BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

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Keynote Address at the 3rd Annual Conference of the Association of Financial Advisers

"Financial Advisers The Future – Right Here, Right Now"

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At this Conference last year, I spoke on four key priorities identified by Bank Negara Malaysia (the Bank) to further develop the financial advisory industry and to enable the financial advisers to effectively perform their role. Let me first say that these priorities remain relevant today and our focus has not changed. This morning I would like to share with you how we have moved some of these priorities forward, and the steps that remain in order to further strengthen the financial advisory channel. To recap, the key priorities of the Bank are:

- First, to ensure that financial advisers are highly competent and professional when they provide advice;

- Second, to identify and address the barriers that are preventing qualified parties from entering the industry, and the constraints that are limiting the ability of financial advisers to recommend the best solutions to their clients;

- Third, to improve the alignment between the interests of consumers and financial advisers; and

- Fourth, to intensify our review of the quality of advice provided by financial advisers to consumers through our supervisory work programme.

In November of 2013, the Bank outlined proposed regulatory reforms for the financial advisory industry which formed part of the “Life Insurance and Family Takaful Framework” or in short the LIFE Framework, which we published for consultation. An important aim of the reforms is to support the Bank’s desire to further diversify insurance delivery channels as one - although not the only - way to improve the quality of advice, and enhance choice and value for consumers based on their specific needs and circumstances. This in turn would contribute towards increasing the insurance and takaful penetration rate to 75 percent by 2020 as targeted under the Government’s Economic Transformation Programme (ETP).

We received positive feedback from the financial advisory industry on the proposed reforms and while specific elements of the LIFE Framework remain under review to take into account the comments that were received, we have moved ahead to implement several changes proposed which concern the financial advisory industry.

The Bank has lowered the minimum capital requirement for financial advisers to RM50,000 which will take effect from 1 January 2015 to encourage more advisers to enter the industry. This follows an increased focus on professionalism, innovation and quality of advice as the hallmark of those who are admitted to the industry. It also reflects the Bank’s desire to accelerate the development of the industry and promote its continuous renewal by making it easier for qualified individuals to offer their expertise and services, thereby expanding access for the public to financial advice while continuously raising the bar in innovative solutions for those seeking advice. We believe the new capital requirement strikes a better balance between the traits that we want to nurture within the industry and the financial commitment that remains important to ensure that those who we license are invested in the development and success of their firms.

The Bank, in close consultation with AFA as well as the Malaysian Financial Planning Council (MFPC) and Financial Planning Association of Malaysia (FPAM), has also reviewed and agreed to an expanded list of minimum qualifications to become a financial adviser's representative. The review identified four core areas of knowledge - namely financial planning, risk management, insurance planning and investment planning - which are considered essential to equip a financial adviser's representative to provide proper advice on insurance or takaful solutions. These areas have been preserved under the expanded list of minimum qualifications, while allowing greater flexibility for other qualifications to be included. This change has halved the cost and time required for individuals to attain the qualification requirements. In addition, an individual that possesses a qualification from a higher learning institution which covers the core areas of knowledge and which is recognised by the Malaysian Financial Planning Council (MFPC) and Financial Planning Association of Malaysia (FPAM) can be a financial adviser's representative without the need to take additional examinations. These new requirements have been implemented since 1 September 2014. The changes present new opportunities for AFA and its members to reach out to a broader talent pool of potential financial advisers, including young graduates, who can contribute to the growth and development of the industry.

It is important to emphasise that these minimum qualifications are only a means, and not an end, to the provision of sound financial advice. At best, it is a starting point. The Bank expects both at the industry and firm levels that financial advisers are committed to maintaining an adequate level of general and specific knowledge and skills required to deliver sound financial advice. This means having in place arrangements and processes to ensure that new financial adviser representatives are properly supervised, and all representatives are committed to a programme of continuous learning and professional development. It also means subscribing to a strong code of professional ethics and conduct. This is the focus of the Financial Services Professional Board (FSPB) which was established recently with the support of the Bank and the Securities Commission. The FSPB's objective is to drive the development as well as the advocacy of professional standards, ethics and continuous professional development across the financial services industry. I would strongly urge the AFA to work together with the FSPB to develop and implement industry codes of conduct and ethics for its member firms and representatives which should express in very clear terms the professional responsibilities that a financial adviser must demonstrate towards its clients. This should be accompanied by an effective mechanism for investigating and addressing complaints on a breach of these responsibilities, and the ability to act against errant members in order to preserve the integrity of the profession.

In line with efforts to ensure a high level of professional competence among financial advisers, the Bank also intends to require qualifying and continuing professional development programs for financial advisers to be formally accredited by the Finance Accreditation Agency (FAA). As you may already know, the FAA is an independent quality assurance and accreditation body for the financial services industry that was established by the Bank and the Securities Commission in 2012. It provides programme accreditation, individual accreditation and institutional accreditation services for learning initiatives within the financial services industry locally and internationally. Since its inception, FAA has registered 28 training providers and accredited 18 professional and academic learning programmes offered in Malaysia, the Middle East, Asia, and the United Kingdom, including those offered and recognised by highly reputable and established international professional bodies. FAA has also developed Continuous Professional Development Guidelines for the financial services industry. The recent launch of the FAA Learning Standards and the Finance Qualification Structure will facilitate the harmonisation and wider recognition of accredited professional learning programmes which will also be important for this industry to promote consistent standards in the professional development and mobility of its workforce. We have started to engage FAA, the industry and education providers on this initiative and are working towards the accreditation of mandatory core financial advisory training and examination modules in 2015, and continuing professional development programs progressively thereafter.

To improve the alignment between the interests of consumers and financial advisers, we will be requiring all life insurers and family takaful operators to implement a balanced scorecard framework for the remuneration of agents and advisers, beginning with investment–linked products in the initial phase. We believe it is also important that such a framework is cascaded through to how financial advisory firms are rewarding their representatives. Incentives for individual representatives should be structured to promote impartial product advice, and investments in building enduring relationships with clients by providing the highest standards of professional service. The AFA will be expected to play an important role in driving this initiative through its guidance to firms on the operationalisation of the framework in the context of financial advisers.

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In the medium term, the Bank will examine the issue of the balance between fee-based and commission-based compensation for financial advisers more closely. Clearly, there is scope to augment the share of fee-based compensation of financial advisers which could help to achieve greater transparency in adviser compensation, and better alignment between the interests of financial advisers and their clients. Some countries have imposed a blanket ban on commission-based compensations for financial advisers on the premise that they induce mis-selling practices. Others have opted to draw a clearer distinction between "independent" advisers which can only receive fee-based compensations, while allowing other financial advisers to continue to receive commission-based compensations but who cannot call themselves independent financial advisers. Our work so far suggests that there are likely to be advantages and disadvantages to both fee-based and commission-based systems. More importantly, we do not believe that eliminating conflicts that are associated with commission-based compensations will in itself automatically improve the quality of advice. Other factors that have an important bearing on getting better outcomes from financial advice include the financial literacy of consumers, the level of transparency that is provided to consumers, the competence of advisors and internal incentive systems which I have just discussed.

A further area that the Bank will pursue as part of efforts to address constraints faced by financial advisers in being able to recommend the best solutions to their clients is the expansion of the range of products that a financial adviser can represent to clients. To this end, a specific proposal was included under the LIFE Framework to allow, without restriction, financial advisers to represent any product offered by any insurer or takaful operator. Effectively, this would mean that an insurer or takaful operator cannot refuse to show an adviser its range of products which has been a strategy used by some companies to protect their investments in the training of their own agents and discourage them from abandoning exclusive arrangements with the company. Of course, having access to the broadest range of products would not mean very much if advisers do not build the capacity to understand their features and effectively compare and contrast them against the specific needs of a client. This requires greater investments by financial advisers in the training of your representatives, information systems and in building relationships with a broader network of product providers.

Let me now touch for a moment on some observations from our recently concluded fieldwork which examined the effectiveness of current mandatory disclosures in providing financial consumers with the information that they need to make financial decisions. The study which we conducted focused on the Product Disclosure Sheet (or PDS) which financial service providers are required to provide to all consumers before they enter into a financial contract, and covered life insurance and investment-linked products, structured investments and mortgages.

We surveyed over 400 respondents and found that while the PDS provided by financial service providers is covering the type of information that consumers believe are important for making informed decisions, key product information is obscured in lengthy narratives, excessive information and technical or legal jargon that is difficult to understand. Half of the respondents surveyed were not aware of the PDS while the majority of those that are aware claimed that they were given the PDS only after they had already decided to enter into a financial contract. Many of them were not informed of its purpose. The study also revealed a bias towards highlighting the benefits of a product in explanations given by sales agents or advisers on the product, while risks and costs were not adequately explained. It should therefore not be surprising that 75% of respondents make financial decisions without adequately considering risk factors associated with a financial product, while almost half did not understand the costs involved. These findings are obviously a concern to the Bank as they undermine informed judgments by financial consumers. I raise these observations today because financial advisers clearly have a key role in addressing these concerns. Indeed, you have a professional obligation to your clients to present clear, unbiased and objective information to help your clients make informed decisions. The Bank intends to address these issues aggressively, through regulatory improvements, education, more intensive reviews of sales practices and continued enforcement actions.

With effect from the second half of 2015, financial advisers and insurance and takaful brokers will also be brought within the scope of the Financial Ombudsman Scheme that will be approved under the Financial Services Act, providing an avenue for consumers to address complaints against advisers for non-disclosures or misrepresentations. As I have already alluded to earlier, this is an area in which the Association and its members can and must do more to put in place mechanisms at the firm and industry level for handling complaints against services provided by financial advisory representatives, well before a dispute is escalated to the Ombudsman.

To help consumers navigate and compare financial products more efficiently, we are looking into the establishment of an online product aggregator to provide financial consumers with the ability to gather reliable information on a wide range of insurance products and make comparisons on simple products on a single website. A number of issues will need to be addressed to support such an initiative and ensure that meaningful comparisons can be achieved. Over the coming months we will be meeting with stakeholders to obtain further views on our aggregator proposals and examine options to move this initiative forward.

I have spoken at length this morning about our plans for the industry. In the years ahead, this industry will have an important strategic role in the ongoing transformation agenda that is being pursued for the insurance and takaful sectors. The Bank is committed to providing a well-balanced regulatory environment that adequately protects consumers, while encouraging advisers to realise their full potential. We will continue to set a high bar on professional integrity and quality of advice, and we welcome your ideas and input on how we can continue to encourage firms to grow within the industry and bring financial advisory services to a wider spectrum of the public. The Association of Financial Advisers has a very important role in this process and has been a focal point for the Bank's engagements with the industry. I look forward to your continued cooperation in achieving our shared goal of developing a financial advisory industry in Malaysia that truly serves to improve the well-being of financial consumers in this more challenging environment, and one that we can all be proud of.

Thank you very much for your attention.

Bank Negara Malaysia
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