Future of stockbroking in Malaysia

Point of View by Capitalist Stoic

TheWealthMeta

The stockbroking industry is facing increased disruption from evolving market forces

Increasing Competition

- Rakuten as first online-only equity broker, catalyst for not digital first competitors
- Decreasing profit margins from increasing competition and declining trade volumes[1]

Divergence of customer segments

- Digital first, tech savvy millennials who will become the new HNW affluent[2] ; versus
- Traditional investors expecting traditional services (e.g. Remisiers, phone trades)[3]

Evolving Ecosystem

- Alternative investments, e.g. Funding Societies, StashAway
- Issuance of 5 digital bank licenses in Malaysia[4]

Compliance & Regulations

- Liberalisation through digital broker licences & new business models[5]
- Support for cloud computing by Bank Negara Malaysia[6]

1. "Local stockbrokers brace for challenging times" - The Malaysian Reserves, *2. "More millennials investing in the stock market"* – New Strait Times, 3. *"Lead Story: Stockbrokers must move online or risk going offline in the new marketplace"* – The Edge Markets, 4. *"Interest in digital bank licences picks up"* – The Edge Markets, 5. *"Malaysia to liberalise policy on stockbroking industry to spur greater innovation"* – Malay Mail, 6. *"RMiT guidelines may drive innovation, says AWS"* – The Edge Markets

To maintain competitive position, innovate through digital transformation

The stockbroking industry has been constantly evolving...

Trading floor - Chalkboard

Stockbrokers would shout orders over to clerks writing and matching orders on chalkboards on the trading floor

Trading floor - Electronic terminals

Stockbrokers would use electronic trading terminals on the trading floor and take orders from clients via phone

Internet Trading

Clients would place trade orders via stockbroker's internet portals from the comfort of their own home

Mobile Trading

Clients can now use their mobile to monitor the market and place orders on-the-go, anywhere, anytime

The Need to Innovate

- **Technology** spend is **outpacing employee spend** in stockbroking firms[1]
- **Robinhood** has disrupted the market with **zero brokerage** fees / commission
- **Stashaway** provides an intelligent **robo-advisory platform** for wealth management and financial planning to increase customer investment activity
- **Covid-19** has accelerated **Future of Work** and **Industry 4.0 Revolution**; firms will need to **reorganise** to adjust to the post-pandemic economic environment and labour market[2]

1. *"Technology spend growing at expense of trader salaries"* – Computer Weekly, 2, *"COVID-19, 4IR and the Future of Work"* – Asia-Pacific Economic Cooperation

To win, leverage digital channels, embrace emerging ecosystems and automate middle and back office

	Typical Problem Statement(s)	Potential Solutions / Leading Practices
Front Office *(Clients, Remisiers)*	• Paper based manual onboarding processes • "Digital first" millennials as the ever increasing target segment • Decreased / stagnant Bursa trading volumes	• Digital onboarding process (with omni-channel support) for seamless customer experience • Robo-advisors for investment guidance and portfolio management • Collaborative discussion with Bursa Malaysia and Bank Negara on digitisation initiatives (e.g. digitised CDS form, digital KYC)
	• Increasing competition within stockbroking industry and alternative investments • Increased competition resulting in declining brokerage income and margin compression	• Partner with fintech and start-ups/innovators to leverage new technologies, products and services • Collaborate with emerging ecosystems (e.g. Grab, Touch N Go) to capture new markets
Middle Office *(Execution, risk, compliance, etc.)*	• Manual execution of institutional and global trade orders • Demand of High Frequency / Algorithmic trading	• Straight-Through Processing (STP) via APIs with institutional clients and international third-party execution vendors
	• Increasing demand and complexity to monitor and report suspicious transactions • Increased KYC, AML/CFT complexity	• AI, Machine Learning, Social Network Analysis can identify suspicious patterns, entity relationships and enhance KYC compliance • Integrate internal / external platforms to enhance customer profiles
Back Office *(Settlement, clearing, reconciliation, etc.)*	• Manual processing, reconciliation of institutional and global trade contracts	• Robotics Process Automation (RPA) to automate repetitive, manual processes • STP across internal systems and with third parties increase efficiency
	• Legacy, monolithic platform architecture impeding innovation	• Microservices cloud architecture to enable rapid transformation and agile deployment with ability to scale • Embrace Agile ways of working to design, test and iterate new initiatives