Marzunisham Omar: Financial advisers, trusted advisers

Keynote address by Mr Marzunisham Omar, Assistant Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the 6th Annual Conference of the Association of Financial Advisers 2017 "Financial Advisers, Trusted Advisers", Kuala Lumpur, 9 October 2017.

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It is indeed a great pleasure to be here this morning. I would like to thank the Association of Financial Advisers for inviting me to speak, and allow me first to congratulate the team on the successful organisation of this year's conference.

The future is as promising as it is unpredictable. As I reflect on the theme of the Conference, I am reminded of a quote from Confucius, the ancient Chinese philosopher – "I used to take on trust a man's deeds, after having listened to his words. Now, having listened to a man's words, I go on to observe his deeds."

This morning I would like to talk about trust – financial advisers as trusted advisers. Indeed, trust is at the heart of the financial advisory industry. While customer service and technology are increasingly the key differentiators, the most essential element has been, and will always be, trust. In an industry where the very foundations are dependent on the strength of personal relationships, trust is not only a necessary feature – it is its strongest advantage, its defining value proposition.

Therefore, in my view, trust is where the future is – the financial adviser of the future will be a trusted adviser – one that customers can depend on for reliable, thoughtful and bespoke advice without hesitation.

Confidence and trust in the industry has unfortunately been bruised in recent years. Instances of mis-selling and fraudulent practices have adversely affected the industry's reputation. The rising occurrence of illegal financial schemes in recent times has further worsened the public's perception towards individuals who call themselves "financial experts". Most financial advisers have done the right thing, only a small minority has not. Yet, it is this minority that has been enough to trigger a tipping point of bad publicity for the profession.

Under these circumstances, trust becomes the ultimate currency of trade. Trust entails adherence to high ethical standards, putting the interests of customers first and treating them fairly. It comes down to the profession having a genuine concern for customers' long-term financial needs. As trusted advisers, your responsibilities extend beyond just advising customers on how to invest their money. Rather, it is about helping them achieving their financial goals, building their financial standing, and securing a promising future for them and their children.

Indeed, this is in line with the philosophy of the Association of Financial Advisers. It is imperative that your actions reflect these values. Indeed, as Confucius reminds us, it is the deeds that will prove critical in building the long lasting, reliable relationships that will take this profession to greater heights.

To many, financial planning can be a fairly complicated task. Identifying personal financial needs requires consideration of an impossibly wide array of factors, finding the right solutions for them even more so. For years, financial advisers have played the crucial role of condensing the vast technical complexities of finance into practical, reliable advice on a personal level. It is a role whose prominence I am certain can only grow with time, but only if it successfully adapts to a rapidly transforming financial and social landscape.

In this connection and before elaborating further on the concept of a trust, I would like to draw your attention to three major trends that are shaping the industry as we speak.

First, demographic shifts. Malaysia is a relatively young nation. 40–50% of our workforce are aged between 21 to 35, also known as Gen Y. This remains a largely untapped market for financial advisory services, and for a reason – many individuals within this age group are skeptical of, or distrust financial advisers. According to a survey by the Asian Institute of Finance in 2015, only 37% of these individuals had sought advice from a financial adviser. Of this, only 26% trusted the advice they received. This is complicated by the fact that these are highly connected, tech-savvy individuals with broad access to online platforms that act as a primary source of information and advice. Earning the trust of the Gen Y market, and offering them a unique product or service, will no doubt be the biggest and most important challenge for the financial advisory profession of today if it is to remain relevant tomorrow.

This leads me to the second major challenge facing the industry, that is the digital revolution. Less than a decade ago, digital investment platforms and robo-advisors were barely heard of. Today, they form a booming global industry, with a projected asset growth worldwide of 68% by 2020 – amounting to USD2.2 trillion. Recently, a private wealth management company based in Labuan launched the first ever Shariah-compliant robo-advisor in Asia. Fueled by technological advancements, robo-advisors are capable of completing tasks such as fact-finding and calculation of risk profiles much quicker and at a much cheaper cost.

Third, increasing financial complexity. Over the years, financial institutions have introduced many innovative products to serve various needs and risk appetites. Yet, a nation-wide survey commissioned by Bank Negara Malaysia reveals that financial literacy remains relatively low in Malaysia. Even the most sophisticated consumers suffer from “choice fatigue” from the vast array of financial products that are available in the market. An opportunity thus exists for financial advisers to help consumers address these challenges by conceptualizing and packaging recommendations in a manner that would be at once holistic and digestible.

With a new paradigm looming on the horizon, financial advisors must reinvent through innovative business models, new delivery channels, and an openness to continuous learning. The final destination of these transformative efforts, however, will always remain the same – the building, preserving and strengthening of trust between adviser and consumer.

That said, I would next like to share and elaborate on what I believe are three core features of a trusted adviser – professionalism, independence and adaptability.

Elevating professionalism

Professionalism is first and foremost about being customer-centric. Nurturing strong relationships with customers is key. Technology can be leveraged. Digital interfaces can help provide a more seamless customer experience. Big data may yield insights for anticipating customer needs. However, technology is ultimately only an enabler. It should seek to amplify the human touch, not diminish it. In the business of trust, no algorithm can replace a smile, a handshake or a chat over coffee.

Professionalism is also about competence. Being qualified is a starting point. But to remain relevant, it is important that financial advisers continuously strive to keep up with the latest developments. In this regard, continuous professional development is critical. Learning events such as today’s conference are certainly useful and I would like to congratulate the Association for organizing these learning events.

In addition, professionalism is about character – it embodies the highest standards of integrity, ethics and responsible conduct. This is what I believe differentiates a trusted adviser from a merely reliable one. One way of achieving this is by holding financial advisers accountable to a strong code of ethics. In this regard, it is heartening to note that the Association already requires its members to abide by the code of ethics for the financial sector issued by the Financial Services Professional Board. Going forward, the Association may consider refining this code of ethics to better reflect the specificities of the financial advisory industry. For improved efficacy, the code should also be complemented, if I may suggest, by rigorous monitoring and strong enforcement. To this end, I would like to suggest the Association spearhead the development of an oversight programme aimed at identifying and responding to misconduct risks in a timely manner. Perspectives from members could contribute towards crafting more creative, practical and effective monitoring mechanisms, such as members' compliance report cards.

To further elevate the professionalism of financial advisers, Bank Negara Malaysia is currently reviewing the fit and proper requirements. These requirements will specify, among others, the factors to be observed in the assessment and appointment of key responsible persons, such as members of the Board and CEOs of the financial advisers, and financial advisers' representatives. Adoption of these standards we hope will help to strengthen the credibility of the profession.

Another aspect that is closely linked to professionalism is transparency. It is for this reason that the Bank has introduced additional disclosure requirements through the LIFE framework. These disclosures are intended to ensure that appropriate and fair advice is given to consumers who purchase insurance. Mandatory sales illustrations have also been enhanced. Additionally, all intermediaries now have to provide a service guide to help insurance buyers better understand the advice and services to which they are entitled. Instead of viewing these as requirements to be complied with, I would like to encourage financial advisers to take advantage of these disclosure tools to help customers fully understand what they are paying for. This will go a long way in establishing yourselves as trusted advisers.

Upholding independence

The second feature of a trusted adviser is independence. When consumers seek financial advice, they expect to get an objective point of view that places their best interest above all else. And rightly so – the individual's hard-earned savings are at stake. Yet, the reality today is that the practice of commission-based compensation for financial advisers may not be fully aligned with the principle of rewarding quality advice to customers.

Certainly, commission-based compensation has its advantages. It is effective in ensuring that products are actually bought. It is also appealing to consumers who may not be able to afford to pay for advice. But there is a world of difference between sales and advisory. While sales seeks to maximise transaction volume, advisory seeks to maximise the consumer's welfare. With the prevalent practice of commission-based compensation, it is not surprising that the industry is still often perceived as one that pushes products, rather than provide solutions.

The introduction of the balanced scorecard, which is currently being piloted among financial advisers, is to help address this perception. With the scorecard, remuneration of intermediaries will be more closely aligned to the suitability of products for prospective customers and the overall quality of service. I believe that such a shift in incentive structures will encourage advisers to build more enduring relationships with customers.

More can be done beyond the realm of regulation. In other countries – such as Australia, United Kingdom and India – financial advisers are voluntarily adopting a fee-based model. The combined effect of increased customer awareness and bargaining power are also pushing financial advisers to reduce their commission-based income. In India for example, several firms have successfully shifted to largely fee-based models. This is, however, not a painless transition. In doing so, some have parted ways with customers who were unwilling to pay these fees.

I believe that the move towards a fee-based model is an important signal that the advisers' incentives are aligned with those of their customers. To ensure a successful transition to a fee-based model, financial advisers will need to enhance their value proposition to ensure that customers receive the standard and breadth of advisory services that would be worth paying for.

This is no easy undertaking, but I am confident that it is one that our financial advisory firms will be able to achieve.

Adaptability to change

At the beginning of my remarks, I had highlighted three key trends affecting the industry. How well financial advisers respond to these developments will determine the industry's relevance in the years to come. This brings me to the third feature of a trusted financial adviser – the adaptability to change.

Traditionally, financial advisers have been a staple for high net-worth individuals. Gen Ys have rarely been reached, reinforcing the unfortunate perception that financial advisory services are an "outdated" concept, or simply not for younger generation. This must change going forward, as this generation represents a large untapped market for financial advisers, and will continue to grow in importance as their wealth increases over time.

Whether financial advisers adapt successfully in reaching out to Gen Ys depends on their ability to understand the unique characteristics of this demographic. Gen Ys actively compare products using a wide range of information, such as online research, social media and peer reviews. They are also accustomed to services being convenient, real-time and on-demand. Within the context of financial advisory, engaging Gen Ys may also have a specific challenge – that is, planning for long-term goals such as retirement or wealth accumulation may take a back seat to more immediate needs.

To meet these demands, financial advisers must be flexible enough to employ a range of engagement methods. For example, financial advisers should take advantage of social media platforms as part of their marketing strategies.

Financial advisers could also leverage on interactive online platforms to better engage with Gen Ys. Recently, tech start-ups are launching applications to match consumers seeking financial advice to financial advisers seeking customers. These applications are using a "matchmaking concept" to link customers to trustworthy financial advisers, based on their unique investing needs and personality.

In addition, different pricing strategies could also be explored. These should be commensurate with the profile of a prospective Gen Y customer. For example, fees can be adjusted in proportion to a younger customer's income level, rather than linked to assets under management, as is typically the case now. Flat fees or hourly charges may also be considered for customers with smaller account balances.

Conclusion

I have spoken at length about the key tenets of a trusted adviser today, but I also understand that transforming the profession into where it needs to be in the future is not something that can happen overnight. Like any other transformation, the effort will require meticulous planning, strategy and sheer determination through the many changes to come. Professionalism, independence and adaptability will all be hard-won victories. While Bank Negara Malaysia stands ready to support initiatives in this direction, it is the industry that must ultimately collaborate to create the business models and value propositions that will define the financial advisory services of the future. The Association serves as an excellent platform for such collaboration, with the potential participation of 618 registered financial advisers' representatives to date. I welcome the innovations that are to come from the Association and the members.

I began today's speech with Confucius, and I'd like to close with another pearl of wisdom from his analects – "The man who moves a mountain begins by carrying away small stones." As today's theme suggests, our work for the future begins now. This includes resource training, accreditation, recruitment strategies, designing new business models and forging relationships with a new generation of consumers. Indeed, the trusted financial advisers of tomorrow are closer than we think. In fact, I honestly believe the trusted advisers of the future are already amongst us here today.

With that, I wish all of you a fruitful and engaging conference ahead. Terima kasih.