

# In cash we trust?

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INSIGHT

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LAST week, this column highlighted the various forms of investment products and how expected returns correspond with risk. The focus in the previous column was on Cash Trust accounts that are being sold in the market and how they are bundled as part of the overall estate planning process.

This week, Cash Trust products are discussed in greater detail, starting with the ethical question of how promoters sell them.

Unethical?



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The way these products are pushed does not in any way violate the Trustee Act, 1949, or Act 208, as it is all legal, but the issue is really about the ethical nature of how these products are pushed with the promise of exceptionally high returns.

Promoters of Cash Trust products do not provide in detail how they are able to achieve the high returns that are promised to investors.

Locking up the investors' funds for the duration of the product that is being offered is already a red flag, while the fact that these promoters are not licensed or registered with Bank Negara Malaysia (BNM) or the Securities Commission (SC) is another concern.

In essence, the promoters of Cash Trust products are taking deposits from the public under Act 208 and using the same legislation to protect themselves.

Unlike the traditional investment product, there are no fact sheets, monthly, quarterly or annual updates, nor is the performance of the Cash Trust product explained to investors.

### Agency model

Promoters of Cash Trust deposit schemes use the agency model to push the product, as the commission rate payable to these agents is even more lucrative than that from the insurance industry.

They have developed a strong agency base, as the commission derived from these products is lucrative. With the promise of high commission and high-yield products, these Cash Trust schemes would need to generate income by "investing" in the right investment tool.

It is believed that the modus operandi here is to set up another special-purpose vehicle (SPV) where the funds from the Cash Trust are channelled through for other investment purposes.

### High risk

The business model to generate high returns surely is a risky proposition. Hence, the SPV that is created to channel the funds derived from the Cash Trust accounts must have some form of capability to do so via various means.

The SPV is likely a licensed money lender, and the cash infusion from the Cash Trust accounts is then used to provide short to medium-term financing to those in need on certain terms that will generate high income for the SPV.

Some SPVs also invest in private market deals, as these deals typically are for companies going for an initial public offering (IPO).

These pre-IPO deals are for a short one to two years, and the idea is to generate the gains upon listing, and the gains will then pay for the high returns that were promised to investors.



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Worse, if the borrower goes into a debt-restructuring exercise, the lender may even end-up taking a haircut.

As for IPOs, not all IPOs materialise from the time of investments due to one reason or another, which means pre-IPO investing too can be risky as the investor may end-up with unlisted and not marketable securities.

This will lead to the SPV holding an asset that could deteriorate in value over time.

Nip it in the bud

The mushrooming of Cash Trust offerings by certain promoters that promise very high returns without proper licensing is worrying. This is rather similar to the deposit-taking cooperative in the 1980s that led to the collapse of cooperatives, as the business model was not sustainable.

Poor licensing or even the lack of legislative oversight is another concern, as promoters of Cash Trust products are only required to register with the Companies Commission Malaysia or SSM.

Worse, some promoters use marketing gimmicks that they are “registered” with the SC, but the company or the agents pushing these products are not governed by any guidelines or rules, and are, in general, unlicensed individuals.

The current modus operandi among the promoters of Cash Trust accounts is also opaque when it comes to reporting to the depositors, as most of them do not provide the actual details of their “investments” or how the funds are deployed.

This, as they are not governed by the SC nor BNM, and hence, is a wild-wild west scenario where the promoters have a free hand “investing” the funds under the discretion of the trustee, which are well crafted under the trust deed.

Is it a scam?

There is also a concern that Cash Trust accounts are nothing but a Ponzi scheme, as funds from new depositors could easily be used to pay out depositors, and it is nothing but a bubble waiting to burst.

Authorities will need to come down hard on promoters of these products, as Cash Trust accounts with high yield returns are not sustainable, unlicensed and could easily be manipulated by those who are offering them.

The agency model that it is dependent upon could also backfire, as these agents will be at risk should anything go wrong.

Depositors will feel cheated if they do not get their money back.

Hence, with many products being offered out there with high potential returns, akin to money games and scams, there is a likelihood that this is going to end in no time, with depositors left in a lurch.



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The authorities need to come down hard on Cash Trust account promoters, as this is not the type of trust account under Act 208, nor are the promoters transparent and open about their investment schemes.

There are no official estimates of how much Cash Trust accounts have generated over the years, but it is believed that the number runs into the billions.

It is time to rein in the scheme that only seems to enrich the promoters and agents pushing for it in an opaque manner.

While cash is king and indeed for most, they have utmost trust in cash, but Cash Trust accounts are really something else and have been taken out of the context of what Act 208 is legislated to be.

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