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THE REALITIES OF ESG INVESTING

HOW WEALTH FIRMS CAN ATTRACT AND RETAIN THE MODERN INVESTOR

IS A PRIVATE FAMILY FUND REALLY PRIVATE?

INSURANCE COVERAGE: HOW MUCH IS ENOUGH?

4EJournal

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Dear Members,

I hope that you and your families are doing well.

After nearly two years of travel restrictions, our country has finally entered the 'transition to endemic' phase, with borders being opened and businesses are allowed to operate according to their business hours. Although there is still no cure for a coronavirus infection, it is certain that we will have to live with Covid-19 for an extended period of time.

Stepping into the second quarter, the global economics are still full of challenges and has been further harmed by the conflict in Ukraine. The sharp rise in commodity prices has made it even more difficult for central banks to achieve their goal of bringing inflation down to target while preserving the post-pandemic recovery.

The emergence of Covid-19, as well as market uncertainties, has emphasised the importance of financial planners even more. People tend to make the most mistakes when they are experiencing negative emotions. Therefore, financial planners must be able to recognise psychological shifts, understand the influencing variables and provide appropriate advice to their clients. Likewise, financial planners should also be mindful of how their own personalities, beliefs, and biases affect client relationships and services.

In a world of declining birth rates and a rapidly ageing population, financial planners must also reach out to Millennial and Gen Z clients. As Millennials grow in their jobs, prepare for retirement, and plan for their own children's financial futures, many of them (between the ages 26 to 41) are entering new life stages, while the Gen Z, those between the ages of 18 to 25 are also starting to work full-time. To serve these younger clients with high-quality and relevant advice, financial planners must first understand their needs.

It is critical for all members to improve their knowledge and abilities in order to assist clients in their best interests while also adhering to the *Code of Ethics and Best Practices* in our everyday practice when meeting with clients.

Let us continue to work together to grow the financial planning profession and empower the public to be savvier with their personal finances.

Stay Safe and Be Well.

PAUL LOW HONG CEONG *CFP CERT TM, IFP®*
President

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THE *MAQASIDI* APPROACH TO ESG IN ISLAMIC FINANCE

ESG and Shariah-compliant investing share many similarities; therefore, they should be harmonised for the future action plan of the Islamic finance industry.

The call for *maqasidi*-driven financing that satisfies the positive goals of Shariah-compliant investment was seen at its inception as a vague, theoretical, unmeasurable goal. However, the recent global awareness of environmental, social and corporate governance (ESG) concerns – including the UN Sustainable Development Goals (SDGs) and the scholarly studies that have established measurable KPIs, indices and score cards for ESG – have presented an excellent opportunity to confirm the possibility of a measurable *maqasidi*-driven Shariah-compliant investment.

ESG AND *MAQASID AL-SHARIAH*: A CLASH OF CONVERGENCE?
World Bank researchers defined ESG investing as a tool that "incorporates environmental, social, and governance issues into the analysis, selection and management of investments."

Factors to be considered in 'E', which stands for 'environment' are climate change, carbon emissions, pollution, resource efficiency, biodiversity, effluents and waste, responsible use of natural resources,

SDG, ESG Goals	Maqasid al-Shariah Goals	
No poverty (Goal 1)	Preservation of life	Preservation of religion (*dīn*) in its holistic approach encompasses all other *maqasid* necessities. *Al-Shatibi*: "The primary goal of Shariah is to free men from the grip of his own whims, so that he may be the servant (*'abd*) of Allah by choice, just as he is His servant (*'abd*) in matters about which he has no choice."
Zero hunger (Goal 2)		
Good health and well-being (Goal 3)		
Quality education (Goal 4)	Preservation of intellect	
Clean water and sanitation (Goal 6)	*Wasa'il* (direct means) to preserve life, intellect and progeny	
Affordable and clean energy (Goal 7)		
Responsible consumption and production (Goal 12)		
Climate action (Goal 13)		
Life underwater (Goal 14)		
Life on land (Goal 15)		
Decent work and economic growth (Goal 8)	Means to the preservation of wealth	
Industry, innovation and infrastructure (Goal 9)		
Sustainable cities and communities (Goal 11)		
Peace, justice and strong institutions (Goal 16)	Preservation of justice is a fundamental tenet of Islamic belief	
Reduced inequality (Goal 10)	Conforms with Islamic value	
Gender equality (Goal 5)	Acceptable but cannot be applied in its absolute sense	
Partnership to achieve the goals (Goal 17)	Conforms with Islamic value	

and antimicrobial resistance. The ‘S’, which stands for ‘social’, consists of human rights, labour standards, health and safety, diversity policies, community relations, and the development of human capital (health and education). Lastly, the ‘G’ refers to ‘governance’, which looks at a company’s corporate governance, respect for the rule of law, abstention from bribery and corruption, institutional strength, transparency, business ethics, and responsible supply chain management.[1]

As for *maqasid al-Shariah*, or objectives of Shariah, it aims at elevating humanity to the highest ranks by making them upright, spreading virtue, establishing public interest, fighting the promotion of harm, and ensuring balanced relationships with the self, the community and the universe in which they live. The *maqasidi* approach in establishing the principles relevant to the environment, social good, and governance is based on:

#1 Establishing the Islamic worldview on the environment, social good, and governance;

#2 Linking environmental preservation, social good, and governance to the principles of *istikhlaf* (vicegerency) and *islah* (rectification);

#3 Linking environmental preservation, social good, and governance to the Shariah objective of making civilisation flourish and achieving balance and integration in all business undertakings;

#4 Establishing *maqasidi*-driven commands and legislation that ensure the achievement of the goals of environmental preservation, social good, and governance. Preserving the environment entails properly utilising and maintaining resources, not using them extravagantly, prohibiting their destruction or depletion without necessity or significant need. The social goals stress community development by ensuring a balanced distribution of wealth and comprehensive human capital development. The governance goals emphasise transparency, disclosure, documentation, and business ethics based on truthfulness (*sidq*), proficiency (*itqan*), cooperation (*ta‘awun*), fair dealing (*insaf*), and others.

Several scholarly studies have concluded that ESG and *maqasid* fundamentals share a high level of similarities and synergy; however, they stressed the supremacy of *maqasid* fundamentals with regard to religious motivation and the achievement of human well-being in this world and the hereafter.

MAJOR INITIATIVES TO INCORPORATE ESG IN ISLAMIC FINANCE IN MALAYSIA

Malaysian regulators, Islamic finance industry players, and academic and research institutions have been at the forefront in championing ESG in the Islamic finance industry.

Initiatives to incorporate ESG in light of *maqasid al-Shariah* are manifested in three main areas.

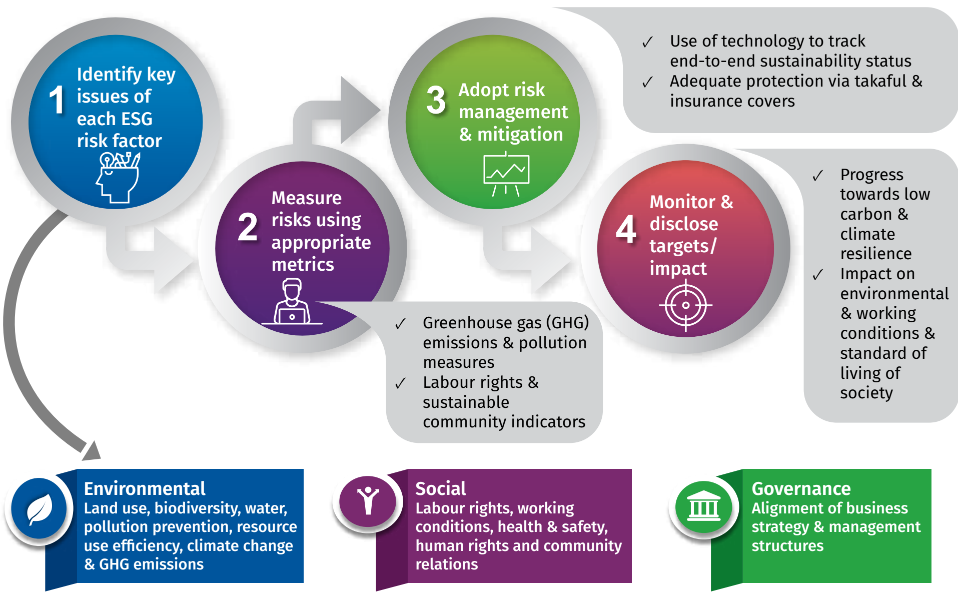
1 Regulatory and supervisory initiatives to push for *maqasid* and ESG-driven action plans.

Among the core initiatives are:

– The issuance of the VBI Strategy Paper by Bank Negara Malaysia (BNM) on 12 March 2018, which incorporates both *maqasid* fundamentals and ESG goals.
– The issuance of three documents:
  - Implementation Guide for VBI;
  - Consultative Document on VBI Scorecard, and;
  - Consultative Document on VBIAF Framework in October 2019.
– The issuance of the final VBIAF by BNM on 12 March 2019.
– The issuance of the Climate-change and Principle-based Taxonomy Discussion Paper by BNM on 27 Dec 2019.
– The issuance of three Consultative VBIAF Sectoral Guides, spearheaded by Committees of Practitioners (CoPs):
  - Palm Oil;
  - Renewable Energy and;
  - Energy Efficiency in August 2020.

THE KEY COMPONENTS OF VBIAF SECTORAL GUIDES

VBIAF Sectoral Guides provides guidance to financial institutions to incorporate environmental, social and governance (ESG) risk considerations in their financing and investment decision making process



Source: BNM 2020

Footnote: 1. (Inderst, G. and Stewart, 2018; International Capital Market Association, 2021)

– Securities Commission Malaysia (SC)'s 5i-Strategy in 2014 was created to holistically develop a facilitative SRI ecosystem in the domestic capital market. This was followed by the issuance of Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market in 2019.
– The Malaysian Association of Takaful too issued the Value-Based Intermediation for Takaful (VBIT) Framework in 2021.

2 Strategic financing initiative
The strategic initiatives manifested from the contribution of Islamic financial institutions, resulted in the BNM Intermediation of RM155.6 billion in VBI initiatives, including:
- Financing: RM94.2 billion (60%)
- Liabilities: RM36.8 billion (24%)
- Investment Assets: RM24.6 billion (16%)

The issuance of the first green *sukuk* in 2017 by Malaysian Corporate Tadau Energy to finance its 50MW solar photovoltaic power plant represents another excellent initiative. This is in addition to the RM100 million issuance in June 2015 of Ihsan Sukuk, a pioneering sustainable and responsible investment (SRI) to provide quality education, another issuance of RM100 million in August 2017, and the first SDG Sukuk of RM500 million by HSBC Amanah Malaysia in October 2018.

3 Research and development
The research and development initiatives for the creation of awareness and the engineering of ESG Islamic finance products and solutions. Many initiatives were introduced to include a number of INCEIF strategic contributions in collaboration with renowned partners towards creating awareness and synergy and advancing the implementation of ESG in Islamic finance. In addition, ESG is embedded in many of the academic modules and programmes.

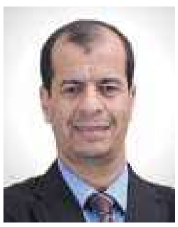
THE WAY FORWARD TO MAXIMISING ESG IN THE ISLAMIC FINANCE INDUSTRY

Despite the tremendous efforts made to incorporate the ESG goals in Islamic finance, further efforts and enhancements are needed in the following areas:
Vision, mission and strategic initiatives by:
– Reinforcing the ESG *maqasidi* sustainable goals through executive compensation;
– Empowering sustainable leaders at the senior level to drive ESG *maqasid*-based strategy;
– Embedding *maqasid* and ESG commitments into the operating model and structure;
– Acquiring and developing talent for a *maqasidi*-driven and sustainable future;
– Championing inclusive talent management and reward programmes;
– Creating a sustainable culture; and
– Communicating the plan and progress to all stakeholders.

Innovative, sustainable and value-based solutions by:
– Developing innovative ESG *maqasid*-based products and services;
– Nurturing innovative Islamic finance initiatives (start-ups); and
– Establishing an incubator platform to have the first choice in potential innovative Islamic finance concepts.

Research development and capacity building by:
– Upskilling employees through professional training, and programmes related to ESG integration in strategy and product development;
– Creating visibility, literacy and awareness to the general public and new professionals through interactive digital means; and
– Providing the necessary awareness and education on digitalised Islamic finance to enrich the customer experience from digitalisation and provide a cybersecurity safety guide.

In a nutshell, the Islamic finance industry has responded well to the ESG requirements in the areas of regulatory and supervisory support, product development, and strategic initiatives. However, more efforts are needed to elevate initiatives to the global competitive stages.



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THE REALITIES OF ESG INVESTING

Sustainable investing: why it is important, how will it help our planet and livelihood, and what it will do for our wealth, health and future.

ESG (environment, social and governance) investing, like cryptocurrency, has experienced a surge in popularity and attention over the past two years. Investors from corporate to retail have been abuzz with its importance, but it still has been met with varying response. It has been talked about enough that it's beginning to lose its luster – so why are we still struggling to grasp its significance?

Other interchangeable names for ESG investing include 'green investing' or 'sustainable investing' or 'socially responsible investing'. These alternative names for the themed investment highlights the objective of these investments. In that vein, however, the language to describe ESG investing can be regarded as both alarming and alienating. The vocabulary applied freely associates these themes to be synonymous with climate change and the environment – but the reality is that it is very much more than that.

If there's anything the pandemic has taught us, is that corporations would need to focus on other stakeholders, such as the workers of the company and other social aspects, like customer service. "The pandemic has also brought the vulnerability and interconnected nature of our societies and industries to the forefront of investors' minds and shown that sustainability considerations cannot be ignored," says Hortense Bioy, the global director of sustainability research at Morningstar.

As this is about investing, the fact is that it is overall difficult to assign monetary value to these ESG pillars, which has created a dissonance for investors to be able to grasp the tangibility of its importance. Research houses and fund management firms have taken the task to providing hard predictive data to chart projections for the future, especially with regards to the performance of their funds. This information will provide more solid research that ESG investing will bring better returns in the future – both for businesses, and the greater good of the planet.

ESG, MORE THAN JUST CLIMATE CHANGE

The three pillars of ESG are interlinked although we tend to only think about the environment, climate change and the 'green' movement when we hear of 'ESG' or 'sustainability'. The reality is each pillar is not easily measured to wholly assign its tangible value. For example, you may be able to count high employee turnover at a company, but what is it costing the company for that high turnover? It cannot all be answered purely with numbers.

"First and foremost, I think it's important to understand that ESG investing represents a spectrum of motivations and approaches," shares Bioy. She adds: "At the moment, there is a lot of confusion in the sustainable investing space because it is still early days and regulation has yet to bring some clarity and order to it. Countries are at different stages of their journey, some being more committed and supportive than others (e.g. Europe vs. US)."

The main skepticism applied to ESG investing is the possibility of investing to bring both financial returns and social impact. "The argument was that ESG investing would underperform financially as ESG considerations would compromise profits," says Ismitz Matthew De Alwis, executive director & chief executive officer of Kenanga Investors Berhad. "Another group argues that ESG isn't effective at achieving environmental or social change," he adds.

However, ESG investing helps accelerate ESG adoption among companies.

"ESG funds only invest in companies which meet their respective ESG criteria, contributing to the increase in awareness among investee companies on the importance to adopt ESG practices across their business operations," says De Alwis. "In order to attract new investments and to meet the expectation of institutional shareholders, companies must put together greater emphasis on

identifying and managing the ESG risk associated with their business operations. This has catalysed ESG adoption among companies."

Ultimately, ESG investing provides a platform for investors to demonstrate their personal values and play a role in financing assets that are contributing positively to environmental and social causes, adds Chan Ai Mei, chief marketing & distribution officer of Affin Hwang Asset Management Berhad.

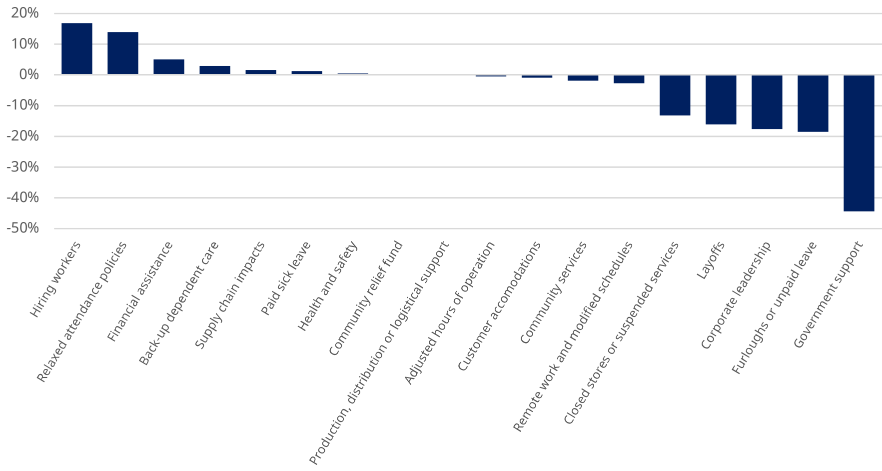
"ESG integration is the inclusion of material ESG factors on top of traditional financial metrics in the investment decision process," shares Chan. "For instance, companies with poor labour practices face increased risk of lawsuits, customer order cancellations as well as reputational damage," she adds.

Echoing Chan is Victor Wong, head of the regional ESG team at UOB Asset Management Sdn Bhd: "Some have viewed the 'S' in ESG as suffering from middle child syndrome – many have placed emphasis on the 'E' and 'G' but are neglecting the 'S' in ESG. However, we observe a pickup in the prominence of 'S' factors. With Covid-19, 'S' has been dragged into the limelight."

Wong gives the example of outstanding social issues in Asia and labour management, where the pandemic had exposed companies that were not prepared to face this challenge. One example he gave is as follows: At the beginning of the pandemic, a leading glove manufacturer saw its prices surge.

Re-writing social contracts: responsible "saint" companies will outperform the "sinners"

Figure 1: Sector-relative performance of companies announcing responses to COVID-19, since start-Jan



Source: Company announcements, JUST Capital, Schroders. Past performance is not a guide to future performance and may not be repeated.


Hortense Bioy


Ismitz Matthew De Alwis


Chan Ai Mei


Victor Wong


Claire Herbert


Koh Huat Soon

However in the same year, thousands of factory workers tested positive for the virus which resulted in major plant shutdowns and local government investigations into workers' housing conditions. Furthermore, the company was imposed with hefty bans from trading countries.

Claire Herbert, the ESG Manager of Asia Pacific at Schroders agrees: "During the early days of Covid-19, we analysed the relationship between companies' responses to Covid-19 and the equity market appraisal value. The results are telling: those hiring workers, relaxing attendance policies or offering financial assistance, for example, have been appraised positively."

A RISK MANAGEMENT TOOL

Picking the right investments is an art and a science – and a very big part of choosing the right investment requires the need to explore its risk.

"Some investors use ESG data to assess and manage ESG risks. This approach has become widespread among traditional investments as more investors have come to understand that material ESG issues may reflect hidden risks that traditional analysis may overlook," opines Bioy. This is especially true with risks associated with climate change, where investors use ESG information as a tool to identify companies that are sustainability leaders, or those seeking to improve their ESG practices to build competitive advantages.

This type of investing also demands active engagement from investors, gaining popularity among asset managers and owners to generate impact. "For example, through engagement, portfolio managers can encourage companies to commit to reducing their greenhouse gas emissions," Bioy adds.

"One of the key practices in ESG investing is to exercise shareholders' rights to influence corporate behaviour by voting in the AGM/EGM," says De Alwis, adding: "Many institutional investors publish their voting policies to promote better governance. Exercising voting rights is an effective and direct approach for asset managers to influence the direction of investee companies and to push for an ESG agenda. This puts pressure on corporate boards to demonstrate that they are adequately equipped to understand and oversee ESG issues, from climate change to human rights to social unrest."

"In sustainable investing, ESG considerations complement traditional fundamental principles in selecting companies and securities that are of a higher quality. Sustainable investments can add value to investor portfolios and

THE 3 PILLARS OF ESG

All companies, regardless of their sector or nature of business will have a part to contribute under at least one pillar, or more. Here's a (non-exhaustive) list of things included under the umbrella of ESG or sustainable investing:

1

ENVIRONMENTAL:
Conservation of the natural world and its resources
Includes Carbon and greenhouse gas (GHG) emissions; natural resource depletion; air and water pollution; biodiversity; deforestation; energy efficiency; waste management and water scarcity

2

SOCIAL:
Consideration of people and relationships
Includes Labour standards and working conditions; employee engagement; health and safety of employees/customers; equal opportunities; gender and diversity; customer satisfaction, data protection and privacy, community engagement and philanthropy

3

GOVERNANCE:
Standards for running a company
Board diversity; business ethics and compliance; bribery and corruption; executive compensation and fairness; lobbying for policy change; political donations; whistleblower schemes

Malaysia's Climate Change-Related Agenda to ESG Investing

The Sustainability Accounting Standards Board (SASB) and Global Reporting Initiative (GRI) have charted the way in reporting sustainability goals. Other governing bodies like the UN Sustainable Development Goals (SDG) and the Task Force on Climate-related Financial Disclosures (TCFD) have contributed to regulating and achieving them.

The region has also seen a push in policy developments, with the publication of the first ASEAN taxonomy draft during COP26 to individual governments, setting out taxonomy standards and climate-related disclosure guidelines.

An estimated US$2 trillion (RM8.84 trillion) of infrastructure investment is needed – from resource extraction to electrification – over the next decade for Southeast Asia's sustainable transition. This was determined by a collaborative report written by Bain & Company, Microsoft, and Temasek.

"Bursa Malaysia is introducing a voluntary carbon market (VCM) as a platform to trade carbon credits for carbon emission offset purposes. Furthermore, the National Energy Policy, long-term low-emission development strategies (LT-LEDS) and carbon emissions price will be announced by the end of 2022," says Victor Wong, head of the regional ESG team at UOB Asset Management Sdn Bhd.

"Along with the carbon pricing policy, the Cabinet agreed to develop the Domestic Emissions Trading Scheme (DETS). On the financing front, BNM's 2021 Climate Change Principle-Based Taxonomy (CCPT) requires financial institutions to assess lenders and investees' climate change transition status. Such developments are expected to guide financial flows and capital allocation towards more sustainable outcomes," adds Wong.

are complementary to traditional investment concepts and financial performance yardsticks," says Wong.

He adds that the main objective is using sustainable investing as a risk management tool – one that enables us to limit the downside for investors by identifying and eliminating companies with ESG risks, such as pollution for an industrial company or data privacy concerns for a technology company. In many ways, having these ESG pillars prompts investors to interrogate a company and their practices further keeping them accountable to their performance and returns to the investor.

"Studies have shown that companies that manage their ESG risks well tend to perform better than their peers in the long run. This includes having better profitability and lower cost of capital," says Wong. A fund manager would be doing their job right by evaluating a company on its stance on climate change, employee treatment and board accountability. With the right foundation, these factors would aid in the identification of competitive companies that will do well in the long-term.

Organisations like the CFA Institute have been conducting research, discovering that companies with a strong ESG focus achieve better financial performance than those that place less or no emphasis on ESG, shares Wong.

He further adds: "The positive relationship between ESG and performance supports the philosophy that sustainable companies are more resilient, navigate risks well and are better prepared to meet future challenges.

COVID-19, HASTENING SUSTAINABLE INVESTING

ESG investments proved their resilience by retaining their performance throughout the past two years while riding through the volatile changes of life caused by the pandemic. This was exemplified by the growth of global sustainable assets which outpaced global assets under management, according to the Global Sustainable Investment Review.

"The reported sustainable investment assets stood at US$35.3 trillion (RM157 trillion) making up 35.9% of total assets, up from 27.9% in 2016," says Koh Huat Soon, regional head of research at Maybank Asset Management Sdn Bhd. He adds that Morningstar reported that ESG funds rose 29% globally in 2020.

De Alwis agrees adding that large funds with ESG criteria outperformed the broader market, according to a report published by S&P Global. "While ESG investing is often criticised to compromise profitability, S&P's analysis is evidence that such funds outperformed their peers and the broader market during the pandemic," he says.

At the heart of it, investors are often searching for long-term sustainable investments. De Alwis opines: "The pandemic was a wake-up call for investors to reiterate on the importance of sustainable business practices to avoid the risk of being financially impacted by such external events in the future."

This was further proven in 2021 being the record year for ESG investing in the US, with an estimated US$120 billion (RM530 billion) of inflow, more than double of US$51 billion (RM225 billion) in 2020.

On the local front, based on data provided by the SC, there were ten SRI (Socially Responsible Investing) funds (combination of unit trusts and wholesale funds) registered by end

2020. Since then, the number has risen to 56 funds as of 1 June 2022, with 29 launched in 2021 and 17 this year.

POLICY-DRIVEN BODIES AND REGULATORS

Regulators such as the SC and Bank Negara Malaysia (BNM) are laying out the frameworks for asset managers through guidelines that include '*Guidance Note on Managing ESG Risks for Fund Managers*', '*Principles-based Sustainable and Responsible Investment Taxonomy for the Malaysian Capital Market*' and '*Climate Change and Principle-based Taxonomy*'.

While we are still at a nascent stage for ESG-themed investments, it would be reasonable to expect a growth outlook for in the long-term.

"In the near term, the local ESG agenda remains very much driven by our regulators and large GLC (government-linked companies) funds such as the EPF, KWAP, PNB and Khazanah. For example, bank-backed local asset managers, being partly driven by BNM requirements on climate risk management for the financial sector, have embraced ESG more readily compared to the more resource-challenged smaller non-bank peers," Koh says.

Some early starts have been observed, with local asset managers integrating ESG considerations into portfolio management by requirements imposed on funds of GLC clients. "But as the ESG momentum built and having seen the impact of erosion on stock value for those falling short on ESG standards, asset managers increasingly recognise that the growing ESG tide is irreversible. ESG factors were driving investment returns in as much as operating and financial performance were," adds Koh.

CONCLUSION

What does this mean for Malaysian investors? Even if it may appear to be a current trend and hot topic, it's clear that ESG investing is here to stay. Incentivised with promising returns while also enforcing deeper research and understanding of the companies you invest in, it is always worth your while to take a holistic approach towards where you are putting your money's worth.

3 MEGATRENDS FACILITATING TRANSITIONS FOR BUSINESSES AND ESG INVESTING

Victor Wong, *head of the regional ESG team at UOB Asset Management Sdn Bhd*

ESG investing is soon going to be the map of our future as all facets of the environment, socially responsible matters and corporate governance are interlinked. These megatrends are slated to shape ESG investing for the long-term in Asia.

1 SUSTAINABLE TRANSITION AND CLIMATE CHANGE

Sustainable transition has far-reaching implications and is not limited to carbon intensive sectors such as energy, utilities, materials, and mining. As companies start to take into consideration climate-related risks, their business models will transition to start incorporating more ESG factors. Asset owners like sovereign wealth funds and pension funds are taking the initiative to ensure that the largest corporate greenhouse gas emitters take necessary action on climate change.

2 SHIFTING AWAY FROM COAL / ENERGY TRANSITION

With increasing climate awareness and mounting pressure, funding for coal projects is dwindling. Since the 2015 Paris Agreement, there has been a strong decline in the number of coal power plant projects – by 76%. Globally, the number of coal projects in development have rapidly fallen over the years – from 1,553 GW in 2015 to 482 GW in 2021.

Last year, the Asian Development Bank announced that they will conditionally cease funding of new coal-fired power plants, coal mining, and oil & natural gas production and exploration. This comes on the heels of Southeast Asian banks, development banks, and export credit agencies pulling their support from such activities. Without such support, we see countries within the region –that largely rely on coal-fired power generation for electricity – having to quickly transition away from coal-fired power generation, shifting towards greener and cleaner alternatives from renewables.

3 JUST TRANSITION / FOCUS ON SOCIAL

'A Just Transition' may become a new sustainable engine of growth in Asia. It is a framework developed by the trade union movement to encompass a range of social interventions to protect workers' rights and livelihoods, especially when economies are shifting towards sustainable productions.

We have also seen the pursuit of 'common prosperity' goals that target labour practices within the gig economies. In Asia, outstanding social issues on labour and Covid-19 management, especially for migrant workers, are being flagged out, suffering not just financial losses from bans and contract termination but also reputational risk.

THE IMPORTANCE OF CORPORATE GOVERNANCE IN AN SME

Ensuring your financial planning firm's accountability, transparency and sustainability amongst your peers and clients would require the implementation of good corporate governance and compliance with regulators.

Consider this scenario: a newly certified and licensed financial planner (LFP) has just managed to land his first client. They had met outside of the LFP's workplace, which is a small boutique financial planning firm. Before he could get the client to sign the dotted line to begin their financial planning journey together, the client does his due diligence on the reputation of the company and finds out less than stellar reviews.

Unfortunately, this deters his faith in the LFP, despite really liking his demeanour and personality. As much as he believes he can work with the LFP as an individual, his attachment to the company poses a real problem for the relationship and from there, their journey ends before it could even really begin.

This is a frequent dilemma for both clients and LFPs alike. Some may circumvent it by going behind their firm's back to work with the client, but this also threads the murky waters of ethics and it ultimately does not reflect well on the LFP. With that, every LFP is given the '*Code of Ethics and Best Practices for Licensed Financial Planners Handbook*'. It is a guide that is jointly published by FPAM, the Malaysian Financial Planning Council

(MFPC), Association of Financial Advisors (AFA) and the Malaysian Financial Planning and Advisory Association (MFPAA).

"The adoption of (the Handbook) will benefit LFPs in upskilling and upholding their professionalism in their practice and conduct. This will help alleviate trust amongst the public to bring about a good reputation of our industry," reads the Handbook. While the Handbook details a step-by-step expectation and code of conduct for LFPs with clients, it is the required expectation of LFPs and their respective firms and companies to also ensure this is enforced.

With that, a financial planning firm – whether big or small, would be subject to the usual corporate governance standards and expectations, while also upheld by compliance regulations.

CORPORATE GOVERNANCE AS A REGULATORY TREND

ESG readiness is no longer a matter of choice for companies, as stakeholders have come to expect more responsible, sustainable and climate-conscious behaviour. In this regard, it is about the 'G' in ESG.

As the landscape is still reeling from the effects of the Covid-19 pandemic, a strong corporate governance helps build long-term resilience through the adoption and implementation of corporate governance policies and practices.

Last April, the Securities Commission of Malaysia (SC) has updated the Malaysian Code on Corporate Governance, which focuses on the globally accepted practices covering enhancement of board policies and practices; strengthening board oversight and integration of sustainability in the company's strategy and operations; and adoption of best practices especially for companies with low levels of compliance

The SC also reviewed the '*Corporate Governance Strategic Priorities 2021 – 2023'* (the last update was CG Strategic Priorities 2017-2020), to further enhance

Source: Securities Commission of Malaysia, Strategic Priorities 2021-2023

sustainability practices through digitalisation and scaling up shareholders engagement and deepening youth collaboration.

"While not compulsory for non-public listed companies, professional financial planning firms may choose to adopt industry best practices such as the Malaysian Code of Corporate Governance (MCCG)," says Muzafar Kamal, the risk advisory executive director of Deloitte Malaysia.

"The MCCG reflects global principles and internationally recognised practices of corporate governance which are beyond the minimum regulatory requirements, to raise the standards of corporate governance in Malaysia," he adds.

Applying these practices as outlined in the MCCG would enhance a professional financial planning firm's accountability, transparency and sustainability.

"Corporate governance is made up of standard operating procedures (SOPs) and good practices on how a company is run to safeguard the interests of the stakeholders," says Amos Law, executive director of risk consulting at Crowe Malaysia PLT.

The size of a company does not exempt it from conducting ethical and good business practices. In particular with small to medium enterprises (SMEs), Law emphasises that it is important for an SME to implement good corporate governance practices and for all parties, such as the Board of Directors, management and operating staff with clear understanding of their respective roles to play.

"The Board will be responsible for the role of overseeing the big picture, management will be responsible in carrying out the directives set by the Board and implement the necessary operating procedures, and the staff should be aware of the need to adhere strictly to SOPs," he elaborates.

Muzafar reinforces that corporate governance is one of the regulatory trends for the Malaysian financial industry, in line with the regulatory agenda – encouraging companies to keep up with the industry's best practices.

THE COST OF NON-COMPLIANCE

A company's corporate governance sets the tone for the company's approach to risks, business ethics and practices. To ensures that the company's intended approach is embodied in relation to the laws and regulations is called compliance. With that, the lack of compliance for a company results in a lack of enforcement of good corporate governance in the business, which in the long run would hurt both the company and its customers.

The challenge does not always lie with just the company, though as it has been noted that the ever-evolving regulatory landscape has meant that companies are struggling to keep up with the pace of increasing regulations.

"Over the last five years, Bank Negara Malaysia has issued no less than 100 new regulations to financial institutions under its purview," shares Muzafar. A 2020 Deloitte survey on senior compliance professionals has found that companies are addressing the increasing demands and expectations of regulators by increasing compliance headcount.

That solution may not be the most efficient or effective for SMEs as this increases overhead costs and may affect the company's bottom line.

This is also the concern of financial planning firms. The highlight of a single licensing regime in SC's Strategic Priorities 2021-2023, received positive reaction from the industry in helping to reduce the cost of compliance overheads.

"Companies should consider investing in technology to manage its compliance risks, such as an automated tool to monitor its compliance," suggests Muzafar as manual implementation is more prone to human error. "Automation enables structured monitoring of the compliance status across the organisation through various reports and dashboards," he adds.

"An automated compliance tool enables standardisation of the compliance database, leading to smoother coordination and flow of information between various functions responsible for managing compliance risk within the organization," Muzafar elaborates.

Regulatory needs aside, companies would need to invest in good governance practices such as hiring the right and competent people, spending a sizable amount of time to develop SOPs, and conducting regular reviews to assess the level of compliance, says Law.

"It begins from a weak tone-at-the-top, where the top management or Board of Directors do not play an active role and do not lead by example. They fail to provide clear direction or hold people accountable for their actions," he says. This is further exacerbated by a lack of awareness and sense of urgency by the management and operating staff, as they are unclear of what their roles and responsibilities are to adhere to the guidelines set.

The risk of non-compliance would be the inefficiency and ineffectiveness of how the business is run. "This could lead to potential fraud, leakages, penalties by authorities, reputational loss, decreased investor confidence and a tarnished reputation," states Law.

While compliance serves as an overall cost to the company, penalties and fines are also a financial cost to the company who have been found to be non-compliant, adds Muzafar, also echoing that reputational risk may play a bigger threat to companies. "Reputational risk is defined as the damage that can occur to a business when it fails to meet the expectations of its stakeholders on regulatory compliance, thus negatively perceived in the public eye."

ADVICE TO STRENGTHEN CORPORATE GOVERNANCE

As risk consulting professionals, both Muzafar and Law stress that in order to improve corporate governance for financial planning firms, they have to start with ensuring competence in the Board Members of any company.

This also includes strengthening the Board's oversight and integration of sustainability considerations in the strategy and operations of the company.

Law reiterates that delegated authorities chosen at the top should be limited to where transactions are made and subjected to proper review and approval. This would lead to "compliance and assurance as a function to who will be responsible to perform regular reviews to assess whether the necessary controls are in place and working effectively."

In conclusion, these practices begin at the top. Often a questionable mistake in business ethics or the temptation to cut corners would create a slippery slope that can often be difficult to recover from.

HOW WEALTH FIRMS CAN ATTRACT AND RETAIN THE MODERN INVESTOR

THE RISE OF INVESTOR DIVERSITY AND EXPECTATIONS HAS REQUIRED THE NEED FOR WEALTH MANAGERS TO PERSONALISE THEIR SERVICES TO ACQUIRE AND RETAIN CLIENTS. WHAT ARE THE MEASURES WEALTH FIRMS CAN TAKE TO BETTER ENGAGE WITH INVESTORS AND DRIVE FUTURE CLIENT LOYALTY?

Successful wealth managers give assurance to clients by offering personalised products and services. This includes understanding a client's risk tolerance and optimum retirement age, their investment values and beliefs, and the data they want to access to track investment performance.

The last two years have transformed the financial markets and the world with the outbreak of a once-in-a-century global pandemic. The wealth management sector, which values the human touch, resorted to technology to improve personal service. Virtual meetings replaced face-to-face interactions and client-related travel.

When used wisely, technology has proved that it will not replace human wealth advisors but rather make them more productive and leave customers happier. However, to truly create client-centric solutions that attract and retain clients, wealth management firms must first identify what differentiates their clients and the characteristics they share, highlights Refinitiv, a global provider of financial market data and infrastructure which became a subsidiary of the London Stock

Exchange Group (LSEG) in January last year.

Refinitiv recently released a report, titled 'Getting Personal: How Wealth Firms Can Attract and Retain the Modern Investor', to highlight where wealth managers should focus their efforts when building a sturdy foundation that can deliver value and benefits to investors. The research is based on a survey conducted late last year, with over 1,500 mass-affluent and high-net-worth investors in 13 countries across the ages from below 35 to over 55 years.

Refinitiv's global head of wealth, data & analytics, Sabrina Bailey said that the original hypothesis was that investor groups across demographics, such as gender, age and geographies, were different. However, "in the end, the data tells a different story and the results are surprising: investors have more in common than we think."

She added, "As investor needs continue to change and reflect new ways of investing and doing business, so too must those of financial advisors to retain clients and grow their business. Our report makes clear what those key investor expectations are and what financial advisors need to do to inspire confidence: provide a broader range of digital capabilities, personalised products and services, and alternative investment opportunities."

The survey findings show that 35% of investment decisions are self-directed, while the remaining are either advisor-led (21%) or a mix of advisor-led and self-directed (44%). This highlights an opportunity for wealth managers (WM) to provide investing advice, services, and technology to millions of retail investors around the world who currently manage their own money or only engage with an advisor on a portion of their portfolios.

SOURCES OF INFORMATION

The data shows that modern investors still value human advice. Even in the age of social media, 58% of advisor-led clients and 62% of hybrid advisor-led and self-directed clients consider their advisor recommendations to be the most trustworthy source of information.

However, there is a difference in preferences between millennials and older clients. Millennials see social media as one of the more reliable sources of investment advice (35%), ranking closely with advice from a human advisor (38%). For this younger group of investors, social media has surpassed newspapers and other traditional media as reliable sources of information, with YouTube ranking high in the list.

Social media has proven to be a valuable source of market sentiment data. Artificial intelligence-powered technologies may now draw connections between what people say about companies and markets on social media platforms and the real-world performance of those firms and their shares. This signals that wealth managers need to be present on social media to position themselves in the mindshare of millennials and scan the current trends and sentiment to speak the same language as their clients.

GOING MOBILE

A decade ago, mobile financial apps were considered nice to have by most investors who only used them to keep tabs on stock prices and read the news. But in 2022, mobile access to portfolio information, real-time data, trading tools, and tax paperwork is a must-have feature. In fact, 46% of investors say they use a smartphone app to check their account information.

About 72% of millennials use smartphone applications more than any other channel to access their account information. Another 21% use a digital watch or another gadget, followed closely by 56% of those in the 35 to 54 age group who use the mobile app.

About 30% of investors surveyed said they would like to be able to see all their investments in one place (even those from other institutions). The same number (30%) say they would like easier access to the products and services they consume. Almost one third of those surveyed would like tools to collaborate with their advisor directly and personalise investment news.

Investors who make their own decisions and use an advisor (also known as the hybrid approach) are more interested in tools and platforms. Thus, combining the personalisation and accessibility that mobile offerings deliver can significantly boost wealth management clients and asset acquisition moving forward.

LOOKING BEYOND CONVENTIONAL INVESTMENTS

The study demonstrates that the retail hunger for investments outside of traditional stocks and bonds has increased and is here to stay. So, wealth managers need to comprehend these new investment vehicles in the short term and provide their clients with access to alternative investments as part of an overall asset allocation plan in the long term.

There are a plethora of alternative investments in today's world, including digital assets, real estate, cryptocurrency, and private credit. To meet the needs of the majority of their investors, wealth management

5 STEPS FOR ADVISORS TO PERSONALISE THEIR CLIENT EXPERIENCE

1. CHOOSE YOUR ALTERNATIVES: Ensure you can meet the growing need for alternative investment data gaining popularity among investors, including cryptocurrencies, NFTs and tokenised assets

2. GET SOCIAL: Develop your social media presence to increase engagement and exposure of your service

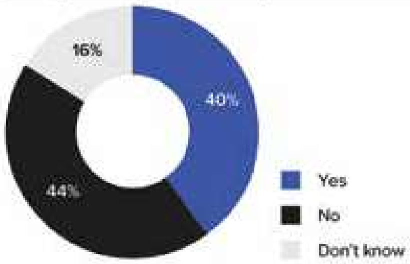
3. ENHANCE MOBILE ACCESS: Develop on-the-go access to your investors' portfolio, including real-time data, trading tools and tax documents, to increase collaboration and effectiveness

4. KEEP IT SIMPLE: Build a single view of your client's investment portfolio, increasing efficiency and streamlining the client experience

5. HUMANS DRIVE LOYALTY: Leverage technology to enhance and improve the human touch, not replace it companies must concentrate on essential alternative investments.

The response gathered also found that retail investors around the world are increasingly interested in ESG-linked investments, with 32% of investors citing 'environmental' as the most significant ESG element when making investment decisions, and 31% of respondents valued each ESG (environmental, governance and social) aspect equally.

Willingness to pay more for personalised investing services and products



	North America	Europe	Asia Pacific	Latin America	Under 35	35-54	55 and over	Advisor-led	Self-directed	Advisor and self-directed
Yes	22%	33%	47%	70%	64%	51%	23%	41%	32%	46%
No	57%	51%	38%	17%	24%	36%	57%	40%	55%	36%
Don't know	21%	16%	15%	13%	12%	13%	21%	19%	13%	17%

Would you be willing to pay more for personalised investing services and products?

PERSONAL EXPERIENCE IS STILL VALUED

However, not every client will be interested in ESG investing or the wealth manager's social media presence. The survey noted that for these investors, personalisation is so crucial that 64% of millennials and 51% of investors aged 35 to 54 are willing to pay more for customised investment products and services.

Many investors in the survey still prefer traditional methods of communication, such as phone calls (47%), in-person meetings (49%), and email (48%). These outcomes remain true for investors of various ages and geographical locations worldwide, underscoring the necessity of human advice for investors moving forward.

In the past, delivering a personalised service significantly limited the number of clients that any human financial advisor could engage with at any given time. Thankfully, technology has drastically altered the role of advisors. Millennial and Gen X investors (those aged 54 and under) are far more likely than those aged 55 and older to consider a wealth manager's digital skills when selecting a professional to handle their investments.

According to the survey, despite and because digital investing is becoming more significant to investors, wealth managers are here to stay. Almost half (47%) of millennials believe that technology will make financial advisors more important in the future, while one-third (33%) believe that technology will not impact the role of financial advisors.

IN CONCLUSION

The survey identified numerous similarities across investors, and meeting those fundamental demands will attract and retain investors.

While financial advisors need to understand beyond conventional investments, offering every consumer every innovation and investment type is not the way forward for wealth managers looking to expand their client base. The findings noted that wealth managers cannot tailor their services based on an individual's age or wealth, as most investor preferences do not always go hand-in-hand with industry trends.

Instead, by personalising each client experience through a combination of digital services and high-touch service, existing clients will remain engaged, and potential clients will feel confident that their money and future will be well-cared for in the long run.

Delivering the right information, at the right time, in the right place, requires a strong understanding of each client's needs, combined with the right tools and expertise to meet them where they want to be.

Personalisation is no longer a client preference, but an expectation. As highlighted, 64% of millennials and 51% of investors aged 35-54 are willing to pay more for personalised investing products and services.

Indeed, wealth advisors can heave a sigh of relief because they are not going anywhere. They are here to stay.

KEY FINDINGS

Alternative assets

51%
of investors globally are familiar with sustainable investments

44%
of advisor-led investors are familiar with Environmental, Social and Governance (ESG) factors compared to 52% of self-directed investors

44%
of millennials are looking for more information on cryptocurrencies compared to only 12% of over 55s

42%
of investors list 'positive performance' as the main reason they are willing to consider ESG

32%
of millennials believe tokenised assets will have the biggest positive impact on financial markets, followed by 23% for non-fungible tokens (NFT)

Digital capabilities

72%
of millennials use mobile apps to access their account information, compared to 56% in the 35-54 age bracket

58%
of advisor-led investors and 62% of hybrid advisor and self directed clients state 'advisor recommendations' as the most reliable source of information

46%
of investors say they access account information via a mobile app

38%
of millennials value advisors for investment information compared to 35% for social media

Personalisation

64%
of millennials and 51% in the 35-54 age bracket are willing to pay more for personalised investing products and services

57%
of investors preferred to communicate via mobile, followed closely by in person meetings at 49% and email at 48%, showing the value of traditional communication methods

47%
of millennials say that technology will see financial advisors become more important in future

35%
of millennials and 34% in the 35-54 age bracket consider a wealth manager's digital capabilities when choosing a provider, compared to only 16% of investors over 55

Source: Refinitiv. For a copy of Refinitiv's 'Getting Personal: How wealth firms can attract and retain the modern investor', please visit: https://www.refinitiv.com/en_us/resources/special-report/getting-personal-in-wealth-management

IS A PRIVATE FAMILY FUND REALLY PRIVATE?

KEEPING THE FAMILY'S WEALTH TOGETHER, WHILE MEETING THE DIVERSE NEEDS OF EACH MEMBER.

Wealth and legacy planning tools help High Net Worth Individuals (HNWIs) manage their global investments and inter-generational transfer of assets in a professional and smooth manner. Besides the management and administration of family assets, the ownership of these assets is of paramount importance. At present, the common holding structures are the Family Holding Company, Family Trust, Family Fund and Family Insurance.

In my previous article in the *4E Journal (Vol 22, No 1, 1Q2022),* 'Can We Trust Family Trust?' I elaborated on the Family Trust, which is regarded as the most common wealth and legacy planning tool. However, as time goes by, other trendy and useful structures have emerged, one of which is the private Family Fund.

When combined with other wealth planning tools, a private Family Fund can provide a global solution for managing HNWIs' wealth. Units or shares in a Family Fund can be held by any Family Holding Structures such as Family Trust or Family Insurance for asset protection and succession planning purposes.

WHAT IS A PRIVATE FAMILY FUND?

A private Family Fund is a fund structure set up in an appropriate and tax-friendly jurisdiction for global investments. It does not solicit public investment and is used to hold private or family assets even if they are illiquid. The regulatory and legal requirements are lower than that of public funds.

A Family Fund enables HNWIs to:

- Keep their core family wealth intact, especially in ensuring business continuity over the foreseeable future
- Prevent the split of the family wealth during family squabbles or inheritance
- Invest in a range of asset classes on a collective basis
- Allow for professional fund management with consolidated reports on diversified asset classes, investment managers and custodians
- Satisfy the needs of individual family members
- Tailor the distribution according to the needs and tax perspectives of the family members
- Safeguard the family assets
- Ensure family governance

SINGAPORE'S VARIABLE CAPITAL COMPANIES (VCC)

Singapore introduced the Variable Capital Company (VCC), a corporate structure for investment funds constituted under the Variable Capital Companies Act. It took effect on 14 January 2020. The VCC Act and subsidiary legislation is administered by the Accounting and Corporate Regulatory Authority (ACRA),and supervised by the Monetary Authority of Singapore (MAS) directly through the Securities and Futures Act (SFA) as pertaining to funds, and indirectly through the regulatory oversight over the licensed fund manager.

A VCC can be set up as a single standalone fund or an umbrella fund with two or more sub-funds, each holding a portfolio of segregated assets and liabilities.

(source: https://www.acra.gov.sg/business-entities/variable-capital-companies)

Obviously, the family members would be the unitholders or shareholders. The family members would hold their entitlements in the units or shares issued by the private Family Fund structure. In some families with many branches, each one of them can have a sub-fund as a Family Fund can be compartmentalised into many sub-funds.

This two-tiered structure allows the family members to segregate individual entitlement or portfolio, meet the various requirements of different family members, or select various investment managers.

HOW IS A PRIVATE FAMILY FUND USED?

A private Family Fund is a good for HNWI families seeking to:

- Ensure continuity of the family business, as the major stake is kept intact
- Safeguard assets from unforeseeable and unprecedented risks
- Safeguard assets from spendthrift descendants
- Achieve tax efficiency in global asset management
- Allow professional fund management alongside family members
- Allocate participation rights with or without voting rights to active and passive family members
- Avoid intra-family disagreements
- Leave charitable legacies

WHERE TO SET UP A PRIVATE FAMILY FUND?

Before 2020, most of the private Family Funds were set up for HNWIs under Cayman, Liechtenstein, Switzerland, Luxembourg, Ireland or United Kingdom laws. They are at times called Private Label Funds, as such investment vehicles allows the sponsors (founders) to create and name or label the fund.

Family Funds allow their sponsors to integrate all asset classes within one fund in accordance with the law of the jurisdiction where it is being set up. In some jurisdictions, they even have the same level of investor protection as public funds.

In January 2020, Singapore launched the Variable Capital Company (VCC) framework, a corporate structure for investment funds under the constitution of Variable Capital Companies Act. This initiative significantly enhances Singapore's already strong positioning as an international fund management center.

This new corporate structure has since attracted numerous fund companies and family offices to take advantage of the tax certainty and efficiency offered under Singapore Income Tax Act.

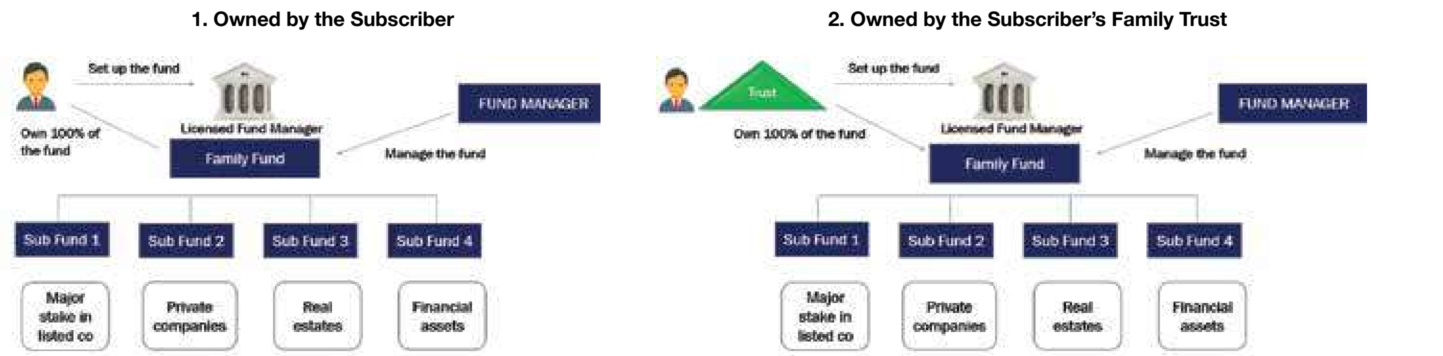
A VCC can be set up as a single standalone fund or an umbrella fund with two or more sub-funds, each holding a portfolio of segregated assets and liabilities. As of March 2022, there are more than 500 family offices established in Singapore, with a long queue of more than 700 waiting for approval.

HOW TO SET UP A PRIVATE FAMILY FUND?

1. Outline the operational framework upon consultation with family members:

- The jurisdiction where the fund should be domiciled

How Is A Private Family Fund Structured?



- Regulatory constraints such as exchange control or other policies
- Tax efficiency in the domicile country
- Corporate governance and management principles
- Investments and asset allocation
- Costs in establishment and recurrent administration

2. Appoint a licensed fund manager and set up the Family Fund (VCC):

- VCC is an apt choice for a Family Fund where it provides transparency, governance and flexibility in the issuance and redemption of its shares
- VCC has a board of directors responsible for the governance of its operations and investment decisions
- VCC can apply for tax exemption on Designated Investments

HOW GOOD IS VCC IN SINGAPORE?

- Enhanced flexibility offering investors and shareholders the ability to freely invest in and out of the structure by way of subscriptions and redemptions
- Beneficial two-level umbrella structure with economies of scales and shared-cost efficiencies in engaging same service providers
- Refined safeguards with segregation of assets and liabilities as well as financial reporting
- Concentration portfolio allowed as it can hold a single asset without diversification, unless required under the Securities and Futures Act (SFA)
- Notable tax exemption under Singapore Income Tax Act 13D, 13O and 13U, subject to the fulfilment of the requirements
- Easy redemptions as it is funded at the net asset value of shares or units held (i.e. the culmination of profits and capital)
- Flexible investments as the VCC Sub-Fund might invest in other sub-funds in the same VCC
- Professional management by a MAS-licensed fund manager
- Attractive offer of employment passes to the senior managers or owners of the VCC for relocation to Singapore
- Optional annual general meetings (AGMs) if the Board of Directors of a VCC elect to dispense with holding an AGM
- Private register offering anonymity and confidentiality
- Undisclosed financial positions offering privacy
- Re-domiciliation of foreign private Family Funds to Singapore as VCC, by simply transferring its place of incorporation instead of setting up a new entity

IS THE FAMILY FUND (VCC) REALLY PRIVATE?

While a VCC needs to maintain its register of unitholders or shareholders through the licensed fund manager, this information is not required to be made public. Hence, it offers full privacy to ultimate beneficiaries. However, under certain circumstances, the VCC manager may send information to the relevant regulators such as MAS (Monetary Authorty of Singapore), IRAS (Inland Revenue Authority of Singapore) and ACRA (Accounting and Corporate Regulatory Authority) upon their request.

While annual financial statements for statutory filing and tax reporting to the tax department are required to be prepared, this information would not be publicly available.

ABOUT THE AUTHOR:

Kimmis Pun, *CFP*
Kimmis Pun, is the Managing Director, of Family Office, Shenning Investments Pte Ltd in Singapore. A veteran banker with more than 35 years of experience in Asia, she has broadened her horizons to head a multi-family office and help ultra-high net worth individuals structure and plan their wealth, investment and succession.

She was appointed to the Board of Director of Financial Planning Standards Board Ltd (FPSB) in 2016, after her 4-year presidency in Financial Planning Association of Singapore (FPAS). She is also the Chairman of Wealth Planning Standard Board that makes research and promotes wealth structuring and planning.

Pun has an MBA from Manchester Business School, University of Manchester, and holds the professional qualifications of CFP, ChFC, CWMA, CLI, AIF, AEPP and IBFA. She is also the IBF Fellow awarded by IBF Singapore. She is presently studying her DBA.

PROTECTING Your Clients' Investment

It is important to seek better returns and opportunities to grow our hard-earned money. But as a fiduciary financial planner, it is your duty to make recommendations that are in your clients' best interest, protecting their money while making good returns.

In recent years, cash trusts have surfaced as an alternative vehicle for investing cash. The product involved the investment of cash that is settled into a trust, marketed as a short-term deposit or investment but with better returns.

This is not the same as the unit trust investment that we are all familiar with, which are managed by licensed fund managers and regulated by the Securities Commission of Malaysia. The cash trust product is also different from the trust for purposes of wealth distribution.

"Rockwills Trustee Berhad does not offer such cash trust products. We provide family trust, a trust set up for contingencies or to provide beneficiaries with education, maintenance, and healthcare. Such trusts have existed for a long time, dating back to the Middle Ages," said Azhar Iskandar Hew, Group CEO of Rockwills Corporation Sdn. Bhd.

Cash trusts are viewed as being somewhat similar to fixed deposits and family trusts. According to Azhar, the characteristics of the cash trust, fixed deposit and family trust are as below:

CASH TRUST

Purpose: It provides quick cash for emergency expenses and bridges the gap for the settlor's beneficiaries until the insurance pays out and they gain access to the settlor's bank accounts or will. This cash, not frozen upon the settlor's demise, can also be used to pay legal fees to access any inheritance and funeral-related costs.

How it works: The funds are used for private investment purposes, and the settlor or beneficiaries will receive the promised returns upon the end of the tenure.

Returns: High, usually between 7.0% and 12% per annum.

Capital guarantee: Some cash trusts offer a capital guarantee.

Tenure: Three to five years.

Early withdrawal penalty: High, usually above 20%.

FIXED DEPOSIT

Purpose: An investment instrument offered by banks to help customers save money at a predetermined interest rate for a fixed period. Should the depositor pass away, their money is frozen and can't be accessed by their next of kin.

How it works: When an account holder makes a fixed deposit at a bank, the bank can lend the money to other individuals or businesses. In exchange for using the depositor's funds for lending over a fixed period, the bank pays interest on the account balance.

Returns: Slightly higher than savings rates, usually between 1.0% and 4% per annum.

Capital guarantee: Yes.

Tenure: One month to five years.

Early withdrawal penalty: Low; the interest usually is forfeited (without notice), or 50% of the interest is payable when the customer gives a notice period. The capital is not affected by early withdrawals.

FAMILY TRUST

Purpose: Asset protection to guarantee your loved ones are the beneficiaries the way you wish it to be. A trust keeps your assets safe from claimants and creditors. Also, assets held in trust will not be frozen upon the settlor's demise.

How it works:

- If the funds are substantial, a licensed fund manager(s) is appointed by the trustee with the settlor's consent. Usually, before the appointment of the fund manager, the trustee would propose the investment portfolio, having considered the trust's objective, the risk profile and when the distribution to the beneficiaries would be made in the future. It is common for the fund manager to provide regular investment reports and may even

Azhar Iskandar Hew
Group CEO of
Rockwills Corporation
Sdn. Bhd.

KEY TERMS USED IN A TRUST

Settlor: The person who sets up the trust.

Assets: The asset placed in the trust, i.e., cash.

Trustee: The licensed trust company appointed in the trust deed as the trustee.

Trust deed: The document that stipulates how the trustee is to manage and distribute the trust's assets.

Beneficiary: Person(s) or entities who will benefit from the trust assets.

meet with the settlor and the trustee to explain and discuss other investment opportunities for the settlor to consider.

- If the funds are not substantial, the trustee would usually place funds in fixed deposits, money market and suitable unit trust funds without the need to appoint a fund manager, at its discretion or according to the settlor's instructions, as set out in the trust deed.

Returns: It depends on the performance of the investment portfolio.
Capital guarantee: Yes, but only for funds placed in fixed deposits.
Tenure: Upon the trust's dissolution or a stipulated period determined by the settlor.
Early withdrawal penalty: Not applicable as this is not a deposit product.

From the comparisons above, the cash trust product is quite similar to the fixed deposit instrument with the following exceptions: it promises much higher returns, guarantees that the settlor's assets would not be frozen upon their demise, and imposes a steep premature withdrawal fee.

REGULATORY GOVERNANCE

It is vital to verify the regulatory bodies (if any) that govern the investment vehicle, as this will determine the minimum disclosures required to promote the product to the masses.

"When investment funds are solicited from the public, it is critical for regulators to play a role in regulating such public offerings," commented Hew.

However, unlike regulated investment products such as unit trust and bonds, where relevant disclosures are required to enable the investor to make an informed decision before investing, private trust investments have no such requirement.

"Still, a responsible trust company on its own initiative would provide the necessary disclosure and reports to the settlor as part of its best practices," said Hew.

"Any financial planner, investor, or public member can do an online search to verify if the company is indeed a trust company.

"Alternatively, most trust companies are members of the Association of Trust Companies, Malaysia (ATCM), and you can check to see if they are members at www.atcm.com.my," Hew informed.

Hew pointed out that the cash trusts currently marketed are investment products wrapped within a trust. As such, he opined that those who sell such products should be licensed as CMSL representatives, under the Capital Markets and Services Act (CMSA) 2007.

INFORMATION TO BE ALERT

It goes without saying that trust company acting as trustee (or company) has a fiduciary duty to the settlor and beneficiaries in looking out for their best interests.

Hew shared some warning signs that investors should be aware of before investing or when the sales person introduces a trust product:

a) focuses mainly on the high returns of the investments;
b) a licensed fund manager is not named;
c) does not provide a prospectus or information memo which includes investment strategies and historical performances which is also presented to the settlor;
d) in case of early withdrawal, a high penalty is imposed not only on income but capital;
e) the trust deed absolves the trustee of liability should default in payment of the returns occur; and
f) the product brochures do not disclose the risks involved or the agent glossing over the risk.

Investors should also take note of information such as: distribution to the beneficiaries for their maintenance, education and medical needs; investment strategies and investment limitations, as well as the appointment of a protector to oversee the trustee.

The sales person should also discuss the disadvantages to the settlor (which are usually hidden in fine print) to provide fair warning to prospective investors. Everyone should read before signing any documents and only sign when they are completely understood.

"The general rule is that when you sign it, you read and understand it and are bound by it, no matter how unfair they are," reminded Hew.

WHEN IT MEETS ALL THE VITAL CRITERIA

When asked if he would go for investment products such as cash trust, Hew declared, "Absolutely!" But only if the cash trust can continuously give high returns and fulfils the following criteria to protect the settlor's and beneficiaries' interests:

a) The monies in the investment product are invested by a licensed fund manager;
b) The trust company and its sales agent provide the settlor with full disclosure of the investment portfolio and risks involved; and
c) Regular reporting is given to the settlor and beneficiaries.

INSURANCE COVERAGE: HOW MUCH IS ENOUGH?

How to help clients determine their insurance needs for better financial risk management.

Everyone is talking about the rising cost of goods, and the first thing to be trimmed is often insurance premium payments. So when your client, who has just joined the workforce, asks what minimum insurance coverage they should have, the usual question would be, "Well, how much can you afford?"

Nevertheless, Felix Neoh, the director of financial planning at Finwealth Management Sdn. Bhd., suggests that there other factors beyond monetary considerations when choosing the optimal insurance coverage. Here is his take on the factors that affect insurance coverage for the typical Malaysian employee.

Why is affordability not the main factor for insurance coverage?

Felix Neoh (FN): Understanding the five types of insurance coverage (death, total and permanent disability (TPD), critical illness (CI), medical card, and personal accident (PA)) will allow us to more comprehensively address our personal risk management needs through insurance planning. However, addressing these areas based on affordability alone might give one a false sense of having effective risk mitigation in place. Different funding needs to be considered too, such as if the client is the primary financial provider for the family.

What happens if the client is the sole breadwinner for the family?

FN: They would need to cater to family income, which refers to the amount of money required to provide sufficient levels of funds to

It's a good start to purchase insurance policies based on their present needs and what they can afford as a new workforce member.

surviving financial dependents of the breadwinner. The funds would need to cover expenses such as living expenses for the whole family, including dependent children (ideally until the youngest child reaches the age of 25) and for non-working spouses (for their remaining life expectancy), education fees and related costs for minor children up to tertiary education, and insurance premiums for family members.

This type of life insurance can also include funeral expenses and estate administration costs of the deceased. These costs will give you a more accurate idea of how much money your client needs for life insurance.

What about income replacement in the event of TPD or critical illness?

FN: Income replacement is calculated based on how much expenses are incurred in a year for normal living expenses. In the best scenario, the calculation should be from now till one's life expectancy.

However, this could be daunting for most people, particularly young employees. So, a simple guideline would be that TPD coverage should amount to at least five years of income or until one's retirement age (assuming one can fund retirement expenses separately).

As for critical illnesses, CI funding will help defray their living expenses during recovery. As a rule of thumb, they should provide a sum assured that is between three and five years of their current annual income. This will ensure that they don't pay too much in premiums for this need.

Are medical cards necessary when the client is young, healthy, and working for an MNC with comprehensive medical card coverage?

FN: Medical costs, particularly for private hospitalisation needs, are rising. We advise clients to obtain their own medical card early, so the premiums are lower while they are in better health. If they are solely relying on their company's coverage, purchasing one only upon retirement may make them ineligible (due to pre-existing medical conditions) or force them to pay a hefty premium due to their age or loading due to medical factors. Ideally, one should have a medical card providing room and board of at least RM200 per day with an annual medical limit of a minimum of RM1 million and no lifetime limit.

How can the client free their loved ones from shouldering the burden of outstanding loans?

FN: For those who have outstanding loans, like a mortgage on the family home, this may reduce the amount of money the family will receive. Some clients expect investment properties to be sold, while others prefer to transfer the assets to their loved ones free from encumbrances.

Depending on your client's wishes, they should consider any loan cancellation needs to ensure that their estate has sufficient funds to pay off these loans and provide the required funding for the family. They can self-insure (if there are adequate assets to settle the loan) or transfer that risk to the insurance company. Cheaper products, like a term insurance policy, could be used to cover the amount that needs to be insured over the outstanding loan period.

What about relying on SOCSO for accident claims?

FN: I would advise against relying on payment from SOCSO alone for accidental claims as certain terms and conditions must be met. One should also have coverage for the risk of accidental injury, TPD or accidental death, which the policies mentioned above may not cover. PA policies are generally very cost-effective, especially with the attractive renewal bonus. For this need, you can use the rule of thumb by getting a sum assured that is equal to between three and five years of the client's current annual income.

Any final words of advice?

FN: Determining the right insurance coverage is a balancing act of sorts. Too much, and the client will find it harder to save and invest to achieve their desired financial goals. If they are underinsured, they or their dependents might be in financial difficulty. So it's a good start to purchase insurance policies based on their present needs and what they can afford as a new workforce member. But as their financial planner, you will need to review their needs over time to ensure that they have an effective financial risk management plan in place.

TIPS FOR A MEDICAL & TRAVEL PLAN

FPAM's CEO, Linnet Lee, shares her tips on getting the most of out of your hospital and surgical plan, and a travel insurance wish list for seniors.

Linnet Lee
FPAM's CEO

GETTING THE BEST OUT OF YOUR HOSPITAL & SURGICAL PLAN

Whether you have an older or newer medical plan with annual or lifetime limits, you must seek the best care possible with what you have. Here are some helpful tips:

1. Be sure the policy covers the medical condition for which you are being admitted.
2. Check that the hospital is on your insurer's panel.
3. Ask your insurer what is not covered; and if it is not required, notify the hospital and attending doctor.
4. If there are tests unrelated to your medical condition, clarify it with your attending doctor.
5. Examine your hospital bill thoroughly and ask questions about items you are unsure of.
6. If you are unfamiliar with the hospital procedure, seek the advice of a knowledgeable friend, family member, insurance agent or financial planner.

As an example, a patient was admitted for a two-night stay for a knee procedure. Every time the nurse checked his temperature and clipped on the oximeter on his finger, he was perplexed because he had been tested negative before being admitted and had no fever during his stay. He was perplexed as to what his knee had to do with his pulse rate.
When he was discharged, he was billed RM12 per day for the use of the oximeter. He had an MDA-certified oximeter and could have brought his own to use for better safety and to save money on the rental. He informed the hospital, and the charges were removed from his bill.

MAKING TRAVEL PROTECTION AFFORDABLE AND RELEVANT FOR AGED TRAVELLERS

As Malaysia moves toward an ageing society, it is common to see healthy octogenarians travelling for pleasure or visiting loved ones abroad. Purchasing travel insurance or a takaful plan gives these travellers peace of mind. However, most travel plans, whether conventional or takaful, will not cover this category of travellers, even if they are accompanied by family members or friends.

Here are some key points insurers may want to consider:

1. Malaysian schemes should cover octogenarians if they have a doctor's letter certifying that they are fit to travel.
2. Remove the discounted coverage on repatriation of mortal remains, as repatriation charges are not discounted for these senior citizens.
3. Allow insured or covered seniors to opt out of the following if necessary:
   a. Childcare coverage as many aged travellers may not have a need for it.
   b. Home care coverage if they already have a separate householder/ house owner coverage.

Young people want to travel, and they want to bring their octogenarian family members with them and have them adequately covered for the journey too. Families that travel together stay together.

OF RISING INFLATION AND A RECESSION

People are worrying about a global recession with good reason. In the latest *'Global Economic Prospects'*, the World Bank warned of the possibility of a stubbornly high global inflation combined with tepid growth, the phenomenon of stagflation—something the world has not seen since the 1970s.

After more than two years of the pandemic, the world economy continues to suffer from a series of destabilising shocks.

The zero-Covid policy in China (with lockdown in certain provinces), and the Russian invasion of Ukraine have further aggravated supply shortages and delays, pushing the inflation rate higher, ultimately affecting end users.

Inflationary pressures, which were confined to energy price increases from the strong recovery demand following the reopening from Covid-19 restrictions, are now widespread across the entire consumer basket in many countries around the world. At the same time, economic growth is showing signs of slowing from the series of headwinds.

"With inflation now running at multi-decade highs in many countries and supply expected to grow slowly, there is a risk that inflation will remain higher for longer than currently anticipated," said David Malpass, President of World Bank Group in the World Bank's report, the *'Global Economic Prospects'*.

In the US, inflation rose to 8.6% in May, a 40-year high, spurring the Federal Reserve to increase interest rates by 0.75 bps in June in its most aggressive hike in almost 30 years.

SQUEEZE ON LIVING STANDARDS

Malaysia's inflation rose to 2.8% in May compared to last year. Food and non-alcoholic beverages price inflation saw an accelerated increase to 5.2%, the highest level since October 2012.

According to FSMOne Malaysia, inflation is to stay persistent this time around. The government recently announced a new increased ceiling price for chicken and eggs; as well as the removal of the ceiling price for bottled cooking oil. This would further exacerbate the food security and inflationary impact in the country. That is also before any increase in the petrol price of RON95 which is currently at RM2.05/litre.

Malaysians may have no other choice but to start cutting expenses and tighten their budget to match their monthly income.

"On one hand, inflation is reducing the purchasing power of consumers. On the other hand, rising interest rates means that consumers are 'forced' to absorb rising borrowing costs. These are double whammies for consumers which would lead to dwindling disposable incomes while wages and salaries stay the same," said Jason Wong, research manager of FSMOne Malaysia.

In most countries, there has not been such a squeeze on living standards like this for quite some time. "Real incomes are falling in a way they haven't done since the second half of the 1970s – when inflation was very high, or the early eighties when we had a really big oil shock," said Keith Wade, chief economist & strategist of Schroders.

SOBERING OUTLOOK

"We're effectively at the early stages of an economic slowdown. When you're looking for signs of this, you look towards the housing market. We are seeing the effect of high mortgage rates beginning to slow down the housing market.

"People will adjust their spending behaviour. We will likely start to see much more in the way of evidence of weaker consumer spending coming through, particularly on retail sales. This will be the second sector to drop after the housing market slows," added Wade.

In the US, inflation rose to 8.6% in May, a 40-year high, spurring the Federal Reserve to increase interest rates by 0.75 bps in June in its most aggressive hike in almost 30 years. This had further alarmed the world on what could possibly be coming next – big inflation.

In the late 1970s, interest rates that were increased steeply to control inflation resulted in a global recession, along with a string of debt crises in developing economies. This had ushered in a 'lost decade' for some of the countries.

Even if a global recession is averted, the pain of stagflation could persist for several years—unless major supply increases are set in motion, highlights the report, the '*Global Economic Prospects*', which was published in June 2022. The report offers a systematic assessment of current global economic conditions compared with the era of stagflation of the 1970s, and spells out what policymakers can do to avoid the worst outcomes—and why they must begin to work on them quickly.

Subdued growth will likely persist throughout the decade because of weak investment in most of the world.

The World Bank forecasts that global growth would slow down abruptly from 5.7% in 2021 to 2.9% in 2022, which will also be vulnerable to various downside risks, including intensifying geopolitical tensions, growing stagflationary headwinds, rising financial instability, continuing supply strains, and worsening food insecurity.

It also highlighted that external public debt in developing economies are at record levels today, and most of them are owed to private creditors, with variable interest rates that could spike suddenly.

BALANCING ACT

Reducing the risk of stagflation

Keith Wade

David Malpass

Jason Wong

will require targeted and impactful measures by policymakers across the world.

In an extraordinary era of overlapping global crises, The World Bank calls out to policymakers across the world to focus their efforts in five key areas that include countering the spike in food and energy crises by increasing productivity, stepping up debt relief efforts, strengthening health preparedness in containing Covid-19 outbreaks, and speeding the transition to low-carbon energy sources, as well as limiting the harm to people affected by the war in Ukraine by coordinating the crisis response with the delivery of necessities.

"There has been a lot of uncertainty and I think central bankers felt that they didn't want to tighten too early because if they got it wrong, it could really crunch the economy.

"Had they reacted earlier, we might not have seen inflation or wages rise as much–and we could be looking at a more gradual slowdown. But now we're looking at something a bit more aggressive in the way of a sharper slowdown as a result," said Wade.

According to Wong, Bank Negara Malaysia (BNM)'s move to raise the Overnight Policy Rate (OPR) in May 2022 by 25 bps to 2.00% was a proactive move to stave off rising inflation in the country. He believed that this move will cushion some of the negative impact on the Malaysian Ringgit caused by the

Even if a global recession is averted, the pain of stagflation could persist for several years—unless major supply increases are set in motion.

Fed's recent aggressive interest rate hikes.

"We believe the BNM does not wish to make the mistake like the Feds did, by hiking rates too slowly and letting inflation to spiral out of control. The research team at FSMOne foresees that the central bank will make another three more 25 bps hikes to the interest rate during the remaining Monetary Policy Committee Meetings that are set to take place this year," Wong said.

ARE WE HEADING FOR A GLOBAL RECESSION?

The probability of a global recession toward the end of this year or early next year is quite high. "It's probably in the order of 35%," Wade said, but different regions have different risks.

While China has had to shut down a lot of the economy in order to implement the zero-Covid policy, he expects that China can emerge from that situation later on this year.

In Europe, the energy crisis from a partial oil embargo on Russia further added to its inflation control. "This will put a lot of pressure on European industries and households as parts of Europe are very dependent on Russian energy. Germany and Italy, for example, get a quarter of their energy from Russia. So, an embargo could cause quite a sharp slowdown in economic activity." commented Wades.

What about Malaysia, are we expecting a recession soon? "We are living in the bubble of protection from the Government today. With the lifting of fuel subsidies, like a balloon, the air pressure increases internally and it's only a matter of time where the rubber material will give way and pop," cautioned Wong.

The insights of the World Bank's June report are indeed sobering. As Malpass said, "The danger of stagflation is considerable today."

However, policymakers are in a better position today to stave off stagflationary headwinds.

More comfortingly, the analysis shows that the current conditions differ from those in the 1970s — the US dollar now is stronger compared to its severe weakness in the 1970s. Oil prices are only two-thirds of what they were in 1980 in today's inflation-adjusted terms, balance sheets of major financial institutions are healthier and economies across the world are more flexible with fewer structural rigidities involving wages and labour markets.

In addition, with technological advancement, there is more capacity to provide massive increases in supply and thus holding down prices.

"There is good reason to expect that, once the war in Ukraine stops, efforts will redouble—including by the World Bank Group—to rebuild the Ukrainian economy and revive global growth. In the meantime, policymakers everywhere must fight the world's other development crises: the catastrophe of higher food and energy prices, the threat of stagflation, the rise in inequality and instability, climate change, and the growing overhang of debt," implored the World Bank Group's chief.

WHY WE SLEEP

The rejuvenation of regular rest.

What does Oprah Winfrey, Jack Ma and Warren Buffet have in common, besides their large net worth? They do not compromise on a routine of seven to eight hours of restful sleep every night.

In this day and age of remote working, coupled with a hustle culture that often glorifies prioritising hard work over healthy lifestyle habits for the rewards of material success, we tend to neglect the importance of adequate sleep.

As we celebrate International Self-Care Day in July, we are reminded to focus on self-care 24 hours a day, seven days a week. In other words, the benefits of self-care are life-long and do not just relate to a single day. Like hunger and thirst, sleep is a basic need, a physiological drive necessary for proper daily functioning, overall well-being and a better quality of life.

WHILE YOU WERE SLEEPING

To truly understand what you are missing out when not getting enough shut-eye, we need to understand what happens when we lay in bed every night.

Harvard Professor of Medicine, Lawrence J. Epstein in his book: '*The Harvard Medical School Guide to A Good Night's Sleep*', explained in great detail the two major types of sleep stages scientists have observed to occur:

- **Non-REM or quiet sleep** – Once your eyes are closed and your nerve cells no longer receive visual input, the brain waves begin to settle into a steady and rhythmic pattern. Unless interrupted, the sleeper will make the transition from wakefulness into sleep. The body temperature begins to drop, muscles become relaxed, and the heart rate, blood pressure and breathing gradually slow down.

  As you progress deeper into sleep, your brain becomes less responsive to external stimuli, making it difficult to awaken. It is during this time that the body's natural healing process happens. Your brain cools as less blood flow is being directed to it, while the pituitary gland releases a growth hormone that stimulates tissue growth and muscle repair. This is the restorative portion of sleep you need to feel refreshed.

Studies where participants were tested to measure how well they have learned a new task have shown that their scores improve after a good night's sleep.

- **Rapid eye movement (REM) or dreaming sleep** – Characterised by the sleeper's eyes darting back and forth behind closed lids, during dreaming sleep, your brain activity and body vitals – temperature, blood pressure, heart rate and breathing – speed up to daytime levels. The sympathetic nervous system responsible for the fight-or-flight response is twice as active as when you're awake. Yet, your body hardly moves, except for some twitches, because muscles not needed for breathing or eye movement are temporarily paralysed.

  Everyone dreams every night without exception, whether we can recall our dreams or not. Just as deep sleep restores your body, dreaming sleep restores your mind and is necessary to facilitate learning and memory.

Studies where participants were tested to measure how well they have learned a new task have shown that their scores improve after a good night's sleep. This could explain why students who burned the midnight oil before an exam generally end up retaining less information than classmates who got enough sleep.

A normal sleeper moves between different sleep stages in a fairly predictable pattern, alternating between REM and non-REM sleep for four or five cycles. Most deep sleep occurs in the first half of the night and get shorter as the night progresses, while REM sleep get longer.

The average adult needs seven to eight hours of restful sleep every night, with six hours being the bare minimum on the occasional restless night, for optimal mental and physical well-being. Contrary to popular belief, the need for sleep does not decrease with age, nor can one train themselves to function with less sleep.

Meanwhile, frequent sleep deprivation could have dire consequences, including:

- **Increased disease risk** – Persistently sleeping for five hours or less is shown to be directly linked to many short-term and long-term health issues, from headaches, sore joints and indigestion to increase risk of diabetes and heart disease. Even a few nights of bad sleep proved to be detrimental, as it results in changes in metabolism similar to that which occurs in normal ageing. Raised levels of hormones is linked with overeating and weight gain.

- **Not functioning at your best** – The longer you are sleep deprived, the more your mood, mental alertness, energy levels and cognitive functioning gets compromised. Consequently, your productivity at work is bound to suffer.

- **Increased accident risk** – Two potentially dangerous phenomena can occur from sleep deprivation that have played a role in countless traffic and workplace accidents: microsleeps and automatic behaviour. Microsleeps are brief episodes of nodding off that occur in the midst of ongoing wakeful activity. They typically last a few seconds but can go on for ten or fifteen seconds, where you don't respond to things happening in the world around you. Meanwhile, automatic behaviour refers to a period of several minutes or more during which a person is awake and performing routine actions but not attending or responding to their surroundings. Common examples would be a driver that keeps driving but misses their intended turn, or a cook forgetting to turn off the gas stove.

SELF-CARE STARTS WITH A GOOD NIGHT'S SLEEP

Cultivating healthy sleep habits should be the primary form of self-care, alongside a balanced diet and regular exercise. The Harvard Medical School offers a simple guideline to practice good sleep hygiene:

- **Keep a regular sleep-wake schedule.** Going to bed and waking up around the same time everyday conditions the body to expect specific sleep and wake-up times.

- **Develop a pre-sleep routine.** Set aside sufficient time before your designated bedtime to let yourself unwind for the day with a relaxing activity, such as reading, watching TV, listening to music, or journaling your thoughts.

- **Create the optimal sleep environment.** Make sure every aspect of your bedroom is conducive to sleep. That means keeping the space well-ventilated, make sure your bed is comfortable and block out disruptive noise and lights. Most importantly, no electronic screen-gazing and scrolling at least an hour before bedtime, as light sends signals to the brain that it's time to wake up.

- **Hide the clock.** For some people, the sight of the time can be a stressful reminder that you're awake, especially when you are trying to fall asleep. If this applies to you, put the alarm clock where you can't see it.

- **Watch out for sleep saboteurs.** Caffeine and nicotine are stimulants, while alcohol may help you nod off quicker, but the result is a lighter and poorer quality sleep, where the duration of deep rejuvenating sleep and REM sleep are both reduced. These beverages and substances should be avoided at least four to six hours before bedtime. 4E

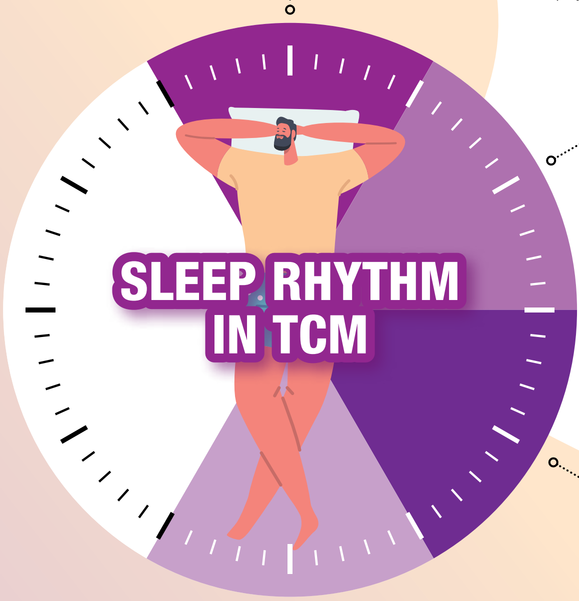
Source: The Harvard Medical School Guide to A Good Night's Sleep by Lawrence Epstein M.D. and Steven Mardon

IS THERE A BEST TIME FOR SLEEPING?

According to Traditional Chinese Medicine (TCM), *qi* – our life-force – moves in two-hour intervals throughout our entire organ system. Based on this theory, you can make the most of your energy system and specific organs by using them at their peak, when *qi* moves through them. For instance, the small intestine is at its peak at 1-3pm, which makes eating heavier meals more tolerable during this period.

It is believed that when you sleep, *qi* is drawn inward to fully restore your body. Hence, one of the most important two-hour intervals is between 1-3am, when the liver is said to be cleansing the blood. So, if you are awake during this time of the night, you will be missing out on the healing benefits. This theory appears to have some merit in modern medicine, as a number of studies have shown that working night shifts is associated with abnormal liver function.

11PM TO 1 AM:
This is the time we should be asleep. This is the time when the gallbladder is active and releasing bile to aid in the cleansing, fixing and repairing our cells.



1AM AND -3AM:
We should be in deep sleep during this period. This is the time the liver is working to detoxify the blood. The liver is also associated with the emotions of frustration or anger.

3AM AND 5AM:
This is the time for our lungs. The organ is associated with emotion of anxiety and sadness.

5AM AND 7AM:
this is the time our large intestine is working. It is time for elimination of the residues and toxins collected during the night. Ideal time for waking up.

smartfinance.my

THE ONLY LICENSED FINANCIAL PLANNER PLATFORM

To better serve both Licensed Financial Planners and the public

Feedback from existing LFPs listed on Smartfinance.my

1. There are high-net-worth individuals who access this website as it gives them anonymity and the opportunity to view different profiles and chat with these LFPs before meeting up with them.
2. Some members of the public select the LFPs based on qualification, while others are based on the LFPs years of experience.

GET NOTICED!

As an industry initiative, *SmartFinance.my* welcomes LFPs from all credentials. Spread and share the good news, and get your fellow LFPs to list themselves by emailing *SmartFinance.my*, at hello@smartfinance.my to receive the on-boarding kit.

Many members of the public mistake Licensed Financial Planners (LFPs) with tied agents, i.e. those who market financial products and shy away from providing real financial planning.

The confusion is further compounded when LFPs, in a bid for more visibility to the public, list themselves on websites which also include insurance agents and unit trust consultants.

Therefore, in 2018, the *SmartFinance.my* platform was launched with the aim to help the public differentiate between a tied agent and a certified and licensed financial planner. A brainchild of FPAM's, this initiative took feedback from FPAM members on the need for such a platform for the public to recognise and access LFPs. With the funding from Capital Market Development Fund (CMDF) and support from regulators and recognised financial planning associations, *SmartFinance.my* became the website for licensed financial planners only.

SMARTFINANCE ENHANCEMENT

Upon completion of the *SmartFinance.my* website and CMDF funding, the FPAM Board of Governors set up a SmartFinance Enhancement Committee to further augment the website's capability based on LFP requirements. The group is made up of five financial planning firm owners and ten LFPs. Three focus groups were formed to uncover what services that they would like to see on *SmartFinance.my*.

The outcome of the discussion found that utilising the website for prospecting was key, followed by visibility to the public for both SmartFinance.my and LFPs through social media advertising. Another enhancement proposed by the Committee was to have a financial planning software available on the website.

FOCUS GROUP DISCUSSION

Based on their discussion, the Committee will work the following:

1. Create more visibility of *SmartFinance.my* to the public.
2. Provide optional advertising services to listed LFPs on SmartFinance's Facebook page which is shareable on the LFPs individual social media platform.
3. Update videos for the public, which will include English closed-captions to enable the hearing-impaired public to have access to financial education.
4. Optional online financial planning software to help LFPs produce comprehensive and modular plans for their clients.

These initiatives are being planned and will be rolling out in phases with advertisements targeted to be launched by the second quarter of 2022.

LFPS RESPONSE
a) 100% aware of SmartFinance
b) Messages left by public on the website were sometimes forgotten due to response time
c) LFPs' social media link in their SmartFinance profile
d) Features they would want to see

FP FIRMS RESPONSE
a) 100% aware of SmartFinance
b) Improvement in the chat system
c) More publicity of SmartFinance to the public
d) Features they would want to see

2022 ANNUAL GENERAL MEETING

The 22nd Annual General Meeting (AGM) of Financial Planning Association of Malaysia (FPAM) was held on 25th June 2022, and the third time its AGM was held virtually. This is to minimise the risks of the Covid-19 virus transmission as the organisation continue to embrace technology in keeping connected and updated, said the President of FPAM, Paul Low.

Low informed that the association achieved a positive revenue growth of 36% in 2021, mainly due to more candidates completing their CFP Certification as well as higher demand for online programmes during the pandemic lockdown.

The association reported 82 online/e-learning workshops in 2021 compared to 49 held in 2020. There were also more people interested in seeking accreditation, with 1,628 candidates sitting for their examination in 2021 compared to 1,213 the prior year.

Despite the challenges from Covid-19 pandemic, the number of CFP professionals worldwide has grown. As of 31 December 2021 there was a recorded number of 203,312 (2020: 192,762) CFPs, representing a 5.5% increase. Malaysia retained its 11th place on the global ranking based on the number of total CFP Professionals, informed Low. The number of CFP professionals in Malaysia stood at 2,534.

Low highlighted that in 2021, FPAM continued to support the regulators in uplifting the standard of financial literacy, including partaking in the their activities by offering financial advisory services to promote financial planning in events such as *InvestSmart*, *Financial Literacy Month* and *Global Money Week*.

The association plays an active and crucial role in the industry development. It is working closely with the Securities Commission of Malaysia (SC) Financial Planning Working Group to develop Financial Planning (FP) firms operating standards. "Feedback and consultation with the FP firms will be sought before the final draft is presented to the SC," Low informed members at the AGM.

MOVING FORWARD

Low informed that FPAM will continue its focus on three key areas:

1. Membership growth
2. Self-sustainability
3. Visibility

"The execution of these three key areas are aligned to FPSB's LASER strategy which are Leadership, Awareness, Standard, Engagement and Recognition," he said.

For this year, greater focus will be placed on the enhancement of the SmartFinance ecosystem to achieve

2021 Performance of Continuing Education & Events (CEE)

No	Event	No. of Activities 2020	No. of Activities 2021
1	Financial Planning Symposium	1	1
2	CE Workshops / E-Learning	49	82
3	AGM / EGM	1	2
4	Annual Chapter Meeting	1	1
5	Chapter General Meeting	-	6
6	Chapters Tea-talk	-	8
7	Awards Recognition & Networking Night	-	-
8	Focus Group / Roundtable Forum	1	-
9	MFPYA Competition	1	-
10	Other Events	5	-
	Total	**59**	**100**

better visibility of Licensed Financial Planners (LFPs) to the public. He also said that FPAM will continue to increase engagement with its Charter and Corporate members on activities and collaboration opportunities.

Last year, FPAM has successfully restructured the organisation's Board and Secretariat activities into three defined pillars, namely – Certification Management & Administration, Industry Development and Financial Literacy. Each pillar will be led by the following:

PILLAR 1 covers certification & examination and continuing education, lead by FPAM CEO Linnet Lee;

PILLAR 2 covers industry collaboration, membership and marketing communications and is headed by Vice President, Demi Chan;

PILLAR 3 covers the development of financial literacy is led by Board member Rajinath Muniandy.

Briefly, there was a marked increase of continuing education and events held in 2021. Notably is the CE workshops that increased by over 67% from 49 held in 2020 to 82 conducted in 2021. There were also six chapter meetings and eight chapter tea-talks organised in 2021, which didn't take place in 2020.

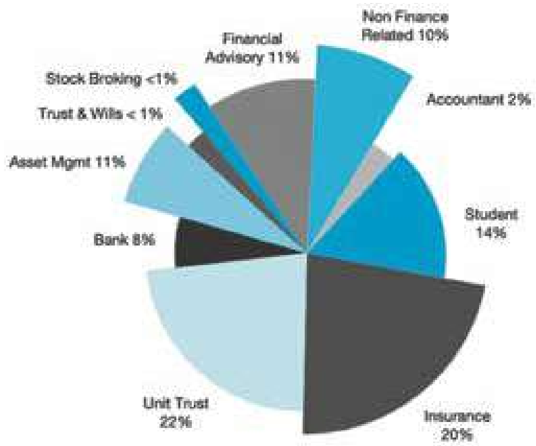
Under Industry Development, there were three media engagements, five events and over 500 meetings and discussions held by the association, while the Financial Literacy pillar achieved more than the budgeted activities set out for 2021.

2021: Pilot 3-Pillar Structure of FPAM

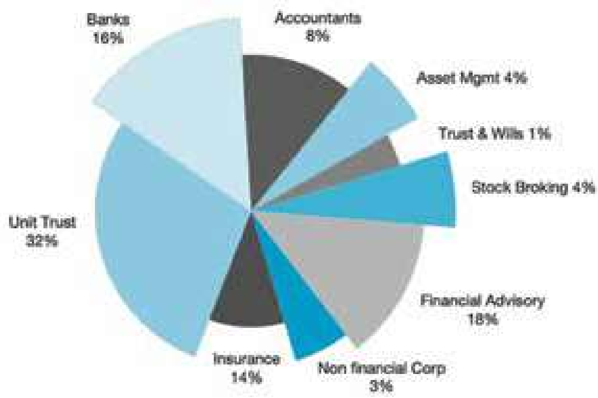
Pillar 1 Certification Management & Administration	Pillar 2 Industry Development	Pillar 3 Financial Literacy
1. **Certification & Exams** a) Education & exams b) FPAM Membership c) Members Professional Standards & Disciplinary Matters 2. **Continuing Education & Events** a) CE Workshops b) Events c) Marketing & Communication d) Chapter Coordination 3. **Related Matters**	1. **Industry Collaboration** a) Regulatory Engagement b) LFP Professional Standards & Disciplinary Matters c) Industry Events 2. **Industry Membership** a) Charter & Corporate Membership Liaison b) Members Collaborations 3. **Industry Marketing & Communication** 4. **Related Matters**	1. **Financial Literacy Collaborations** 2. **Financial Literacy Workshops** 3. **Financial Literacy Outreach Talks** 4. **Marketing Communications** a) Media Engagement b) Websites & social media 5. **Related Matters**

Membership information

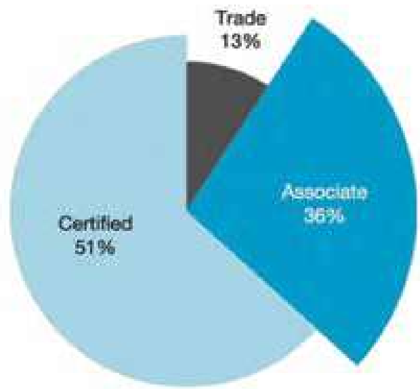
Analysis of Exam Candidates by Industry, 2021



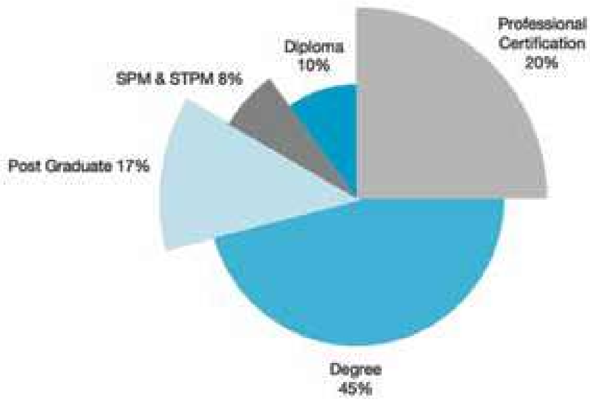
CFP Professionals by Industry @ 31 December 2021



Membership @ 31 December 2021



CFP Professionals by Qualification @ 31 December 2021



Five Successful Applicants for Digital Bank Licences

Bank Negara Malaysia (BNM) received 29 applications for the digital banking license. In April, BNM awarded five banking licenses to the following successful applicants:

Licensed under the Financial Services Act 2013 (FSA):

1. Consortium of Boost Holdings Sdn. Bhd. and RHB Bank Berhad;
2. Consortium led by Grab's digital arm, GXS Bank Pte. Ltd. and Kuok Brothers Sdn. Bhd;
3. Consortium led by Sea Limited (the parent company of Shopee) and YTL Digital Capital Sdn Bhd.

Licensed under Islamic Financial Services Act (IFSA):

4. Consortium of AEON Financial Service Co., Ltd., AEON Credit Service (M) Berhad and MoneyLion Inc.; and (under the Islamic Financial Services Act 2013); and
5. Consortium led by KAF Investment Bank Sdn. Bhd. (which include MoneyMatch, Carsome and Jirnexu under the consortium)

The successful applicants will undergo a period of operational readiness that will be validated by BNM. This process may take between 12 to 24 months before they commence operations.

BNM informed that the candidates were thoroughly assessed and considered, covering the character and integrity of applicants, nature and sufficiency of financial resources, soundness and feasibility of business and technology plans as well as ability to meaningfully address financial inclusion gaps. There were four levels of assessments carried out, supported by a cross-functional technical team, a review team and internal independent observers from BNM's risk and legal departments.

Three of the consortiums are majority-owned by Malaysians, namely, Boost Holdings and RHB Bank Berhad, Sea Limited and YTL Digital Capital Sdn. Bhd. and KAF Investment Bank Sdn. Bhd.

STAY ALERT, BE AWARE OF THE MODUS OPERANDI OF CLONE FIRM SCAMS

Scam operators have generated a huge amount of illegal proceeds from a large number of victims. The Securities Commission Malaysia (SC) recently disclosed its investigation of ten clone firm scams and revealed their modus operandi.

"In one of the scams, approximately RM3.6 million have flowed through one mule bank account within a period of six months. Based on the 154 bank statements reviewed, the SC also found that in total, at least RM24.7 million may have flowed to several 'masterminds' of these scams," it reported.

Clone firm scams are generally companies that fraudulently

NOEL MAYE: STEPPING DOWN AS FPSB CEO

Financial Planning Standards Board Ltd. (FPSB), the standards-setting body for the global financial planning profession and owner of the international CERTIFIED FINANCIAL PLANNER certification program, announced that its founder and CEO Noel Maye will step down from his role effective 31 December 2022.

Maye has led the organisation since it was established in December 2004. FPSB has achieved a lot and substantially raised the global profile of financial planning and CFP certification under Noel's leadership.

"It's been my privilege to have served the international CFP certification program, global financial planning profession and FPSB for two decades," said Noel Maye.

"The time is right for me to step back, support the transition to FPSB's next CEO, and cheer on the FPSB board, team and global financial planning community to new heights," he said.

impersonate a legitimate or a licensed entity, including misusing the name and logo of a public listed company (PLC), corporate credentials and website, to dupe investors and solicit funds.

These scammers target victims or investors who are willing to part with small amount of monies but with the expectation of making huge returns in a short period of time. Given that most of the victims who were scammed lost only small amount of monies, many were reluctant to come forward and cooperate.

Investors are advised to exercise vigilance and scepticism when evaluating investment opportunities such as checking the legitimacy of individuals or entities who approached them to invest in any investment schemes or opportunities. More importantly, they should never deposit money into personal bank accounts of any individuals when requested to do so.

The typical modus operandi involve the following:

1 Putting out advertisements on social media such as Facebook to lure investors with investment packages guaranteeing high returns and seemingly managed by 'licensed intermediaries'.

2 Using a large number of 'agents' to lure potential victims, and soliciting investments through Whatsapp chats once victims click on the link provided.

3 Requesting victims to deposit monies for the 'investment schemes' into bank accounts held by mule account holders to layer and launder the illegal proceeds received.

Investors can also contact the SC's Consumers and Investor Office at 03-6204 8999 or email aduan@seccom.com.my to lodge reports on suspected scams. SC's Investor Alert List for details on unauthorised websites, investment products, companies and individuals is at https://semakmule.rmp.gov.my/ for the list of mule accounts that have been identified by enforcement agencies.

SC ANNOUNCED SENIOR APPOINTMENTS


Datin Azalina Adham


Datuk Seri Abdul Jalil Hamid


Dr Wong Huei Ching


Budiman Lutfi Mohamed

The Securities Commission Malaysia (SC) has appointed four new senior roles to the executive team, which will take effect from on 1 July 2022.

Datin Azalina Adham is now the Executive Director of Strategy and Policy, a newly created business group. She will help drive the SC's strategic direction in a number of critical areas including corporate planning, risk management and international relations to further develop the capital market.

Datuk Seri Abdul Jalil Hamid has been appointed Executive Director, Strategic Communications and Chairman's Office with a primary role of sharpening the SC's engagement and communication strategy with key stakeholders.

Budiman Lutfi Mohamed is the Director of Enforcement. This is in line with a long history of appointments to the SC from the Attorney General's Chambers. Budiman will lead the SC's investigation, prosecution and civil enforcement work.

Dr Wong Huei Ching has been promoted to Executive Director, Digital Strategy & Innovation. Dr Wong joined the SC in 2017 and has led several key functions such as corporate planning and strategy. She was instrumental in the development of the Capital Market Masterplan 3. "Her appointment serves to further the potential of digital and innovation towards shaping a capital market that is more inclusive and sustainable for businesses and investors," the SC said.

The SC also welcomed its new Executive Chairman, Dato' Dr Awang Adek Hussin who took over the role on 1st of June, from Datuk Syed Zaid Albar following his resignation on 31st of May 2022.

"I am pleased to welcome the new appointments to the executive team. Their combined wealth of knowledge and experience, drawn from the public and private sectors, will further strengthen the SC's capabilities and effectiveness to promote market growth and integrity in a rapidly evolving environment that embraces sustainability, competition and innovation," said the SC Chairman Dato' Seri Dr Awang Adek Hussin.

Summary of Events : April to June 2022

Date	Event	Location
07 April 2022	AGEING WELL FINANCIALLY & GROWING OLD WITH DIGNITY	Selangor / KL
11 April 2022	FINANCIAL SECURITY THROUGH FINANCIAL PLANNING	Selangor / KL
12 April 2022	FINANCIAL SECURITY THROUGH FINANCIAL PLANNING	Selangor / KL
13 April 2022	STRUCTURING EFFECTIVE PERSONAL TAX STRATEGIES	Selangor / KL
14 April 2022	PREVENTION OF INSIDER TRADING AND CHINESE WALL REQUIREMENTS	Selangor / KL
14 April 2022	INVESTING FOR LIFE GOALS - A PORTFOLIO PERSPECTIVE	Selangor / KL
15 April 2022	TAXATION PLANNING FOR FINANCIAL SERVICES PROFESSIONALS	Sarawak
16 April 2022	TAX PLANNING FOR SMALL BUSINESS AND INDIVIDUAL OWNERS	Penang
18 April 2022	STRUCTURING EFFECTIVE PERSONAL TAX STRATEGIES	Selangor / KL
12 May 2022	APPLYING BEHAVIOURAL FINANCE IN YOUR FINANCIAL PLANNING PRACTICE	Selangor / KL
21 May 2022	BUSINESS CONTINUITY FOR FAMILY AND NON-FAMILY BUSINESSES	Selangor / KL
26 May 2022	MEASURING UNIT TRUST PERFORMANCE & UNDERSTANDING INVESTOR BEHAVIOR	Selangor / KL
26 May 2022	MY ESTATE: ADMINISTRATION OF AN ESTATE/ TRUST AND PLANNING FOR THE NEXT GEN$	Selangor / KL
09 June 2022	MY ESTATE: ADMINISTRATION OF AN ESTATE/ TRUST AND PLANNING FOR THE NEXT GEN$	Selangor / KL
11 June 2022	DYNAMIC SOLUTIONS FOR HIGH NET WORTH INDIVIDUALS	Penang
15 June 2022	CRYPTOCURRENCY MARKETS AND STRATEGIES	Selangor / KL
20 June 2022	APPLYING BEHAVIORAL FINANCE IN YOUR FINANCIAL PLANNING PRACTICE	Selangor / KL
20 June 2022	PREVENTION OF INSIDER TRADING AND CHINESE WALL REQUIREMENTS	Selangor / KL
21 June 2022	APPLYING BEHAVIORAL FINANCE IN YOUR FINANCIAL PLANNING PRACTICE	Selangor / KL
23 June 2022	CRYPTOCURRENCY MARKETS AND STRATEGIES	Selangor / KL
24 June 2022	CRYPTOCURRENCY MARKETS AND STRATEGIES	Selangor / KL
25 June 2022	FPAM'S 22ND ANNUAL GENERAL MEETING	Selangor / KL
28 June 2022	APPLYING BEHAVIOURAL FINANCE IN YOUR FINANCIAL PLANNING PRACTICE	Selangor / KL
30 June 2022	SECURITY ANALYSIS AND INVESTMENT STRATEGY	Selangor / KL

ANNOUNCEMENT!

UPDATED: FPAM DISCIPLINARY RULES & PROCEDURES

FPAM takes the any allegation of misconduct received or discovered on its members seriously. The procedures on investigating and disciplinary action taken will be based on the guideline set out in the Disciplinary Rules and Procedures for FPAM members.

The Disciplinary Rules and Procedure has been recently reviewed and approved by the Board of Governors on 18th of May 2022. For a copy of the document, you may check out the link here: https://bit.ly/FPAMDF or scan the QR code.

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The CFP mark is the most desired and respected global certification for those seeking to demonstrate their commitment to competent and ethical financial planning practice.

Currently, there are nearly 190,000 CFP professionals globally. In a 2019 consumer survey on the value of financial planning*, respondents cited that the CFP Mark is one of the top three factors they look for in a Licensed Financial Planner, with 84% satisfied with their CFP professional.

**The Value of Financial Planning: Consumer Financial Planning Survey 2019*

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Consumers rely on the CFP mark to help them identify competent, ethical financial planners who have committed to placing their clients' interests first.

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With the valued CFP certification programme, many found that they were able to increase both their compensation and client base within 12 months of becoming a CFP professional.

Financial Planning Association of Malaysia (FPAM) is a non-profit organisation with a vision and mission to establish the global CFP CERT TM mark as the leading symbol of excellence for the personal financial planning profession.

FPAM advocates the maintenance of technical competence for practicing financial professionals across all disciplines, as well as fulfillment of the profession's ethical obligations. Our continuing education courses for our Associate and Certified Members also strive to provide professionals from the financial industry with knowledge and understanding of Financial Planning and its related activities.

FPAM strives to promote financial well-being across the breadth of the population of Malaysia.

FPAM
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