

Mohd Razif bin Abd Kadir: Reaping opportunities as financial advisers

Keynote address by Mr Mohd Razif bin Abd Kadir, Deputy Governor of the Central Bank of Malaysia, at the Financial Advisers Seminar, Kuala Lumpur, 18 October 2008.

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It is with great pleasure that I welcome all the participants to the Seminar today, which is organised by Bank Negara Malaysia, with the assistance from the Malaysian Financial Planning Council, the Financial Planning Association of Malaysia and the Malaysian Association of Chartered Financial Consultants. In this regard, I would like to express my sincere appreciation to the three associations for their commitment and effort in facilitating and ensuring the success of the seminar, for the benefit of the financial planning industry. The chosen theme, “Reaping Opportunities as Financial Advisers”, is a fitting indication of the potentials and prospects as a financial adviser and I hope that this seminar would inspire you to achieve your full potential in a career in the financial services industry and for those not already in the industry to be aware of these opportunities.

Today’s dynamic environment is marked by a more competitive financial services industry, increasing access to financial services, broader range of financial products and services, and more complex financial transactions. In such an environment, the need and demand for sound financial planning will continue to increase. With the proliferation of financial products from basic risk protection to more sophisticated financial products for retirement and asset accumulation, it is important for consumers to have access to professional advice to help them work through the wide range of financial solutions which involve increasingly complex structures, and to avail themselves on solutions that will best suit their needs and capacity.

For this purpose, Bank Negara Malaysia has introduced the framework for the licensing of financial advisers in 2005 in response to the increasing demand from Malaysian consumers for professional and specialised advisory services to meet their financial needs. The growing affluence and sophistication of consumers have created the demand for more complex financial products and services, specifically insurance products. The introduction of financial advisers, as a new distribution channel for the insurance and takaful industry, will complement the services of the existing professional intermediaries in the financial markets in providing holistic financial advisory services which range from insurance protection, savings for education, investments and retirement planning. In the long term, financial advisory business is only sustainable if its operations are transparent and focused on providing value added services rather than simply selling products. Financial advisers must provide the highest service levels and professional standards in order to sustain and prosper.

Apart from the growing appetite of our consumers for more sophisticated products and services, another factor which had prompted the introduction of financial advisers into the financial services sector was the country’s relatively low insurance or takaful penetration rate. Over the period 2000 to 2007, the market penetration rate, measured in terms of the number of life insurance policies in force as a proportion to the total population, increased from 31.5% in 2000 to 40% in 2007. Notwithstanding its wider reach of the market, life insurance coverage remained relatively low compared with the more developed markets in the region such as Japan, Korea and Singapore, which have penetration rates of more than 80%. The relatively low market penetration coupled with rising household incomes and high savings rate suggest a very positive outlook for the Malaysian insurance sector to grow extensively and presents tremendous opportunities for financial advisers to serve the Malaysian consumers.

With increased uncertainty prevailing in the global economic outlook and in the financial markets, effective financial planning will assume greater prominence at both the retail and corporate levels. Households, in particular, will benefit from financial planning in order to be

more self-reliant and resilient against the increased volatility in the financial markets. It is envisaged that the financial advisers would be able to play a role in providing financial solutions to consumers on how best to manage their wealth efficiently and effectively. Financial advisers will help mobilise the country's financial resources to generate growth and further develop our insurance and takaful sector specifically and the financial system generally. It involves actively engaging individuals within our community to participate more fully in the economy as well as reaching out to the marginalised community and bringing them into the mainstream financial system.

It has now been three years since the financial adviser framework was first introduced. We are encouraged to note that consumers' needs and demands continue to evolve to the extent that financial products and services must now be tailored to meet individual requirements. Being independent from any product provider or manufacturer, financial advisers are indeed in a unique position in terms of capability and capacity to compare and tailor-made various financial products in order to get the best deal for their customers. Such unique position underscores the importance of the financial advisers' role in providing value-added service to consumers as they can expect financial advisers to provide financial advice on needs-based approach rather than merely product-push approach. Ultimately, this will contribute to a higher standard of professionalism in the sale of life insurance products and preserve public confidence in the insurance industry.

Let me briefly share with you the outlook of life insurance and takaful sector in Malaysia. The insurance and takaful sector recorded a strong growth of 11.4% in 2007 with combined premiums and contributions totaling RM29.7 billion. New business premiums and contributions for life insurance and family takaful sector grew by 7.6% to RM9.1 billion driven primarily by stronger demand for savings and investment-related products. Currently, the new life insurance premiums transacted through financial advisers were still insignificant compared to the premiums transacted through agency forces and bancassurance. Any effort to improve the performance of financial advisers must include the takaful sector, which has evolved considerably over the years to become a thriving global business to complement conventional insurance.

On that note, Bank Negara Malaysia has recently approved the inclusion of takaful products and services within the scope of business which can be distributed by financial advisers. The inclusion of takaful products is a significant initiative as it will allow financial advisers to capitalise on the potential for growth of the takaful sector given that the market penetration rate for takaful products is low at 7.7% and the large number of untapped Muslim population in Malaysia who are usually more inclined towards Shariah-compliant products. However, to undertake the marketing of takaful products, financial advisers' representatives must first equip themselves with the necessary knowledge in takaful and understand the Shariah requirements and the differences between takaful and conventional products. In this regard, I commend FPAM and MFPC on their timely effort to formulate and develop Islamic-based professional qualifications in order to satisfy the growing needs among professionals within the financial advisory fraternity. FPAM, together with the Islamic Banking and Finance Institute of Malaysia has jointly developed Islamic Financial Planner module whereas MFPC has recently launched a Shariah Registered Financial Planner module. I am pleased to inform all of you that Bank Negara Malaysia has accorded Islamic Financial Planner module as a recognised qualification for financial advisers' representatives and we are currently considering to also recognise the Shariah Registered Financial Planner module as a qualification.

Apart from takaful products and services, Bank Negara Malaysia has also allowed banking institutions and Labuan offshore financial institutions to draw on the services of financial advisers as one of their distribution channels. This measure was taken in view of growing interest from financial product providers to leverage on the expertise and capabilities of financial advisers in reaching out to the wider community and at the same time promote access to financial services.

As some of you may be aware, Bank Negara Malaysia and the Securities Commission have signed a Memorandum of Understanding in August 2007 which provides for the mutual recognition of financial advisers licensed by the Bank and financial planners licensed by the Securities Commission. In addition to providing for the mutual recognition of both licensing regimes through the harmonization of licensing requirements, the MOU also introduces green-lane processes for financial advisers and financial planners licensed under the respective regimes to apply for licences under the other regime. Bank Negara Malaysia will fast track the issuance of a financial adviser's licence upon the financial planner having a RM100,000 paid-up capital as a corporate body. This is with the view of facilitating greater efficiency in the provision of appropriate services by financial planners and financial advisers in response to consumer needs and demands as well as to pave the way for greater convergence in the financial planning industry. I would strongly encourage financial planners licensed by the Securities Commission to take advantage of the opportunity to apply for a financial adviser licence or become a financial adviser's representative through this green-lane approval process and expand your current business scope.

Some of the measures implemented earlier to promote the development of financial advisers include facilitating the transformation of the tied agency force into financial advisers' representatives by allowing tied agents to continue receiving renewal commissions during the transition period of five years. These measures are indeed a reflection of Bank Negara Malaysia's serious effort and commitment to continuously promote the development of financial advisers as a new distribution channel for financial products and services.

Moving forward, the financial services intermediary sector which includes financial advisers, would be gradually deregulated and liberalized to pave the way for self-regulation with the expectation of continuous improvement in service standards. We believe that professional pride and aspiration of intermediaries such as financial advisers will provide the necessary self-discipline to ensure orderly development of the sector. In this regard, Bank Negara Malaysia and the Securities Commission are working together with key industry players in formulating a workable self-regulatory regime for the financial advisory and planning industries.

Bank Negara Malaysia has so far issued eight financial advisers licences which employ a total of 57 financial advisers' representatives. I encourage you to follow their footsteps and embark on a new chapter in your professional careers, to make the most of the opportunities that you will have to create a lasting impact in promoting sound financial planning among Malaysians. I trust that the distinguished speakers will share their valuable insights and experiences to provide you better clarity on the opportunities as financial advisers.

On that note ladies and gentlemen, I wish you a successful and productive seminar. We look forward to your contribution to the further growth and development of the financial services industry.

Thank you.