



Growth and innovation hand in hand

Operational reforms will help local providers meet the service needs of a growing investor base.

The previous 12 months represent something of a bounce back in Malaysian capital markets following a relative slowdown in 2015. Figures from the Securities Commission Malaysia (SC) revealed capital markets in the country grew to RM 2.84 trillion in 2016 with total capital raised amounting to RM 98.5 billion.

Such growth has been attributed to increased optimism in the market along with renewed interest in emerging markets and sustained domestic GDP growth expectations.

The SC also predicts further levels of fundraising in 2017 with current estimates of between RM 102 to RM 105 billion. According to some estimates, the size of the capital markets for 2017 may also increase to the tune of RM 2.97 trillion. In addition, the bond market grew to RM 1.17 trillion, while equity market capitalisation ended the year at RM 1.67 trillion.

The fund management industry continued its upward trajectory, with assets under management (AUM) growing 4.3% from RM 667.9 billion in 2015 to RM 696.3 billion last year.

Unit trust funds maintained overall net sales over redemption of RM 26.0 billion, registering an increase of 3.4% to reach RM 358.5 billion in net asset value (NAV).

Operational changes

From a service providers' point of view, such success comes against a backdrop of numerous developments with an impact on operating conditions in the market.

The introduction of a new real-time gross settlement and debt securities depository (RENTAS) system on 19 September 2016 was the culmination of a multi-year effort to internationalise and modernise Malaysia's financial market infrastructure to support the settlement of wholesale payments and securities denominated in international currencies.

In addition, on the home front, providers have noted support from the SC for a Peer2Peer (P2P) lending market in a move partially designed to nurture and facilitate market based innovation in the FinTech space within the country.

This support was put into practice in 2016 when the SC introduced the P2P financing framework to further broaden financing avenues for micro, small and medium enterprises. Six P2P operators were registered and are expected to be fully operational by the end of the year.

“Growth has been attributed to increased optimism in the market along with renewed interest in emerging markets.”

Islamic finance

More broadly, the preceding 12 months have seen the further development of Malaysia as a centre of Islamic capital market expertise. An Islamic banking and Sharia awareness workshop in August helped reinforce the view that Islamic capital markets are a promising growth area for Malaysia's financial markets as a whole.

According to figures from the SC, the market capitalisation of Sharia-compliant securities in 2016 reached RM 1.69 trillion, representing 60% of the domestic capital market. Islamic fund management grew 13% to RM 149.6 billion in AUM, primarily driven by expansion of Islamic unit trust funds and representing just over 21% of total AUM in the Malaysian market.

IOSCO hub

Malaysia's role as a financial centre received a boost earlier this year when it was announced that the International Organisation of Securities Commissions (IOSCO), the world's leading body of capital market regulators was launching its first-ever Asia Pacific Hub in Malaysia. The Hub is intended to further develop capital markets and strengthen regulatory capabilities in the region. Located at the SC building in Kuala Lumpur, this will be IOSCO's first presence outside of its headquarters in Madrid, Spain.

SC Chairman Tan Sri Ranjit Ajit Singh noted that, “The selection of Malaysia as the host of the first ever regional Hub reinforces the country's efforts in building a high quality and well-regulated capital market. The Hub in Malaysia will foster greater connectivity and inclusiveness within the Asia Pacific region, and is a reflection of the SC's commitment in facilitating greater cross-border collaboration.”

Custody

As was the case 12 months ago, domestic custody provision, as evidenced by responses to this year's survey, is dominated by four banks – CIMB, Maybank Deutsche Bank and Standard Chartered – though HSBC and Citi each received ratings from over 5% of total respondents to this year's survey.

A tougher crowd to please

Client expectations of their service providers appear to have grown with a corresponding decrease in scores achieved.

Some 70% of respondents to this year's Malaysia domestic custody survey are returnees from last year's survey. It is therefore significant that the 2017 Survey of domestic custody services in Malaysia shows a measurable decline in aggregate scores. At a category level, results are down by between 0.23 and 0.75. Quite why this should be is unclear, as the additional client comment provided does not identify any common thread of dissatisfaction. The size of individual respondents as measured by assets under management continues to grow, however, and larger clients tend to be both more demanding in terms of service requirements and harsher in their assessments of the service delivered.

“Interestingly, one of the steeper drops was in Special Operations.”

As Figure 1 highlights scores in all 10 categories were lower this year than 12 months ago. While eight of these still record results in the ‘Good’ range (5.00–5.99), two – Operational Reporting and Technology – are now regarded as merely ‘Satisfactory’.

Interestingly, one of the steeper drops (-0.61) was in Special Operations, which includes both dealing with cross-border securities and the processing of Islamic funds. The latter is an area where Malaysia is seeking to establish a global reputation and which is likely to be a promising source of growth for the market as a whole.

It is not, however, a capability that local investors responding to this year's survey yet place high on their list of service priorities. Figure 2 ranks the relative priorities listed by respondents this year and last. Special Operational Requirements ranks eight out of the 10 categories, down from sixth in 2016. Only 8.4% of survey participants ranked it first or second, while three-quarters listed it between sixth and tenth; in other words, below the halfway mark in terms of concerns. Interestingly, this category seemed to be increasing in importance, having risen from tenth to sixth.

Given the expected contribution of Islamic finance in general to the future growth of the Malaysian market, we would expect the ability to correctly handle the processing of assets in a

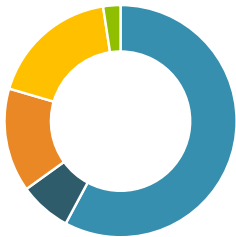
FIGURE 1: AVERAGE SCORES BY CATEGORY

Category	2017	2016	Difference
Relationship Management and Client Service	5.29	5.81	-0.52
Cost and Value Delivered	5.00	5.63	-0.63
Settlement and Cash Management	5.22	5.72	-0.50
Asset Servicing	5.36	5.59	-0.23
Special Operational Requirements	5.19	5.80	-0.61
Operational Reporting	4.87	5.62	-0.75
Technology	4.94	5.51	-0.57
Fund and Unit Accounting and Valuation	5.11	5.79	-0.68
Trustee and Administration Services	5.33	5.89	-0.56
Reputation and Asset Safety	5.46	6.06	-0.60
OVERALL WEIGHTED AVERAGES	5.19	5.73	-0.54

FIGURE 2: RESPONDENT PRIORITIES

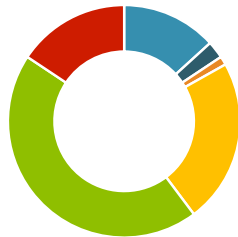
Category	1 or 2 (%)	3 or 4 (%)	6 to 10 (%)	Rank 2017	Rank 2016
Settlement And Cash Management	43.37	30.12	18.07	1	2
Relationship Management and Client Service	33.73	32.53	13.25	2	1
Cost And Value Delivered	28.92	21.69	22.89	3	3
Reputation And Asset Safety	24.10	13.25	46.99	4	4
Technology	18.07	22.89	50.60	5	8
Asset Servicing	12.05	20.48	56.63	6	5
Operational Reporting	12.05	13.25	55.42	7	7
Special Operational Requirements	8.43	2.41	74.70	8	6
Fund And Unit Accounting And Valuation	3.61	24.10	39.76	9	9
Trustee And Administration Services	3.61	9.64	50.60	10	10
OVERALL WEIGHTED AVERAGES	6.48	6.39	0.09		

FIGURE 3: TYPE OF RESPONDENT



- Investment manager
- Insurance company
- Mutual Fund Manager
- Other
- N/A

FIGURE 4: RESPONDENT SIZE%



- Up to MYR 100 million
- MYR 100 million to 250 million
- MYR 250 million to 500 million
- MYR 1 billion to 5 billion
- Over MYR 5 billion
- N/A

sharia-compliant context to increase in importance and would therefore regard this year's ranking as an anomaly. A repetition of this year's results on 2018 would suggest that growth forecasts of Islamic finance and asset management as a driver

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of business to local providers may have been on the optimistic side.

Cost and Value Delivered retains its position of third in the list of priorities. This category covers both perceptions of provider competitiveness and value received relative to fees paid. Just under 30% of respondents list this as their first or second priority in selecting a provider. The fall in category score from 5.63, comfortably in the ‘Good’ range, to 5.00, on the cusp of ‘Satisfactory’ suggests that clients are finding fee levels are somewhat higher than they would like. While this is common to most Global Custodian surveys, since clients rarely wish to signal to their providers that they are happy with fee levels, the relative drop from last year is significant.

Settlement and Cash Management and Relationship Management and Client Service remain the top two service priorities though their order has reversed since 2016. Since settlement is rarely as issue on a well-ordered market, this may reflect the growing importance of cash management in a low-interest rate environment.

At the other end of the scale, Fund Accounting and Trustee Services retain ninth and tenth rank in importance for the second year running. This is most likely a result of the fact that the majority of respondents to the survey once again come from outside the mutual fund sector (See Figure 3). Among those that use these services actively, their relevance and priority is much greater.

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 Group

CIMB accounts for just shy of 30% of the responses in this year's survey, more than any other providers. Despite the fact that scores have fallen in all service categories, they remain comfortably in the 'Good' zone, ranging from 5.83 for Reputation and Asset Safety at the top end to 5.29 for Operational Reporting at the lower end. All category scores surpass the market average apart from Special Operational Requirements, which falls short by 0.17 points. With a score of 5.60 for this category, however, there is no obvious cause for concern. Technology, an area that comes in for general criticism across the survey this year, has done relatively well in CIMB's case, outperforming the market average by 0.47 points.

Client comments are numerous and generally positive. "Very proactive relationship manager and client services," notes one manager of Islamic funds. Another asset manager points to the provider's "flexibility to cater to client needs." A few clients cite areas where they would like to see some improvement. One mutual fund client says, "We hope to see improvement in Asset Servicing, especially on dividend entitlement. Net amount of the entitlement should be provided on ex-date, not on lodgement date for local dividends." In general, however, clients seem quite happy.

TABLE 1: SERVICE AREA SCORES

Category	2017	2016	Difference
Relationship Management and Client Service	5.74	5.99	-0.25
Cost and Value Delivered	5.38	5.69	-0.31
Settlement and Cash Management	5.46	5.79	-0.33
Asset Servicing	5.44	5.55	-0.11
Special Operational Requirements	5.60	6.00	-0.40
Operational Reporting	5.29	5.88	-0.59
Technology	5.41	5.65	-0.24
Fund and Unit Accounting and Valuation	5.30	5.89	-0.59
Trustee and Administration Services	5.72	5.91	-0.19
Reputation and Asset Safety	5.83	6.20	-0.37
OVERALL WEIGHTED AVERAGES	5.54	5.85	-0.31

TABLE 2: DIFFERENCE WITH MARKET AVERAGE

Relationship Management and Client Service	0.45
Cost and Value Delivered	0.38
Settlement and Cash Management	0.24
Asset Servicing	0.08
Special Operational Requirements	-0.17
Operational Reporting	0.42
Technology	0.47
Fund and Unit Accounting and Valuation	0.19
Trustee and Administration Services	0.39
Reputation and Asset Safety	0.37
OVERALL WEIGHTED AVERAGES	0.31

Citi

Citi, has this year added to the list of providers receiving sufficient responses for a write up. While the client sample is still small, the scores are somewhat disappointing. The bank falls short of the market average in all service categories, though it scores relatively well in areas pertaining to mutual fund services. Its overall weighted average of 4.91 suggests room for improvement in client perception. That said, its client list includes some heavy hitters in the local asset management industry.

Many of the client comments are positive. "Technologically savvy; breadth of access and coverage is wide; particularly knowledgeable on RQFII and provides value added services," says one asset manager. "Very strong in corporate actions and voting processes," says another. However, there are calls for client interfaces to be more user-friendly and for greater flexibility on timelines to be available. Nevertheless, according to one large insurer, the bank's global presence, expertise and exposure play in its favour. With a larger response base, in the future Citi may well see its scores appreciate. In the meantime, a focus on technology and fees could go some way to altering client perception in a favourable direction.

TABLE 1: SERVICE AREA SCORES

Category	2017	2016	Difference
Relationship Management and Client Service	4.92	6.00	-1.08
Cost and Value Delivered	4.66	6.00	-1.34
Settlement and Cash Management	4.92	5.00	-0.08
Asset Servicing	5.23	5.40	-0.17
Special Operational Requirements	4.69	5.00	-0.31
Operational Reporting	4.69	5.00	-0.31
Technology	4.66	6.00	-1.34
Fund and Unit Accounting and Valuation	5.00	n/a	n/a
Trustee and Administration Services	5.43	n/a	n/a
Reputation and Asset Safety	5.13	6.00	-0.87
OVERALL WEIGHTED AVERAGES	4.91	5.61	-0.70

TABLE 2: DIFFERENCE WITH MARKET AVERAGE

Relationship Management and Client Service	-0.37
Cost and Value Delivered	-0.34
Settlement and Cash Management	-0.30
Asset Servicing	-0.13
Special Operational Requirements	-0.26
Operational Reporting	-0.18
Technology	-0.28
Fund and Unit Accounting and Valuation	-0.11
Trustee and Administration Services	0.10
Reputation and Asset Safety	-0.33
OVERALL WEIGHTED AVERAGES	-0.27

Deutsche Bank

Deutsche Bank (Malaysia) Berhad, has almost doubled its response base this year and in so doing has seen some improvement in its scores over 2016. There is improvement in all service categories with the exception of Operational Reporting, which is still languishing in the low fours. The biggest leap is for Relationship Management and Client Service, up a full 1.24 points to 5.24. This is just shy of the market average, but in itself is considered a good score. Deutsche Bank, however, still has a way to go to match the market averages in all categories, particularly in the area of Operational Reporting mentioned above.

Client comments point to areas of strength, but also a number of service aspects that respondents feel need improving. While praising the bank's Reputation and Asset Safety, one asset manager suggests that there is a discrepancy between the bank's relationship management capabilities (good) and its client service (less good). Another suggests that response times to queries could be improved.

On the plus side, one large asset manager highlights the "in depth knowledge of the products and services offered" among the Deutsche Bank team. Another describes the bank as, "Reliable and dependable."

TABLE 1: SERVICE AREA SCORES

Category	2017	2016	Difference
Relationship Management and Client Service	5.24	4.00	1.24
Cost and Value Delivered	4.53	4.35	0.18
Settlement and Cash Management	4.84	4.44	0.40
Asset Servicing	4.96	4.60	0.36
Special Operational Requirements	4.91	4.54	0.37
Operational Reporting	4.23	4.37	-0.14
Technology	4.61	4.12	0.49
Fund and Unit Accounting and Valuation	5.02	4.81	0.21
Trustee and Administration Services	5.03	4.91	0.12
Reputation and Asset Safety	5.13	5.05	0.08
OVERALL WEIGHTED AVERAGES	4.86	4.44	0.42

TABLE 2: DIFFERENCE WITH MARKET AVERAGE

Relationship Management and Client Service	-0.05
Cost and Value Delivered	-0.47
Settlement and Cash Management	-0.38
Asset Servicing	-0.40
Special Operational Requirements	-0.26
Operational Reporting	-0.64
Technology	-0.33
Fund and Unit Accounting and Valuation	-0.09
Trustee and Administration Services	-0.30
Reputation and Asset Safety	-0.33
OVERALL WEIGHTED AVERAGES	-0.33

HSBC

HSBC makes the cut this year accounting for some 6% of total survey responses. Its scores are adequate without being exciting. Six out of ten service categories score in the high fours – 'Satisfactory' in overall terms, but below the cusp of 'Good' (5.00-5.99). The bank's highest scores are for Trustee and Administration Services and Asset Servicing. In both of these, it comes close to matching the market average. Given the absence of historical survey data for HSBC in the domestic custody market in Malaysia, it is not possible to tell if this performance represents an improvement over time or not.

The few client comments are equally split between identifying strengths and pointing out areas for improvement. "Coverage, experience and breadth of access," are cited as positives by one asset manager, who goes on, however, to say that "quality and timeliness of valuation for 2017 seem to be impacted. Further improvement required."

Another points to trade settlement as a strength, but suggests that client reporting could be improved. With a small response base, it is perhaps unfair to draw anything other than tentative conclusions and to await next year's survey before making any definitive judgements on HSBC's performance.

TABLE 1: SERVICE AREA SCORES

Category	2017	2016	Difference
Relationship Management and Client Service	4.92	n/a	n/a
Cost and Value Delivered	4.92	n/a	n/a
Settlement and Cash Management	5.07	n/a	n/a
Asset Servicing	5.32	n/a	n/a
Special Operational Requirements	4.90	n/a	n/a
Operational Reporting	4.16	n/a	n/a
Technology	5.20	n/a	n/a
Fund and Unit Accounting and Valuation	4.49	n/a	n/a
Trustee and Administration Services	5.32	n/a	n/a
Reputation and Asset Safety	4.96	n/a	n/a
OVERALL WEIGHTED AVERAGES	4.95	n/a	n/a

TABLE 2: DIFFERENCE WITH MARKET AVERAGE

Relationship Management and Client Service	-0.37
Cost and Value Delivered	-0.08
Settlement and Cash Management	-0.15
Asset Servicing	-0.04
Special Operational Requirements	-0.22
Operational Reporting	-0.71
Technology	0.26
Fund and Unit Accounting and Valuation	-0.62
Trustee and Administration Services	-0.01
Reputation and Asset Safety	-0.50
OVERALL WEIGHTED AVERAGES	-0.24

Maybank

Maybank claims just over \$27 billion in domestic assets under custody. Banks are particularly well represented among its client base. It is also making a strong push in the area of Islamic custody services.

Maybank's response sample is similar in size to 2016. Although it has recorded falls in all service category scores, ranging from -0.55 to -1.23, it still exceeds or matches the market average in four categories, most notably Fund Accounting and Valuation. Technology and Special Operational requirements are the two areas where underperformance relative to the average is highest. Nevertheless, the bank's overall score is slightly above the average taking all category scores into account.

Based on additional client comments, the areas of Settlement and Asset Servicing are well regarded. One asset manager notes that, "After internal changes, improvements have been seen in overall client servicing; however a long way to go compared to peers."

On the negative side, Technology comes in for some criticism. "More options should be given to fund manager to access their cash management and custody system," says one client. Another suggests a need for further investment in technology.

TABLE 1: SERVICE AREA SCORES

Category	2017	2016	Difference
Relationship Management and Client Service	5.17	6.40	-1.23
Cost and Value Delivered	4.95	6.17	-1.22
Settlement and Cash Management	5.16	6.31	-1.15
Asset Servicing	5.68	6.23	-0.55
Special Operational Requirements	5.16	6.16	-1.00
Operational Reporting	5.16	5.79	-0.63
Technology	4.73	6.00	-1.27
Fund and Unit Accounting and Valuation	5.74	6.49	-0.75
Trustee and Administration Services	5.63	6.46	-0.83
Reputation and Asset Safety	5.48	6.39	-0.91
OVERALL WEIGHTED AVERAGES	5.23	6.22	-0.99

TABLE 2: DIFFERENCE WITH MARKET AVERAGE

Relationship Management and Client Service	-0.12
Cost and Value Delivered	-0.05
Settlement and Cash Management	-0.06
Asset Servicing	0.32
Special Operational Requirements	-0.25
Operational Reporting	0.29
Technology	-0.21
Fund and Unit Accounting and Valuation	0.63
Trustee and Administration Services	0.30
Reputation and Asset Safety	0.02
OVERALL WEIGHTED AVERAGES	0.03

Standard Chartered Bank

Standard Chartered Bank (Malaysia) Berhad, like all domestic service providers in the Malaysian market, has experienced a fall in client perception scores this year. Its client response list has increased by 25% and includes a number of demanding institutions. Interestingly, however, it's the largest clients who appear the most satisfied and the smaller respondents who have the most grumbles.

Six out of the 10 category scores are in the 'Good' range (5.00-5.99). The remaining four, while 'Satisfactory' are close to that threshold. Compared to the market average, Standard Chartered outperforms in the areas of Technology, Reputation and Asset Safety and Fund Accounting, Settlement and Cash Management.

Client comments are mixed. Some criticism of response times is evidenced, though one bank says that, "Standard Chartered portrays a strong relationship management, with the employees going above and beyond in servicing us. Knowledge wise, the team is dedicated, very knowledgeable and understands our business needs which adds great value."

TABLE 1: SERVICE AREA SCORES

Category	2017	2016	Difference
Relationship Management and Client Service	4.93	5.85	-0.92
Cost and Value Delivered	4.96	5.65	-0.69
Settlement and Cash Management	5.33	6.01	-0.68
Asset Servicing	5.29	5.60	-0.31
Special Operational Requirements	5.39	6.00	-0.61
Operational Reporting	4.90	5.55	-0.65
Technology	5.23	5.65	-0.42
Fund and Unit Accounting and Valuation	5.19	5.46	-0.27
Trustee and Administration Services	4.70	6.00	-1.30
Reputation and Asset Safety	5.64	6.05	-0.41
OVERALL WEIGHTED AVERAGES	5.19	5.82	-0.63

TABLE 2: DIFFERENCE WITH MARKET AVERAGE

Relationship Management and Client Service	-0.36
Cost and Value Delivered	-0.04
Settlement and Cash Management	0.11
Asset Servicing	-0.07
Special Operational Requirements	-0.17
Operational Reporting	0.03
Technology	0.29
Fund and Unit Accounting and Valuation	0.08
Trustee and Administration Services	-0.63
Reputation and Asset Safety	0.18
OVERALL WEIGHTED AVERAGES	-0.03