



Keynote Address by
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at the “Malaysia - the Potential Hub for Global Islamic Fund
Administration” Conference
28 March 2018 at Sasana Kijang, Kuala Lumpur

Introduction

Professor Dato’ Dr. Azmi Omar, President & CEO, INCEIF

Ladies and Gentlemen

- Thank you to the organisers, INCEIF and BNP Paribas under the Centre for Islamic Asset and Wealth Management, for inviting the Securities Commission Malaysia to share our thoughts and views on this important subject with all of you here today.
- The theme for this event [Malaysia – The Potential Hub for Global Islamic Fund Administration] is very significant and relevant to the SC, in line with a number of our key initiatives in furthering the development of the Malaysian capital market in general and the Islamic capital market in particular.
- But before I go deeper into the core of this subject matter, please allow me to make some observations on current trends in the asset and fund management industry.

Overview of asset management and fund administration industries

1. The asset management industry continues to play a pivotal role in the mobilisation of savings and the channelling of funds towards productive activities to support economic growth. Looking ahead, the industry will benefit, among others, from the rising affluence of the population especially in the developing countries as well as from growing allocation towards retirement savings. Global assets under management (AUM) are projected to increase from US\$84.9 trillion in 2016 to US\$145.4 trillion in 2025 and Asia is expected to be among the fastest-growing regions¹.
2. The industry is also witnessing a discernible trend towards alternative strategy, investing in non-traditional asset classes such as hedge funds, private equity, commodities and infrastructure funds. It is estimated that alternative investments will reach US\$21.1 trillion in 2025 from US\$13.9 trillion in 2020, growing at an annualised rate of 8.9%². The more complex aspects, for example valuation methodologies, for some of these alternative assets are imposing new requirements on investment support service providers.
3. Expansion of investors' requirements beyond investment returns such as customised reporting, adoption of higher standard of governance and greater transparency for instance, which add to the already complex core investment management functions, are demanding asset managers to have more flexible operating structure to ensure sustainability of their business. Asset managers are also facing an escalating cost structure, which includes research and distribution costs, thus leading to margin compression.

¹ Asset & Wealth Management Revolution: Embracing Exponential Change.
<https://www.pwc.com/gx/en/asset-management/asset-management-insights/assets/awm-revolution-full-report-final.pdf>. Page 4

² *Ibid.* Page 24.

4. Given the competitive business environment and the pace of adjustments necessitated by the changing market landscape, asset managers need to provide maximum value-add to investors, while minimising cost and enhancing operational efficiency. Asset management companies are increasingly realigning their business strategy to focus almost entirely on their core competencies (i.e. investments), and manage the non-core functions in a more cost-effective manner.
5. In this regard, it is now more commonplace for asset managers to appoint specialist firms to undertake some or all of these non-core functions. This approach, which serves to ensure efficient product and service delivery to investors at the right costs, may be based on shared services, co-sourcing or outsourcing model and therefore represents growth opportunity for the fund administration and investment support service providers.
6. In 2017, total assets under custody and administration of the top three fund administration companies increased to US\$83.7 trillion³ from US\$78.2 trillion in 2016⁴. The 7% growth is quite consistent with the medium term compound annual growth rate (CAGR) of about 8% for the top 10 providers between 2008 and 2013⁵.

The Industry Landscape in Malaysia

7. The Malaysian government has introduced various initiatives in the form of strategic plans, policies and incentives to actively promote the shared services and outsourcing activities under the Business Services industry segment of the National Key Economic Area (NKEA) under the Economic Transformation Programme. The NKEA's Entry Point Project of "Building Globally Competitive

³ 2017 Annual Reports of BNY Mellon (total AUC and AUA: US\$33.3 trillion), State Street (total AUC and AUA: US\$26.9 trillion) and J.P.Morgan (total AUC: US\$23.5 trillion). Total US\$83.7 trillion.

⁴ 2017 Annual Reports of BNY Mellon (total AUC and AUA: US\$29.9 trillion), State Street (total AUC and AUA: US\$27.8 trillion) and J.P.Morgan (total AUC: US\$20.5 trillion). Total US\$78.2 trillion.

⁵ Oliver Wyman Report

Shared Services and Outsourcers" has set targets of contributing RM6.86 billion to gross national income and creating 43,330 jobs by 2020⁶.

8. Malaysia's Business Process Outsourcing (BPO) industry is expected to reach US\$1.4 billion by end 2021, growing at a compounded annual rate of 7.9%. The human resources and the finance and accounting sectors made up a majority of the total BPO market in 2016⁷. Foreign financial services firms that have established global shared services centres in Malaysia include Standard Chartered Global Business Services with a total workforce of more than 4,900 people⁸ and RBC Investor and Treasury Services, with over 800 employees. Services offered include asset custody, payments and treasury services for financial and other institutional investors worldwide⁹.
9. The SC's Capital Market Masterplan 2 (CMP2) has also highlighted the opportunities in pursuing the growth of ancillary industries in the Malaysian capital market. As prescribed in the CMP2, the SC will further broaden its developmental focus across a broad range of middle and back-office functions covering advisory services, research, risk management, compliance, settlement, custodian, trustee and other services in capital market-related areas. This will be supported by initiatives to attract international players to use Malaysia as a regional base for their middle and back-office functions.
10. In this regard, the SC has removed the requirement for approval before an intermediary outsources selected material functions, including but not limited to clearing and settlement, fund accounting, fund valuation and maintenance of register of unit holders. Instead, licensed intermediaries only need to notify the SC upon signing the service level agreement for such outsourcing arrangement. Nevertheless, the intermediaries must select an appropriate and

⁶ EPP NKEA website

⁷ The Star, [https://www.thestar.com.my/business/business-news/2017/07/21/business-process-outsourcing-in-malaysia-to-reach-over-us\\$1b-by-2021/#kYRud8mWoGKqEMxb.99](https://www.thestar.com.my/business/business-news/2017/07/21/business-process-outsourcing-in-malaysia-to-reach-over-us$1b-by-2021/#kYRud8mWoGKqEMxb.99)

⁸ <https://computerworld.com.my/tech/industries/standard-chartereds-new-malaysian-command-centre-to-provide-more-secure-global-banking-services/>

⁹ <http://www.rbcbraceforthekidskl.com/about-us/about-rbc-investor-treasury-services/>

efficient service provider as well as monitor the outsourcing arrangements on a continuous basis to ensure that it does not lead to business disruption and negative consequences to the intermediaries' clients.

11. The Islamic Fund and Wealth Management Blueprint (Blueprint), launched in January 2017, provides further opportunity for the development of investment support services. One of the Blueprint's three strategic thrusts is to strengthen Malaysia's positioning as a global hub for Islamic funds. Another strategic thrust under the Blueprint is to establish Malaysia as a regional centre for Shariah-compliant sustainable and responsible investment (SRI). Shariah-compliant SRI funds will add to the range of investment product offerings and significantly broaden the investor base. Global sustainable investment assets under management (AUM) reached US\$22.89 trillion in 2016, compared with US\$18.28 trillion in 2014, an increase of 25 percent¹⁰. With Islamic funds being recognised as part of the SRI universe, Malaysia is currently the largest SRI funds market in Asia (excluding Japan) with 30% market share. The substantial size of SRI AUM provides significant potential for fund administration and investment support services firms to serve both the Islamic and SRI funds segments.

12. The SC recently issued the Guidelines on Sustainable and Responsible Investment (SRI) Funds to facilitate and encourage further growth of SRI funds in Malaysia, in anticipation of an uptrend in SRI assets in this region. The new Guidelines will widen the range of SRI products in the market and attract more investors into the SRI segment. The introduction of the SRI Funds Guidelines is another significant step towards further development of the SRI ecosystem in the Malaysian capital market, reinforcing our positioning in the regional SRI segment and global leadership in Islamic finance, thus offering more growth options for fund administration companies.

¹⁰ Global Sustainable Investment Review 2016, GSIA. http://www.gsi-alliance.org/wp-content/uploads/2017/03/GSIR_Review2016.F.pdf. Page 7.

13. Today, Malaysia is internationally recognised as the leader in Islamic finance and a key global marketplace for Islamic financial activities. Our Islamic financial ecosystem has developed to such an extent that we are able to offer a full range of Islamic financial services.
14. Malaysia is the only country in the world with a regulatory framework for Islamic fund management companies. As at end 2017, there were 55 fund management companies managing Islamic funds, with 20 full-fledged Islamic fund management companies and 35 fund management companies offering Islamic windows, including global managers.
15. The fund management industry, a key component of the Malaysian capital market, expanded its overall assets under management (AUM) by 11.5% in 2017 to RM776.2 billion. Islamic AUM rose to RM172.2 billion, registering a higher growth rate of 15.1% compared to that of the overall industry. 22% of the total industry AUM is Islamic. Malaysia now leads the global Islamic funds industry with a 36.5% share of global AUM¹¹.
16. The development and growth of the Islamic fund management industry in Malaysia are largely supported by the comprehensive and well-established Islamic capital market ecosystem. As at end 2017, Islamic capital market represents 59.2% of Malaysia's overall capital market with a size of RM1.89 trillion as compared to RM1.69 trillion in 2016.

Malaysia's Value Proposition

17. Malaysia's leadership in Islamic funds must be leveraged upon to develop and enhance the country's positioning as a hub for global fund administration and investment support services that serves the global asset managers especially those specialising in Islamic as well as SRI segments.

¹¹ MIFC estimates

18. Technology plays a significant role as an enabler in the financial services sector. Similarly, for the fund administration industry, the influence and impact of digital finance is multi-fold. It enhances efficiency, enables deeper data analytics, facilitates more customised reporting and promotes transparency, among others. In other words, it enhances the customer experience. At the same time, the prevalence of technology can enable a country like Malaysia to compete effectively (but not necessarily head-on) with the more established markets especially if the industry here is able to create and offer substantive, value-adding service differentiation that capitalises on technological capabilities.
19. Malaysia also has a vast pool of skilled talents. Taking the accounting field for example, according to the Malaysian Institute of Accountants, more than 34,000 of its members are currently employed in various business sectors locally and abroad¹². There are also graduates from more than 400 local institutions of higher learning comprising universities, polytechnics and industrial training institutes¹³ searching for suitable jobs in the market. Based on data from the Ministry of Higher Education (MOHE), there have been about 6,000 accounting graduates annually since 2012¹⁴. In this regard, the development of the fund administration and investment support services industry could be a viable avenue for some of them to pursue their careers.
20. Furthermore, as Malaysia offers an English-proficient business environment, it is one of the attractive factors for international firms to consider in setting up their businesses here. The latest EF English Proficiency Index has ranked Malaysia under the “high” category in terms of English language proficiency among non-native speakers globally and has placed the country as the second highest in Asia¹⁵.

¹² <http://www.mia.org.my/v2/discover-mia/discover-mia.aspx>

¹³ Frost & Sullivan, “Why Outsource To Malaysia”, page 3

¹⁴ MOHE, <http://graduan.mohe.gov.my/skpg-report/ProgramPengajian/SubBidangK.aspx>

¹⁵ <https://www.ef.com/epi/regions/asia/malaysia/>

21. In terms of cost efficiency, the government continues to be committed in establishing Malaysia as an attractive shared services and outsourcing destination with initiatives to ensure the creation of high value-add jobs. According to Frost & Sullivan, Malaysia possesses a young, educated, productive and dynamic workforce at very competitive costs compared to other countries in Asia, with total labour force in the country of about 13.5 million and high literacy rate of about 93%.
22. Malaysia also offers competitive rates for office space rental. Information provided by InvestKL shows that the average monthly rental for office space in Kuala Lumpur was only US\$14.7 per square metre (US\$/sqm) in the first quarter of 2016, compared with US\$69.8/sqm in Singapore and US\$190.3/sqm in Hong Kong¹⁶. This data reflects Malaysia's clear cost advantage over the two international financial centres in this region.
23. The Malaysian capital market is also recognised as having a robust and effective regulatory framework which serves to provide trust and confidence to market participants. The establishment of the International Organisation of Securities Commissions (IOSCO) Asia-Pacific Hub in Malaysia in 2017, the first ever IOSCO office outside its Madrid headquarters, demonstrates global recognition of Malaysia's on-going efforts and success towards building an orderly and well-regulated capital market of international stature.
24. Malaysia's geographical location acts as a gateway for fund administration firms to establish and scale up their business in this part of the world. Being at the heart of ASEAN, the country's strategic location offers excellent connectivity with other major markets in Asia, making it 'a venue of choice' for businesses that seek to establish significant and long-term presence in the region.

¹⁶ http://www.investkl.gov.my/Invest_In_KL-@-10_Reasons_to_Invest_in_Greater_KL.aspx

25. Malaysia has also been ranked 3rd in the A.T. Kearney 2017 Global Services Location Index, a position it has retained since 2004. The assessment takes into consideration three categories comprising business environment, financial attractiveness, and people skills and availability in ascertaining the Index rankings, which cater primarily to decisions related to Business Process Outsourcing¹⁷.

Conclusion

26. The fund administration companies of today need to build partnerships with their clients. They need to be partners rather than service providers to their customers in order to capitalise on the current business landscape and operating environment which will continue to change and evolve.

27. On its part, Malaysia certainly has significant competitive advantages to become a global hub for Islamic fund administration and investment support services. When we were developing the Islamic Fund and Wealth Management Blueprint, it was quite clear from the beginning that fund administration was an area of significant opportunities and potential. Its relevance across the three strategic thrusts of the Blueprint reinforced its significance, thus meriting the inclusion of Recommendation number 6 in the Blueprint – “Advancing Malaysia’s positioning as a hub for investment support services”. On that note, I would like to take advantage of this platform to make a “call to action” for all stakeholders in this hall (and outside) to collaborate and move forward towards operationalizing the recommendation and realising Malaysia’s full potential as the hub for global Islamic and SRI fund administration.

Thank you.

¹⁷ AT Kearney