Millennials and Gen Z reshaping asset management industry

BY **PATHMA SUBRAMANIAM**

Declining birth rates, debt-burdened millennials and a rapidly ageing population are some inevitabilities that will have profound implications on the asset management industry going forward.

Now that Malaysia is already an ageing nation by the World Bank's standards, with 7.4% of its population being 65 and above, the fund industry has its work cut out to cater for incredibly different generations.

Demographic changes are slow but relentless, thus the key to getting through this is to harness technological advancements, experts say.

In the past decade, the advent of digitalisation has disrupted business models across industries, particularly financial services and asset management, laying the foundation for the vicissitudes that population ageing brings.

"One of the structural changes facing the unit trust industry is the accelerated shift to digital platforms," says Lum Ming Jang, chief investment officer at Public Mutual Bhd.

Much of this shift is being driven by millennials — aged 26 to 40, who account for 50% of Malaysia's working population — and Generation Z, aged up to 25 and who, unlike their predecessors, want direct control of their wealth and are tech-savvy enough to use the latest technology to achieve this.

Right now, the fintech revolution is already upending the traditional asset management industry by offering automated algorithm-driven financial planning services for micro-investments, access to peer-to-peer financing and equity crowdfunding platforms, and an avenue to buy cryptocurrencies in bite-size lots through services such as digital wallets.

"The younger generation of investors, especially millennials, are more tech-savvy than previous generations when it comes to investing. They are beginning to demand innovative investment solutions that offer more convenience, greater transparency and lower costs," says Lum.

To cater for this budding clientele and to enable greater access, numerous digital-only financial advice services have been launched in the last 10 years. Digital investment management platforms saw a 90% jump in new account openings between July 2020 and July 2021, while online brokerage services saw a 35% increase in new account openings.

"Technology has created greater access to financial services with the emergence of many new digital financial services through online or app offerings — for example, StashAway, Wahed Invest, Luno, MIDF Invest and eToro. This has enabled the public to invest with the simple push of a button," observes Clement Chew, managing director of Apex Investment Services Bhd.

"Among the new generation of investors, there is a greater awareness of the benefits and importance of investing. Social media platforms such as Instagram, YouTube and TikTok have seen a significant rise in finance-related content and influencers," he says.

"Consequently, we see a growing trend of investor participation from the millennial generation. As an example, millennials accounted for more than 50% of new retail investors in 2020, which was a record year for retail participation in the Malaysian stock market."

Pandemic-induced restrictions were part of the reason for this adoption. Covid-19 has hastened the shift from the physical to the digital realm, forcing laggards to implement measures at breakneck speed to ensure business continuity, says Chan Ai Mei, chief marketing officer at Affin Hwang Asset Management Bhd.

"Covid-19 propelled a lot of businesses to speed up their digital initiatives. We had to quickly ensure that our processes could cater for the scenario when we could not meet clients face to face," she adds.

Navigating the divide

Besides, greater adoption of technology could make human advisers more efficient, observes Munirah Khairuddin, CEO of Principal Asset Management Bhd. "Principal Asset Management is considering new ways to integrate digital capabilities with our asset management expertise to help clients in their quest to save more, invest more and protect more for their financial future."

The fund house has collaborated with Touch 'n Go Sdn Bhd to introduce the Principal e-Cash Fund in the mainstream e-wallet, providing its customers the opportunity to earn daily returns with a minimal investment, from as low as RM10.

"We do believe that some millennials would opt for more personalised services offered by financial consultants or agents as they grow older to help them manage their portfolio and grow their investments further," says Munirah.

Most fund houses have since taken their distribution strategies online, where everything from client onboarding and portfolio management to report generation can be done in minutes. Some have even included goal-based investing.

Public Mutual, for example, introduced the Digital Onboarding and e-Suitability Assessment facility to help new investors onboard digitally without the need to submit physical documents.

"They will also have access to our online investment platform, Public Mutual Online (PMO), where they can invest, transact, monitor their investment portfolio as well as sign up for facilities like Direct Debit Authorisation on a 24/7 basis with ease and efficiency. We have an accompanying app, Pocket-PMO, that allows them to transact and monitor their investments any time, anywhere, set target price alerts as well as designate investment accounts for specific financial goals," says Lum.

"Among the new generation of investors, there is a greater awareness of the benefits and importance of investing."
> Chew

The fund house has introduced the Public e-Series of Funds, which are available exclusively on PMO. Among other things, this series of funds enables investors to invest from as low as RM100 as well as enjoy reduced sales fees, he elaborates.

"Many of these funds also provide investment opportunities in evolving themes such as artificial intelligence, digital innovation and ESG (environmental, social and governance) considerations," says Lum.

But with competition arising from digital investment management platforms, merely digitalising processes is not enough to draw the richly diverse millennials and Gen Z, who want to be empowered to make decisions on their wealth while paying lower management fees.

This area of the retail fund industry, where online services provide automated investment advice, is expected to grow strongly and has a profound effect on how investors view their wealth relationships, says Chew.

"We believe that younger investors will be more demanding, not only on returns but on the transparency and accessibility of information, which they prefer to be on-demand. They generally have a greater need to be well informed throughout their investment journey."

Some digital platforms have been quick to pick up on this — for example, StashAway and Luno offer computation of personalised returns through their apps, says Chew. "Investors can access their data at any time to see how well their investments have performed. We acknowledge that the increasing adoption of technology may exert pressure on the fees that we charge for investments."

But as the wealth management industry becomes more democratised, Apex is working on ways to provide value to its investors, he adds. "Be it customised reports, outcome-based fees or certain value-added services that a regular investor cannot obtain from mass-market technology-enabled solutions."

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Lum concurs. "The prevalence of digital services and the wide availability of online investment products have allowed people to

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> Munirah

invest and transact entirely online. Likewise, due to the convenience and accessibility they offer, robo-advisory services are likely to continue being a part of the investing sphere over the long term."

However, he asserts that the popularity of such platforms does not negate the need for financial advisers and consultants. "We believe that investors will always value the personal touch.

"In fact, despite having access to their investments online, most of our investors have continued to rely on the guidance of their servicing unit trust consultants when investing and transacting online. The personal touch also tends to matter more to investors as they grow older and have more investment options open to them to grow their wealth."

Despite their economic prowess, Gen Z and millennials still lack knowledge and confidence when it comes to investing. "Financial education is pertinent to help millennials understand the benefits of starting to invest at a young age. We engage with millennials using digital channels such as social media, news websites and financial websites," says Munirah.

ESG theme is a mainstay

Digitalisation aside, firms are embedding sustainable investment values that are increasingly ingrained in the psyche of younger investors.

Wanting to use their money in the best interests of society and the planet, this demographic has been credited with driving the exponential growth in ESG inflows over the last couple of years.

Millennials have been the key pillars of the growth of sustainable investing throughout the 2010s, contributing US$51.1 billion to sustainable funds in 2020 alone, compared with less than US$5 billion five years ago.

The after-effect of the pandemic has led to more conscientious investors, says Chan. "The emphasis on ESG is much more pronounced now with investors baulking whenever a company is found to be guilty of bad practices."

"With the current instantly accessible information to the world, and social problems, this will continue to drive interest in sustainable investing," says Munirah.

While reinforcing their offerings to cater for the young working populace, investment firms are gearing up to guide the boomers and Gen X — whose investments make up the bulk of assets under management — into their advanced years.

Moreover, the demand for tech-enabled financial tools and advice is increasing across different demographics, not just among the millennials, says Munirah.

"Demographic changes in Malaysia are increasing demand for financial tools and advice. Consumers, regardless of their age group, are driving the need for greater access to financial solutions. They want choice in how they access financial tools.

"The financial services industry and its customers in Asia are embracing technology at a faster rate than developed markets. Without legacy systems and infrastructure, emerging markets are leapfrogging developed countries in terms of the development and adoption of new digital solutions.

"High mobile penetration rates in most markets mean consumers are comfortable buying online. Especially in Asia, that comfort with digital transactions is happening across all age groups."

While she acknowledges that there is still a reluctance to adopt digital services among older investors, the digital adoption has accelerated. "We acknowledge that most elderly consumers are not tech-savvy and some are reluctant to embrace digital services. However, the journey of digital transformation has been on a time frame that has been compressed from years to weeks, and we believe this will transcend age boundaries, forcing previously hesitant but loyal customers to move online."

Contrary to popular belief, this group too prefers tech-enabled services to a certain extent when it comes to planning their portfolios, says Chew. Seeing that income generation is pivotal to maintaining their lifestyle in the latter years, rarely does this group invest in alternative assets, he points out.

"Products that give a reasonable yield or income with less volatility are always popular. Many investors, including older ones, prefer a less risky product with a regular income feature." E

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> Chan

Low investment returns, debt crush pushing millennials to risky crypto?

Over the years, cryptocurrencies as an alternative investment option have been growing steadily among young investors, providing them with wildly unanticipated returns.

Investments have filled a void for the average young person impacted by the lockdown-induced ennui and economic uncertainties caused by the Covid-19 pandemic. In October last year, the Securities Commission Malaysia reported that more than RM16 billion in digital assets and cryptocurrencies were traded through licensed exchanges in Malaysia between August 2020 and September 2021 amid an upward trend in the price of blockchain-based assets.

But should this young demographic be embracing such high risks considering that many are laden with debt despite their purchasing power and the fact that this may be the last opportunity for the generation to build wealth before heading for retirement?

Finance Minister Tengku Datuk Seri Zafrul Aziz said in March last year that 47% of Malaysian youth have high credit card debt. The Malaysian Association of Borrowers and Consumers Solution has already warned that many aged 30 to 45 are expected to go bankrupt when most government aid packages end in 2022.

This cohort, having entered the workforce during a recession sparked by the 2008 global financial crisis in their prime earning years, took a second pummelling from the economic fallout that resulted from the Covid-19 pandemic.

"It is true that most of the wealth is still sitting with those aged 50 and above. They do have the bulk of the assets under management today," says Chan Ai Mei, chief marketing officer at Affin Hwang Asset Management Bhd.

The younger generation is likely to be drawn to wildly risky investments such as cryptocurrencies to make quick gains seeing that they have a shorter time horizon to work with, she notes. "Most of them have little to start with, and so they want to make quick gains. Cryptocurrencies have risen over 1,000 times, which is why the asset class appeals to them a lot."

The high and instant gratification of cryptocurrencies is addictive despite the risks, compared to traditional unit trust funds that require most to invest for three to five years, Chan observes.

"They are always on the lookout for new, innovative asset classes, be it things like peer-to-peer lending or Bitcoin. This generation is impatient, but there are still those who prefer sustainable income to something wildly risky where they could lose their entire capital," she says.

Apex Investment Services Bhd managing director Clement Chew, however, attributes young investors' affinity for intangible assets such as cryptocurrencies to their inquisitiveness and risk appetite.

"The new generation of investors sees value from a different perspective. Younger investors are open to concepts and untested ideas. The investment need not be profitable. In contrast, the older generation of investors usually want to be convinced of the 'asset' behind the investment — an investment that is backed by earnings, cash flow or hard assets," he says.

"The new generation of investors is more receptive to conceptual investments such as cryptocurrencies and non-fungible tokens. They are also more open to transacting on different exchanges and platforms."

He points out that millennials are more risk-agnostic and are willing to set aside a larger portion of their wealth for alternative investments in the hope of catching the next "big wave".

"This investment style will have some influence on the way traditional fund houses operate as they would see some potential in offering these new emerging investments and developing such alternative products to meet this demand. However, this strategy will ultimately need to be balanced by a disciplined approach as these alternative investments have much higher volatility and are traded around the clock globally," he says.

"Fund managers can no longer 'clock out' at market close and will have to have strategies to capitalise on gains or limit losses as and when they occur. This is a fundamental shift in the way we think of investments moving forward as the inevitable decentralisation of the financial industry occurs."