



Calm amid storms

While some Asian markets stumble Malaysian markets remained stable in 2015.

In common with many emerging economies, especially those in Asia, taken as a whole, 2015 was a relatively difficult year for the Malaysian economy, impacted by the slowdown in China. In contrast the year was surprisingly good, again relative to many peers among Asian countries, in terms of stock market performance. The market reached a peak in March 2015 but over the year as a whole it declined by a statistically insignificant 0.1% and measured in terms of US\$ improved by 3.0% over the year. This is in contrast with China, Japan, Hong Kong and Singapore all of whose stock markets fell, in some cases very significantly in both US\$ terms and local currency. Performance was no doubt helped by an accommodating monetary stance maintained by the central bank,

with rates being held unchanged throughout the entire year at 3.25% pa.

In terms of the underlying economy the Malaysian economy maintained a steady rate of growth, not as high as it might wish but certainly acceptable. Some decline in growth rate occurred later in the year and the year-on-year figure was 4.5% at the end of 2015. While not as strong as the Philippines the performance outpaced Thailand as well as a number of other South East Asian markets. The country also maintained a solid balance of payments surplus, which is expected to be maintained in 2016 and amount to some 3% of GDP. Overall then the background for investment and savings was positive overall and presents good opportunities going forward.

Indeed as a recent press release from the Securities Commission of Malaysia pointed out “the Malaysian capital market grew across all segments in 2015 ending the year with a combined value of RM 2.8 trillion” (approximately US\$700 billion or 2.5 times the size of the domestic economy). Of the total around 60% is accounted for by equity market capitalisation with the remainder being bonds. Interestingly the Islamic Capital Market grew slightly faster than the overall level and at year end represented almost two-thirds of the total, standing at RM1.7 trillion while the Sharia compliant market totalled RM1.09 trillion.

As the Chairman of the SC commented in the announcement: “The capital market’s ability to remain resilient while maintaining public trust and investor confidence in a challenging global climate attests to the continuous efforts that have been put into strengthening its regulatory and institutional foundations.”

Without doubt these sentiments are shared by major providers. The ability to handle both Sharia compliant and other securities within a single platform is not straightforward. Given its relatively small size, the level of investment from Malaysia into other markets is small and subscale given the complexity that may be involved. With major investors being encouraged to invest domestically, the former special handling requirements will no doubt be more important than the latter for some time to come.

The market for services is dominated by two domestic banks, CIMB and Maybank, while Standard Chartered and Deutsche both have a significant domestic client base, which forms part of a wider regional and global business. This mix of competitors, with obviously varied strengths and weaknesses, does much to keep the market competitive in terms of functional capabilities and also price. This is reflected in the generally high levels of satisfaction evidenced in the Survey that follows. ■

SURVEY OVERVIEW

Solid progress

Clients give a vote of confidence to providers by way of higher scores across the Survey.

The 2016 Survey of domestic custody services in Malaysia presents a narrative of continuing progress from the solid base seen in 2015. As Figure 1 highlights scores in nine of the ten categories were higher this year than twelve months ago. The only area where that was not the case was in Special Operations, which includes both dealing with cross-border securities and the particular case of Islamic funds. It is also noteworthy that in the ranking of client priorities, as shown in Figure 2, it has moved from being the lowest priority item a year ago to ranking sixth in importance this year. It is the case that this remains an area outside the mainstream fund servicing activity and certainly forms only a small minority of overall assets and activity. Even so the juxtaposition of lower scores and higher priority is one that suggests clients believe that providers have work to do in this area.

In terms of improvement in scores greatest progress was recorded in the area of Fees and Value Delivered. Here there was a gain of more than 0.50 points. Lower asset values, the result of market declines in recent periods generally lowers the absolute fees being paid and this may have had an effect on scores in 2016. However providers should be encouraged that pressure to reduce ad valorem fee levels typically reduce when absolute fees come down. In such an environment providers are typically grateful for client understanding of their position. Scores were also much improved in the area of Reputation and Asset Safety. This tends to follow overall scoring pattern within the *Global Custodian* surveys more generally. As such,

while the score of better than 6.0 (Very Good) was the best in the Survey and reflects well on all providers, too much should not be read into it. Perhaps of more importance were the gains seen in core administration and fund accounting services as well as better scores in Client Service.

Priorities did change somewhat between 2015 and 2016. This may reflect the higher number of respondents this year than twelve months ago. In line with other surveys Relationship Management and Client Service moved to the top of the priority listing. Cost and Value Delivered fell back but is still more important in Malaysia than in other markets where *Global Custodian* conducts domestic surveys. Both Fund Accounting and Trustee services showed a relative decline in importance. However this probably results from more respondents from outside the mutual fund sector responding this year. Among those that use these services actively, their relevance and priority is much greater. The other slight surprise is the continued importance of core Settlement Services. The scores here were very good and given the relative sophistication of settlement this priority is unexpected.

As noted above the proportion of responses from mutual funds was lower in 2016 than in the initial survey a year ago. This no doubt does have an effect both on the services actually used, and hence priorities, and the scores seen in different areas. By contrast the proportion of responses from Banks was somewhat higher this year, which possibly gave a slight boost to scoring overall. The very largest clients were more important

Fig 1: Average scores by category

| Service area | 2016 | 2015 |
|--|------|------|
| Relationship management & client service | 5.81 | 5.58 |
| Fees & value | 5.63 | 5.12 |
| Settlement | 5.72 | 5.66 |
| Asset servicing | 5.62 | 5.18 |
| Special operational requirements | 5.77 | 5.89 |
| Reporting | 5.59 | 5.51 |
| Technology | 5.50 | 5.29 |
| Fund accounting & valuation | 5.79 | 5.51 |
| Trustee services | 5.91 | 5.53 |
| Reputation & asset safety | 6.06 | 5.61 |

Fig 2: Respondent priorities ranking

| Service area | 2016 | 2015 |
|--|-------|-------|
| Relationship management & client service | 16.23 | 12.30 |
| Settlement & cash management | 14.47 | 11.57 |
| Cost & value delivered | 13.41 | 15.67 |
| Reputation & asset safety | 11.06 | 12.30 |
| Asset servicing | 11.03 | 13.32 |
| Special operational requirements | 9.72 | 3.51 |
| Operational reporting | 9.25 | 9.66 |
| Technology | 6.93 | 6.73 |
| Fund & unit accounting & valuation (if used) | 4.83 | 7.61 |
| Trustee & administration services (if used) | 3.16 | 7.32 |

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Fig 3: Type of respondent



- Bank – 23.3%
- Asset manager – 33.3%
- Insurance company – 6.7%
- Mutual fund manager – 18.3%
- Pension fund – 6.7%
- Other – 11.7%

Fig 4: Size of respondent



- Up to MYR 100 million – 15.0%
- MYR 100-250 million – 11.7%
- MYR 250-500 million – 6.7%
- MYR 500 million to 1 billion – 13.3%
- MYR 1 billion to 5 billion – 23.3%
- Over MYR 5 billion – 30.0%

this year. Given their demanding nature the gains recorded in scores overall is all the more impressive.

The number of responses and scale of business suggests that the Survey is a comprehensive assessment of service provision by key clients. As such comments and scores should be considered carefully by all providers as well as clients. ■

Methodology

Global Custodian domestic surveys are intended to assess the extent to which local service providers are meeting the expressed needs of their domestic clients. Such needs are often different from those of cross-border investors covered in the Agent Bank surveys published by the magazine. Many service providers also focus mainly or exclusively on domestic clients.

To obtain the relevant information, clients are invited to complete a short on-line questionnaire. This typically involves around 20 questions. The questions are grouped into between eight and twelve service categories for presentation purposes. Respondents evaluate each question for each service provider that they use. Scores range from 1 = Unacceptable to 7 = Excellent. Where clients have insufficient experience of a service or do not use it all, they can enter N/A. Clients are also asked to indicate which categories are most important to them in assessing the overall service being received and are given the opportunity to provide explanatory comments and identify specific strengths and weaknesses of their service provider(s).

Each question is given an individual weighting depending on the importance attached to it by clients. Each respondent is given a weighting based on the scale and breadth of their business and the detail included in the response(s) they provide. Respondents are also described by their type of business and the level of their assets under management (AuM).

Global Custodian's Research department calculates weighted average scores for each provider, for each question, each category and an overall total. The Research department also calculates scores for different types and size of respondent allowing us to reflect as accurately as possible the relative position of each service provider, both overall and with specific client subgroups. Summary information is presented in each Provider Profile together where relevant, with explanatory contextual commentary.

More detailed analysis of scores and comments received is available from the *Global Custodian* Research department. This group also administers the digital accreditation process by which suitably qualified providers can receive a formal accreditation of their achievements, in the form of one or more digital badges.

CIMB

2016 was a good year for CIMB in terms of scores received. Scores were improved in all ten categories of service with particularly notable gains recorded in the area of Reputation and Asset Safety. As well as the absolute gain in scores, the relative position of CIMB also showed good progress.

In 2015 the bank beat the Market average in six categories of service. This year it was ahead in all categories except for Asset Servicing. Even here however scores were good enough that they do not represent a weakness. This in turn is supported by the overall scores seen on each question as well as the lack of many scores below the Satisfactory level of 4.0.

Comments from respondents concerning strengths and areas for improvement reflect a mixed picture with few clear trends. In terms of strengths a number of respondents highlight the “quality and responsiveness” of personnel. One client specifically indicated that they value CIMB’s “Commitment in working the client to provide efficient and flexible support for the benefits of end-investors.”

From a mutual fund manager perspective the ability to deliver effective service to their end investors is a critical and distinctive strength. As might be expected there was some negative comment concerning levels of Fees and a desire to see them reviewed more frequently. Clients also saw

possibilities to enhance Technology and Corporate Actions processing. Overall the scores point to a very satisfied group of clients. Given that CIMB had many more responses than other providers the business seems well set to prosper in the future. ■

Table 1: Client breakdown

| | |
|---------------------|-------|
| Bank | 1.1% |
| Asset manager | 36.7% |
| Mutual fund manager | 25.6% |
| Other | 30.0% |
| Insurance company | 1.1% |
| Pension fund | 5.6% |

Table 2: Service area scores

| Service area | 2016 | 2015 |
|--|------|------|
| Relationship management & client service | 5.99 | 5.60 |
| Fees & value | 5.69 | 5.25 |
| Settlement | 5.78 | 5.77 |
| Asset servicing | 5.57 | 5.40 |
| Special operational requirements | 5.93 | 5.00 |
| Reporting | 5.86 | 5.52 |
| Technology | 5.64 | 5.14 |
| Fund accounting & valuation | 5.88 | N/A |
| Trustee services | 5.94 | 4.59 |
| Reputation & asset safety | 6.19 | 4.80 |

Deutsche Bank

The position and results for Deutsche Bank must be regarded as disappointing in 2016. In terms of responses by weight, it ranked third, behind both CIMB and Maybank and only slightly ahead of Standard Chartered.

In terms of scores it was by some margin the weakest of the four banks covered in the Survey. This may in part be explained by two factors.

First is that the Deutsche customers responding were heavily oriented towards Asset Managers looking after separate accounts as opposed to either Banks or Mutual Funds.

The second was that the relatively small number of responses received means that poor scores from a single respondent can impact overall scores to a greater extent. Certainly Deutsche Bank did suffer from that factor in the area of Relationship Management and Client Service.

However, even allowing for these specific factors, overall scores remain weaker than the bank would wish. Only in the area of Reputation and Asset Safety did scores beat the default ‘base’ score of 5.0 (Good). In eight of ten categories, scores were below those seen in 2015, which were themselves adequate rather than especially distinctive.

In terms of strengths, as well as Reputation, Deutsche was highly regarded for its “global presence and international network” and this is clearly a distinctive feature of its offering.

However areas for improvement included “services in general in particular support in Malaysia Office” noted by one client as well as responsiveness and “focus on meeting customer needs.” Overall the conclusion must be that there is work to be done. ■

Table 1: Client breakdown

| | |
|---------------------|-------|
| Bank | 18.5% |
| Asset manager | 59.3% |
| Mutual fund manager | 11.1% |
| Other | 0.0% |
| Insurance company | 11.1% |
| Pension fund | 0.0% |

Table 2: Service area scores

| Service area | 2016 | 2015 |
|--|------|------|
| Relationship management & client service | 4.00 | 5.24 |
| Fees & value | 4.34 | 5.03 |
| Settlement | 4.53 | 5.06 |
| Asset servicing | 4.64 | 4.57 |
| Special operational requirements | 4.54 | 5.24 |
| Reporting | 4.29 | 5.21 |
| Technology | 4.10 | 5.18 |
| Fund accounting & valuation | 4.75 | 4.74 |
| Trustee services | 4.90 | 4.94 |
| Reputation & asset safety | 5.02 | 5.42 |

Maybank

Maybank is the second domestic provider in the Malaysian market. In both the number and weight of responses it ranks some way behind CIMB in terms of importance. However, by both measures it is ahead of the two overseas banks providing domestic custody services in Malaysia. Interestingly two-thirds of Maybank respondents commented that Client Service is a particular strong point of the bank's offering. One client particularly praised Maybank's "Accommodating of last minute requests." This level of flexibility is highly valued by clients and no doubt contributed to the excellent average score of 6.40 recorded by Maybank in this area. Despite this very strong performance it should be noted that scores were generally lower in 2016 than in the inaugural survey a year ago. Comparisons are affected by the relatively small number of responses received, which makes scores a little more volatile generally. Notable gains were seen in scores for Fees and Value Delivered as well as Reputation and Safety. Overall however the average score did not quite match the extraordinary standard set in 2015.

For the most part clients did not identify many areas for improvement. However, where suggestions were made the general theme was around Technology. One client would like to see more "on-line statements and corporate action information"

while another wanted greater ability to customise reports. It is worth noting that scores for Technology, while good, were only ahead of those for Reporting among the ten categories covered. These are areas that Maybank could do most in to further strengthen an already good competitive position. ■

Table 1: Client breakdown

| | |
|---------------------|-------|
| Bank | 31.3% |
| Asset manager | 18.8% |
| Mutual fund manager | 0.0% |
| Other | 8.3% |
| Insurance company | 16.7% |
| Pension fund | 25.0% |

Table 2: Service area scores

| Service area | 2016 | 2015 |
|--|------|------|
| Relationship management & client service | 6.40 | 6.50 |
| Fees & value | 6.17 | 5.43 |
| Settlement | 6.31 | 6.68 |
| Asset servicing | 6.26 | 6.05 |
| Special operational requirements | 6.17 | 6.65 |
| Reporting | 5.77 | 6.22 |
| Technology | 6.00 | 5.95 |
| Fund accounting & valuation | 6.50 | 6.54 |
| Trustee services | 6.47 | 6.53 |
| Reputation & asset safety | 6.38 | 6.20 |

Standard Chartered

Standard Chartered competes effectively with both major domestic banks in Malaysia. The good news from 2016 is that scores achieved were materially improved compared to a year ago. In particular the very weak scores seen in both Technology and Asset Servicing in 2015 have been comprehensively addressed based on scores this year. In both categories the score on average was better than 5.60 compared with scores of well below 5.0 last year.

Perhaps even more noticeable is the fact that the average scores were both better than the Market Average across all providers in Malaysia. This means that scores have gone from being a potential weakness in 2015 to a position where they are now fully competitive. In fact Standard Chartered managed to beat the Market Average in all but two of the ten categories, again a very strong turnaround from the position twelve months ago.

When considering the particular strengths of the Standard Chartered capability, clients quite consistently reference Settlement and Cash Management. One client commented that, "transactions are executed on timely manner & the interface is user friendly."

One another praised clearing as well as settlement services. Areas that clients felt could be improved were less consistent. So one client was concerned about Corporate Actions,

specifically notification while another mentioned Operational Reporting and a third was concerned about invoicing; not the level of fees but the revisions. However the scores clearly point to a strongly improving position for the bank that leaves it fully competitive in a market where standards across all providers are high. ■

Table 1: Client breakdown

| | |
|---------------------|-------|
| Bank | 65.2% |
| Asset manager | 34.8% |
| Mutual fund manager | 0.0% |
| Other | 0.0% |
| Insurance company | 0.0% |
| Pension fund | 0.0% |

Table 2: Service area scores

| Service area | 2016 | 2015 |
|--|------|------|
| Relationship management & client service | 5.86 | 5.46 |
| Fees & value | 5.65 | 5.44 |
| Settlement | 5.97 | 5.38 |
| Asset servicing | 5.64 | 3.58 |
| Special operational requirements | 6.00 | 6.00 |
| Reporting | 5.53 | 5.23 |
| Technology | 5.68 | 4.79 |
| Fund accounting & valuation | 5.47 | 5.19 |
| Trustee services | 6.00 | 4.00 |
| Reputation & asset safety | 6.05 | 5.96 |