financial and capital markets are limited in comparison to those in developed countries such as the U.S, the U.K and Japan. The lack of depth and width of financial markets in developing countries such as Malaysia have made householders less inclined to hold financial assets in favour of holding physical or real assets. Malaysian householders, less sophisticated at present in finance and investment knowledge, are limiting their participation in financial assets. In developing countries such as Malaysia, financial asset holding are to be held in the form of simple deposit instruments such as savings and current accounts and fewer in sophisticated investment avenues such as unit trust or equities. A survey on basic information about financial asset holdings in Malaysia reveals that products of PWM in Malaysia consist of transaction accounts, certificates of deposit, savings bonds, bonds, shares, unit trusts, retirement accounts and life insurance/*takaful*.[4]

Malaysian government realizes that in the absence of a well-developed industry locally, Malaysians may take their wealth to be managed outside of Malaysia. Therefore there is an urgent call for increasing range of wealth management products available with the aims to attract back offshore Malaysian wealth as well as attract foreign wealth. ETP has outlined several actions in relation to this which encompasses the following plans; Firstly, the liberalization wealth management products in the near future to allow a wider range, such as structured products, to be easily marketed in Malaysia. Secondly, streamline the product approval process to significantly shorten time to market.

ii) Low levels of financial literacy and education

Public awareness on the need for PWM in Malaysia and the level of personal financial literacy today are still low compared to advanced nations. In Malaysia, the earliest stage when individuals are exposed to financial education is perhaps when they are students at the undergraduate level and studying accounting or business administration and finance. Students majoring in other subjects not related to business and finance are left with no financial education until they enter the workplace. Indirect inclusion of financial education in subjects such as mathematics and in other subjects at primary and secondary school levels are almost non-existent. Basic topics in financial education may include budgeting, credit management, cheque book balancing and investment principles. These topics have been taught in 29 states in the U.S from 1957 (Bernheim *et al*. 1997). ETP stresses out that:

> "With growing consumerism as well as changing customer expectations, there is a need to reinforce greater financial literacy to help the *Rakyat* to better manage their personal finances in line with our move to a high-income economy. Proper consumer education is needed if new growth engines, such as private pensions, wealth management and asset management, with their more complex and sophisticated products, are to take off."

We believe that to make up for the lack of financial awareness of individuals in the early stage of their lives, financial education should be provided in the workplace. In the case of Malaysia, measures are now being taken to encourage employers to provide financial planning training to their employees. Several programmes are launched encouraging education program in the workplace, and guidelines on training provision by are available on FPAM's website. It should be noted that the internet may also be used to educate the public on the subject of financial awareness. Yunich (2003) writes about various ways the internet could help in disseminating information about PWM. Resources that are available in the internet range from products on offer for PWM construction, the technical assistance needed and research publications on investment management which are available on investment management companies' websites.

iii) Lack of talent

The limited talent base is also an issue as reported in ETP. The Financial Planning Association of Malaysia (FPAM) currently enjoys with more than 11,000 members and over 4000 of them are CFP

[4] Shafii (2007: 54-80) provides a review on each of the wealth management products available in Malaysia.

certified practitioners . Majority of Malaysia's CFP holders are mainly from financial industry: about 65% of them are attached to banks, unit trust, insurance, financial advisory and stock broking companies, with another 18% are accountants. About 16% of CFP holders in Malaysia are from non financial corporations (KDU Management Development Centre (KMDC) (n.d.).

In addition, we can see a positive trend of the proliferation of players providing PWM service. A significance numbers of banks are offering private banking facilities to their customers including CIMB Trustee Bhd., AM Trustee Bhd, BIMB Trust Limited., HSBC (Malaysia) Trustee Bhd. and more banks expected to join wealth management race. The institutions are doing this to tap the market for high net-worth individuals as well as for middle income group of individuals. For example, the BIMB Bhd. offers private banking services under the heading of private banking and investment services such as the management of personalised accounts. The banks also offer real estate management to its customers.

In tackling this issue, firstly; government has decided to attract top wealth management institutions to operate in Malaysia. According to the ETP report, none of the global top 10 wealth management institutions have full-fledged wealth management operations in Malaysia. In order to attract them to set up operations in Malaysia and deepen the intermediary base, Malaysian government will simplify licensing. Secondly; government will work with industry to train up wealth managers and product specialists as well as ease the immigration process for the entry of foreign talent.

iv) Quality of service

It is possible that this conflict of interest might appear among the financial planner in the process of getting as many clients as possible. The economic rewards in terms of commission can affect the professionalism of financial planner in recommending the best solution to their client's financial objectives and situation. They might be attempted to sell financial products that offer them the highest amount of commission rather than the products that best suit the financial objectives and position of the clients.

EXPLORING GROWTH OPPORTUNITIES OF PWM IN MALAYSIA

Researchers might be able to forecast the development of PWM in Malaysia by looking at several factors to which the development of PWM is accruing. Under the heading of attitude, economic, socio-economic and regulatory factors, we discuss vital factors generating the development of the PWM industry in Malaysia as follows:

The perception of the public changes in time to favour services from independent financial planners which have been seen as providing comprehensive financial advice in contrast to specific advice from different sets of other providers in financial matters. Previously, the public at large had to rely on various professionals in relation to their financial affairs. In the United States, Gentile (1998) reported that there were five most frequently used sources of financial advice. From 7000 consumers involved in the survey, 55% relied on advice from accountants, 51% on stockbrokers, 44% on advice from financial planners and finally 6% on financial advice from bankers. Note that the percentages are not mutually exclusive as an individual may consult with more than one financial advisor at a time. However, the trend evolves to a greater demand for financial planner as a sole provider of financial advice due to the need for comprehensive PWM. Similar pattern was found in the United Kingdom as reported in The Wealth Management Report prepared by J.P. Morgan (2009:19-20) in which both Young High Earners and Asset-Rich Elders are more likely to use an independent financial adviser (IFA) than a specific wealth management service or private bank. Around 70% of both Young High Earners and Asset-Rich Elders use or plan to use an IFA. Only 34% of Asset-Rich Elders use or plan to use a private bank or wealth management service.

The current economic setting of the steady growth of the financial services industry triggers the PWM development. According to the ETP report**,** the global Islamic fund management industry is growing at 12 percent over the past six years to reach approximately RM166 billion total assets under management in 2009. Malaysia already has the largest number of Islamic funds in the world with 184 funds and the second largest total assets under management of RM18.2 billion. Due to such development, investors are expected to be more actively trade in the capital market thus creating a need for advice from financial planners. Apart from offering greater products suitable to the vast number of individuals participating in the financial market, the development of this market also introduces complexity in the financial instruments on offer. The public, hence, is in even greater need for financial advice from professionals than ever.

Islamic financial products offer *Syariah* compliant savings and investment vehicles to Malaysian public, the majority of whom are Muslims. However, different concepts and terms are used in Islamic financial products call for professional assistance, since these terms are rarely understood by the average individual, perhaps due to the fact that these are new concept of operation in contrast to well established conventional banking and finance.

The growth of a middle class group in developing countries gives an impact to the development of the PWM industry. Warschauer (2002) reported that middle class individuals are able to achieve their goal of wealth accumulation through proper financial planning in contrast to wealthy individuals who have usually inherited significant wealth from their ancestors. He justifies his argument by reasoning that financial planning association around the world, being members of CFP international board, are constituted by countries having a significant percentage of middle class people. 11 out of 17 member countries are Organisation of Economic Co-operation and Development (OECD) countries that are relatively advanced economically. The remaining are developing countries having a sizable middle-income class such as Malaysia, Hong Kong, Singapore, Brazil and South Africa. According to the 10th Malaysia Plan, a low-income household is defined as one learning less than RM2,500 a month, a middle-income one earns between RM2,500 and less than RM7000 monthly and a high-income one earns more than RM7,000 each month. The recent Household Income Survey shows that the low-income category makes up 44.1 per cent of the population, while 42.6 per cent of the population are of middle-income. The remaining 13.2 per cent are of high-income (Pensions Research, Employees Provident Fund, 2011). The FPAM of Malaysia in line with this argument has launched a campaign exhorting greater participation from middle income class individuals in personal financial planning. They have emphasized the fact that public individuals do not have to be wealthy to be involved in financial planning. Middle income class groups are likely to become major clients for certified financial planners for they are usually concerned with financial issues such as cash flow management, debt reduction advice, income tax planning, investment planning in unit trusts and shares as well as advice on retirement planning.

With their diverse attitudes to PWM, the middle income group, is the biggest potential group for growth in the PWM industry. Financial literacy and awareness on issues of PWM, however, are very important before this group of individuals can be the core base group clients for financial planners. The industry may not be able to multiply in size, if its dependency on wealthy clients with high assets and net income is not eliminated. Wealthy individuals form only a minimum percentage of population as compared to middle income groups who represent about 50 per cent of the population given the satisfactory levels of income distribution in Malaysia.

Changes in the social environment as a result of economic forces can be termed as the socio-economic factor. The society has been changing enormously due to such economic and financial related reasons such as increasing life expectances, the adoption of hectic modern lifestyles and increasing competition in the work place. Life expectancy is likely to increase in future years due to the advanced nature of health services and the improved quality of life. In developing countries, the elderly population is expected to increase by 80% by the year 2025 (Mahmood, 2001), making the activity of personal financial planning vital in order for this group of individuals to secure a retirement income. In Malaysia, our life expectancy is 75 in year 2009 (UNICEF, n.d.). The rapid pace of modern life also limits the individual’s time which can be spent in managing personal finance. With the availability of advice from professional financial advisor equipped with state of the art financial tools, individuals are more confident to plan their finances. With the time limitation, the tendency is high that they will either seek advice from independent financial planners or do no planning at all. Ignoring PWM and deferring financial decisions will result in sub-optimal financial situations that will costs individuals in their later years.

A competitive labour market, on the other hand, imposes pressures on individuals to maintain their skill levels to cater for changes in the latest trend and market demand. Less job security and the trend for temporary job assignment put pressures on individuals to work hard to maintain their level of competency in their specialisation. These situations induce individuals to engage in constant training, development and re-education programmes even though they are costly and time consuming. Given that, less time is available for individuals to plan their personal finances themselves.

Modern parents are also usually concerned with the future education costs of their children. This is because of changes in government policy on college funding where university scholarships are no longer available. University students are now facing huge costs to repay their education loans. To avoid their children facing debt before even securing a job, parents feel obliged to provide funding for their education. Unit trust funds, special saving accounts and unit-linked insurance are typical products available for parents to choose from. But due to the size of the problem, and need for long-term planning to raise such huge amounts of money, individuals now usually need advice from professionals to manage this specific issue.

Regulatory issues pertaining to the financial market and retirement accounts will also change the way individuals manage their personal finances. The self-contributing Employee Provident Fund of Malaysia (EPF) is now slowly changing their model of operation to draw in more contributors. From time to time, contributors are now entitled to participate in investment decision in the investment section in their accounts. Ironically, according to ETP report, today, 7,000 EPF members with balances above RM1 million have the option to withdraw the excess amount, but very few have done so to date. The new solution taken is that, EPF will be restructured to a tiered return structure, whereby the dividends on amounts in excess of RM1 million will be capped at 2.5 percent. This will encourage wealthy individuals to withdraw the excess monies and we expect part of this will be channelled to wealth managers. The changing scenario of the EPF from a government managed provident fund to self-managed accounts is done to be in line with the trend for self-managed retirement accounts which exist in the western countries. The U.S and UK governments are now educating their public to be more financially literate in order to manage their own retirement savings. Due to the massive risks involved in retirement schemes, governments around the world are now obligating their former role of providing pensions for retirees by sponsoring the development of self-managed retirement accounts such as Individual Retirement Accounts (IRAs) and employer-sponsored retirement plan such as 401(k), 403(b), or 457 plans.[5] Individuals anxious to safeguard their retirement income are very likely to consult professionals to advise them. Concerns for retirement planning are diverse ranging from the need for steady income to maintaining their normal standard of living. This is difficult to accomplish in the current world of high taxation, increased prices of necessities, the changing trends in the financial markets as well as changes in government regulations. Retired individuals are also likely to have to continue to pay the costs of their children's education and mortgages debts. For these reasons, proper planning by the young is important to secure a debt-free and financially adequate retirement income.

Finally, the establishment of the CFP Board as a formal institution acting as the standard-setting body in the industry gives impact to public perceptions on the subject. Individuals now are more confident to engage in PWM as they may place their trust in certified financial planners who have been trained and educated with the relevant skills. Formal designation for independent financial planners has also increased public confidence due to the liability coverage. Financial planners are now fully responsible for their financial advice in drafting an individual's financial plan. Financial planners are now covered by liability insurance schemes, in which the premium rate depends on the type of advice offered and the numbers of years of experience that they have. Being able to manage various types of risks helps financial planners to engage individuals who thus are confident enough to seek their financial advice. In other words, individuals are attracted to hiring financial planners now that the latter owe a degree of duty of care and responsibility. The establishment of the Financial Planning Association of Malaysia (FPAM) in 1999 as a membership organization of CFP council enabled the introduction of the relatively new practice to the Malaysian public. FPAM educates the public and potential customers via websites and articles about aspects of personal finance such as retirement and credit management. It also has been an umbrella for a handful of certified financial planning corporations which aim to provide financial planning services specifically to individuals.

ISLAMIC PERSONAL WEALTH MANAGEMENT (IPWM)

IPWM is at a nascent stage of development compared to conventional market. IPWM parallels of conventional PWM products already available. Islamic financial institutions are now catering in vital

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[5] The 401(k) plan is a type of employer-sponsored retirement plan that allows worker to save for retirement with the benefit of withholding of tax until withdrawal. The most common option made by the participant is to self-manage the account. Usually, it is the participants who actively manage the account. Participants can select to invest in ranges of investment such as mutual funds that contain selections of stocks, bonds and money market instruments. In the less common trustee-directed 401(k) plans, the employer appoints trustees who decide how the plan's assets will be invested. Other retirement plans are Individual Retirement Accounts that allow participants to hold cash and cash equivalents to be invested in most types of securities. The account is also tax exempted until withdrawn. There are many types of IRA which may be either employer provided plans and self-provided plans. Other types of retirement plans are 403(b) and 457 plans. A 403(b) plan is a tax advantaged savings plan available for public education organisations, some non-profit employers and self-employed ministers in the U.S. It has a tax treatment extremely similar to a 401(k) plan. 457 plans, on the other hand are types of tax advantaged defined contribution retirement plan that is available for government and certain non-government employers in the U.S. Additional information can be obtained from http://www.irs.gov/retirement/article/0,,id=96989,00.html.

areas of IPWM providing various products and services in areas such as risk management planning, investment planning, and estate management planning. We explore these products according to the four dimensions of wealth management; wealth creation/wealth accumulation, wealth enhancement, wealth protection/wealth preservation and wealth distribution.

Basically generating wealth can be done through these following channels - such as in compensation of work or services rendered, a purchasing transaction, receiving a gift, inheriting an estate (Billah, n.d.a; Rasban, 2006:25–28; INCEIF, 2006:10 and 16–19). Methods of enhancing wealth are quite similar to the methods in creating wealth, but with addition of another method – investment. This includes *Mudharabah* current account, *Mudharabah* investment account, Islamic Unit Trust, *takaful* with saving element and *Sukuk*[6] (Billah, n.d.a; Rasban, 2006:165–173).

With respect to the wealth protection/preservation, a certain level of risks may cause people to lose the ability to generate wealth or may wipe out the value of the accumulated wealth. However, wealth preservation is about preserving wealth from being lost under all circumstances and referring to the protection of the accumulated wealth against every conceivable financial risk and threat by means of insuring it through various types of insurance. It should be noted that in Islam, *takaful* replaces the function of conventional insurance to preserve wealth (Billah, n.d.a; Rasban, 2006:108–112; Iqbal and Wilson, 2005:2).

In relation to the wealth distribution, the final stage of wealth management, it is always associated with the estate planning, business succession planning, charitable and *zakah* planning. There are plenty of mechanisms for this purpose such as *zakah*, will, *faraid*, bequest, *hibah* and *waqf*, trust, *sadaqah* (donations), *infaq* (gift to Islamic cause), *hadiyah* (present, gift) and *nazar* (vow) (Billah, n.d.a; Rasban, 2006:191–199).

It can be seen that wealth management in Islam covers a wide spectrum but there are certain related issues which call for a reformation. Firstly, it is worth mentioning that the management of social security schemes in the form of employee's provident funds in Malaysia are currently managed using conventional principles. Therefore, a *Shariah* compliant product for retirement planning should be developed and aggressively promoted to replace the conventional one. Secondly, it should be noted that ETP states that "Syariah wealth management is a largely underserved market today that represents a unique opportunity for Malaysia, requiring specialised knowledge such as Syariah compliant wills and estate planning." ETP also realizes that building Syariah financial planning capability is a prerequisite for the well-developed PWM industry. Having less than 300 Syariah financial planners apparently calls for extra training and education to increase the number. With respect to the talent issue, the Financial Planning Association of Malaysia (FPAM) launched FPAM Practice Module 1- Islamic Financial Planning Course in 2005. The objective of FPAM in introducing the Module was to provide insights into crucial aspects of Islamic financial planning.

With the existence of comprehensive types of Islamic financial assets being offered in the Malaysian market as listed above, householders have a diversity of choices in the course of working out their financial portfolio. However, large numbers of Islamic financial products will not ensure that Malaysians public take up the opportunity to use these products to structure their portfolio as asset allocation is more than just an understanding of the product selection process.

CONCLUSION

With the various measures taken by the government and the financial planning associations, further growth of the PWM and IPWM is expected. With proper planning, householders will be more informed in making the investment and other financial decisions that directly affect their lives. The growth of the PWM and IPWM will also affect directly the type and amount of financial assets being supplied in the market. Healthy development of financial planning boards to introduce practical standards and professional guidance as discussed in the paper will enhance the publics' acceptance of the services these financial planners have to offer. It is expected that growth in this industry will multiply the growth of other financial services such as unit trusts, insurance/*takaful* and private banking.

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