

Malaysia Report

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INTERVIEWS 3.29.2021

Malaysian Financial Market: Meor Amri Meor Ayob Presents Valuation Agency Bond Pricing Agency Malaysia



Meor Amri Meor Ayob, CEO of Bond Pricing Agency Malaysia

Interview with Meor Amri Meor Ayob, CEO of Bond Pricing Agency Malaysia



What was the impact of the recent COVID 19 pandemic on your business?

We actually did everything off site. For all intents and purposes, the market thought that we were still in office. That was the first test that we did. Based on that, we will learn to improve on whatever shortcomings that we found. Last year, it was actually quite natural. In **Malaysia**, lockdown officially started March 18th. But, we were able to start working off site, working from home about four weeks prior to that. So, we had already sort of self-isolated our team so that they would not get infected by the virus. From an operational point of view, the company could still operate. For us, the Coronavirus situation did not impact us at all. In fact, we were quite happy to work from home. Everybody already had the necessary hardware to connect to our servers, etc. However, we are just one small part of a long value chain. You have the bond market itself where there are a lot of players, a lot of stakeholders, and we realized that a lot of the value chain itself is not digitalized. Without everybody working with and having the same kind of infrastructure, the whole system can grind to a halt. But, from a business point of view, we did not suffer much. In fact, last year was another record year for us in terms of revenue, new businesses, etc. We are considered slightly different than the normal industries, the traditional industries, because we are in the business of information. When the market is volatile, the need for information becomes even greater. We actually got more people subscribing. We were very lucky and this is going to be the expectation going forward. We are now looking into how we can expand this business. How do we then create a need for the services and the information that we can generate the value added? This is going to be the challenge for us for the next few years. We do have a number of ideas of how we can utilize the infrastructure that we have, but it depends on how quick the market is able to adapt.

What is the scope of business of Bond Pricing Agency Malaysia? What do you offer to clients?

The service that we provide is information. This is actually a paid service, and when the retail market is up, average people on the street will not be willing to pay and they will not be very decisive. So, 100% of our services are taken up by professionals. In the UK or the US, you can have an exposure in the bond market. You can actually go out there and buy bonds directly. But in Malaysia, unfortunately, at this moment the retail bond market is not there yet. As an individual, if you want to have some exposure to bonds, you need to go through a fund manager. It is an indirect way to get exposure to the information. The number of players in the Malaysian bond market is not more than 200. These are all institutional investors. Once the bonds have been issued at a primary level, at the secondary level, the buying and selling, there is only in a very small cluster below. We are actively providing a service of valuation. In any bond market in the world, potential investors, current investors, fund managers look for the value. In an equity market, you

can execute an exchange and you can actually see the price. But a bond market, even in the US, is an OTC market, an over the counter market, which means that trades are not done on an exchange; rather, trades are done by direct calls between a buyer and a seller. There could be a broker in between, but more often than not, it is a direct connection. Only after the transaction has been done will the transaction be reported to a central agency. It is only a post rate kind of information. The problem with the OTC market is that if you are a buyer and you are a seller coming together for the first time on the phone, talking about a particular bond, now they have an issue: which price should be the opening price to start the negotiation? The seller will try to sell it at the highest and the buyer would like to buy it at the lowest so you have

this big disconnect between these two points. As a valuation agency, we can actually come and highlight to everybody out there what this particular bond is valued at today, whether or not there is someone interested in buying or selling. We can tell you based on the interest rate environment, the credit risk, the liquidity risk, etc., that it should be priced at this level. It is a misnomer that our name is Bond Pricing Agency. We do not actually set the price. If you have a bond and you have three different bond pricing agencies providing the service, there is a high chance that you will have three different valuations. It now depends on the user to choose which one they feel is the fair valuation. That is why for us statistics is very important, consistency is very important, transparency in terms of our methodology is very important. What we are selling is trust: the trust that we know what we are doing, that we know what we are looking at, and that we are consistent from start to finish. For us, it is all about transparency. As a valuation agency, people can ask us why we set the value of that particular bond at that level and not something else and we have to come back and actually explain it.

How does BPAM distribute this information?

In Malaysia, we have a direct business relationship with our clients. They sign a contract with us to get information and we have an application whereby the data can be accessed. Outside of Malaysia, we felt that it makes good business sense to have partners. We have partners such as Refinitiv who have their operations all over the world. If clients require support, they will have people available to provide support. Our clients use the information as part of their decision making process to either buy or sell. Sometimes, they also use our information as a benchmark. For example, if you are a fund manager and you have an



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only bond pricing agency
in Malaysia. We started
in 2004. The business is
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and information is not
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Valuation yield curves
require the provider to
show proof that they
have done the job
properly for a period of
time.**

investment in a portfolio of bonds, how does one assess the ability of such fund managers to generate income based on the allocated funds that they keep? We create an index and they can compare the performance of their portfolio against our index. If they have performed better than our index, then they can say that they have performed better than the market. We also provide information for risk management itself before they even decide to go into a particular bond or into a particular sector. For example, we have data whereby they can look at volatility, such as volatility in property bonds, volatility in industrial bonds, volatility in infrastructure bonds. Based on all these different volatilities, they can choose to have exposure in a particular area because of a certain risk profile. Our data is there to provide users with the ability to make the best judgment possible. That is the primary focus of our job.

Are you looking for new partners?

As a company, we realized that you cannot bake the pie and eat all of it. We have to realize the limitation in terms of size, network, etc. We realize the fact that our value proposition is that we are in country to be able to provide the service of valuation for Malaysian bonds. But if we can get partners who have their own strength, we do not mind sharing the pie that we have created because it makes sense. We have this philosophy of business whereby you find if you can justify your value proposition to the partnership, we definitely can look into going into business together. We have quite a number of business relationships that we have gone through where we actually share the revenue with these partners. We are in a digital space. We only need to do the job. You have one subscriber, you have 10 subscribers, you have 100 subscribers, but you only do the job once. For the last 12 years, our staff has remained at 33 and our business has gone up and up. Using the internet, we have created unlimited leveraging. The business is about subscription, the number of eyeballs that you can get for your report. On our website you can see the latest Almanac for 2021 that is over 463 pages. It gives you the story of every bond in the Malaysian Bonds and Sukuk markets. It is updated every year and this is our eighth edition.

Do you have any plans for new products or new digitization going forward?

We have an app for mobile, both Android as well as Apple. Going forward, the big challenge now is how do you transition the market from a professional market to retail? The Securities Commission in Malaysia just made announcement that they are looking at the third capital market master plan. One of the items that they always highlight is how to grow the retail market. This is a major challenge because of market education and investor protection. Institutional investors have teams and teams of analysts. They will have at least two, three analysts behind the trader and behind the trader there is a Bloomberg screen or Refinitiv screen with real time information coming in all the time. Now, how would that be when you compete against a normal Joe with just a mobile phone? The only information he has is what he heard the day before yesterday or what he read in a newspaper which was printed last night. You have this major disconnect between these two groups of people. This is where we believe BPAM can help bridge that gap. BPAM is all about the business of information. How do we provide the same level of information that

the professional market has down to the normal Joe in the street? What are the things that we need to achieve to facilitate the ability of this particular individual when they compete against the big banks, like HSBC or Citibank or TD Bank? This is where the internet is a game changer because the internet does not care whether you are from the street or whether you come from a very tall building with a global reach. It does not matter because the internet is free for everybody.

Where do you see the market heading in the medium term, three to five years?

If you look at how the market has been historically, issuers are generally considered as blue chip companies. When they go to market, they will have a really high rating and they can easily tap the bond market to their advantage. Now the issue is, if you compare the number of blue chip companies to all companies, they are just a drop in the ocean. For every one blue chip, there are 10,000 other companies that are small and medium enterprises. These people do not need the same types of money, they do not need the same volume of money. But if these people were to go to the bond market anyway, investment bankers or advisors will say the size is a bit too small. The effort of actually doing a paper, going out and doing all the road shows, etc., does not justify the volume. So, you have this underrepresented group of potential issuers that could not tap into the market. The current infrastructure does not allow these people to issue. The market itself has a floor and anything below the floor does not justify the cost of going to the bond market. The only way is to change the infrastructure. How do you increase your efficiency? How you reduce headcount and the human aspects of it? You cannot disregard accountants or risk analysts or other assets. I want to start using AI (artificial intelligence), robo advisors, set up a system whereby a number of these decisions can be made by machine instead of having a real professional. You reduce the speed of going to market and you reduce the number of processes because you have automated knowledge. If you can automate part of the processes, speed to market is quicker and immediately you will know whether this is a go or no go deal.

Is that automation going to change things for your company in the future? Where do you see BPAM heading?

If you want to futureproof yourself, one thing you need to realize is that there is no such thing as staying the same. We cannot cast in stone that we are going to be a bond pricing agency or valuation agency forever. If that is your mindset at the start, you are just setting yourself up for failure in the future. You need to be able to say that at the moment, this is our capability, this is our so called value proposition to the market. But also, what are the gaps that we can see in the next couple of years? How do we position ourselves to be able to fill in those gaps? Five or ten years from now, valuation may be a small part of the business, not our primary sector. It all comes down to seeing how the market evolves. Sometimes, it is a catch 22 because you believe that the market should go this way but sometimes the market may take a long time to actually slowly roll towards that position. So, what do you do? Do you grudgingly just follow the market and when they need the service you provide it or do you try to do something really far-fetched that no one has ever

seen? We have to be very flexible. Sometimes, it is nice to be able to show something really advanced because then it shows your capability, your understanding of the whole market, but sometimes you have to step back and you need to be practical because the market may not look at you too kindly. No one wants to be known as the so called choke points. We are not regulators. We are just one of the small, little gears. But there is nothing wrong with us presenting ideas. There are a lot of things that we want to do. We want to use the internet and some of the latest technology, such as blockchain, AI, robo advisors, etc. We want to be "pre thinking" what the person wants. Now, instead of being pulled, the information will be pushed.

Do you see more international investors coming to Malaysia? Do you see the market growing and changing in a specific way?

If you look at the market now, some of the practical issues that we have are all about supply and demand. These international investors have 1 trillion USD to burn. On the Malaysian bond market today, the current number of bonds outstanding is about 1.6 trillion ringgit which is about 400 billion USD. To be able to actually get the interest, you need to have the supply. Now, it is essential because if you have a such as small size, what happens is that international investors may not be bothered coming to the Malaysian market. In the bonds market, generally, investors do not buy today sell tomorrow. Bonds are different. They are not like equity where you can buy in the morning and sell in the afternoon. With bonds, generally they will hold to maturity. Classic players in the bond market anywhere will be insurance companies because insurance companies have very long exposure. So, if there is a bond out there currently on sale that is 40 years, for example, they will buy and they will keep it because it matches their liability. 400 billion for a big international is not that big, but more often than not, if they want to come in they cannot because a lot of these bonds have been bought and held to maturity. So, now, the question is, can the market continue to generate new bonds, new issuance every year? The bond market is generally blue chip, but unfortunately, the number of blue chip companies is just a drop in the ocean. So, you have a lot of companies that are unserved in this market. If you want the supply to move, you need to be able to allow a lot of these small medium enterprises to enter that the market because then you have debt, you have breadth, you have all kinds of industries that are able to come and offer papers. When that happens, you have a lot of interest from a lot of parties everywhere in the world to come in. This is an issue which the regulators are also looking at. It is a fundamental issue, because if you allow any company to come in and issue bonds, the question is how do you have investor protection? By definition, for a small company the risk is actually slightly higher because they do not have deep pockets. So, the regulators are trying to balance this.

What is your inspiration to do what you do?

Bond Pricing Agency Malaysia is the only bond pricing agency in Malaysia. We started in 2004. The business is all about information and information is not just a single point in time, but a series. Valuation yield curves require the provider to show proof that they have

done the job properly for a period of time. We are a very young company. But if a new one comes in, they are going to compete against an incumbent which has 16 years of track record with 20 different product lines. As a subscriber to BPAM's services, I am buying information and I need to make sure that information is correct and consistent. We have always operated on the notion that one day someone will come in, someone will really be brave enough to come in and put money on the table. But when you come in, you have to play against us. So, are you willing to take the risk? What makes it exciting for me is the fact that prior to us there was not a one stop center for such information. Everybody was using all kinds of sources of information. When they talked to each other and compared notes, their references were all different. We provide that consistency. We are in an industry whereby for the first time whatever services that were provided have never been seen before. No other industry gives you that opportunity. We really embrace the Industrial Revolution 4.0. This is something that will definitely allow everybody to think outside of the box. In a few years, the bond market may not necessarily be our primary driver. It could be a different market, a different set of financial assets that we are assessing. We specialize in database, programming, and financial engineering. Our valuation is just an output of these three core things.

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