

## INTRODUCTION OF FINANCIAL ADVISERS

### Introduction

The introduction of financial advisers (FAs) is one of the recommendations under the Financial Sector Masterplan to promote the development of a new distribution channel for life insurance products and to enhance professionalism in the sale of life insurance products.

FAs form a new category of intermediaries that possess specific professional qualifications and expertise to provide independent advice to individuals on the various financial products, including that of insurance, to meet their financial requirements. FAs have an important role in providing holistic financial advisory services to consumers in particular, in the areas of insurance protection, savings for education, retirement planning and investment for the future.

The services provided by FAs include analysing the financial planning needs of an individual or households in relation to insurance products, and recommending the appropriate type of products, sourcing them from licensed insurers or arranging the insurance contracts. In addition to insurance products, they may also provide advice and market other financial products to the client, subject to obtaining prior approval from the relevant authorities.

### Regulatory Framework for Licensing of FAs

In order to promote the orderly development of the financial planning industry and to enhance consumer protection in the insurance industry, the Bank amended the Insurance Act 1996 (Act) and Insurance Regulations 1996 to put in place the regulatory framework for the licensing of FAs in October 2005.

Following the amendments to the Act, in November 2005, the Bank also issued a set of licensing guidelines to facilitate applications for a FA's licence and appointment of a FA's representative under the Act.

The guidelines set out the licensing criteria, the various development requirements and the conditions to be complied with by a FA and FA's representative.

### Licensing Criteria for FAs

- A Body Corporate  
The applicant must be a body corporate registered with the Companies Commission of Malaysia.
- Minimum Capital Funds  
A FA must have minimum capital funds (unimpaired by losses) of RM100,000.
- Shareholding and Employee Composition  
The corporate body must be at least 51% Malaysian owned. A FA shall endeavour to maintain an equity and employee composition that is in line with the economic policy of Malaysia in terms of Bumiputera equity holding and Bumiputera staff composition of at least 30%.
- Chief Executive Officer (CEO) and Board of Directors  
The CEO and directors of a FA must satisfy the fit and proper criteria as prescribed under the Act and comply with the circulars/guidelines on corporate governance issued by the Bank

from time to time. Appointment of CEO and directors is subject to the Bank's approval under section 70 of the Act. At least one of its directors shall be the FA's representative.

- Professional Indemnity Insurance  
The FA must have professional indemnity insurance coverage of at least RM200,000 net of deductibles.

#### **Requirements for a FA's Representative**

- Age  
The FA's representative shall be at least 21 years old.
- Resident  
The FA's representative shall be a resident in Malaysia.
- Qualifications  
The applicant must possess a Registered Financial Planner (RFP) qualification as conferred by the Malaysian Financial Planning Council (MFPC) and/or other professional qualifications as specified by the Bank from time to time.
- Commitment  
The FA's representative shall be engaged by a FA on a full-time basis.
- Training
  - (i) The representatives of FA are required to attend a 20-hour advanced training programme on life insurance from an educational body, such as the Malaysian Insurance Institute (MII), or in-house training by insurance companies or other training institutes approved by the Bank. The 20-hour training must be completed within six months of appointment; and
  - (ii) As part of the continuous training programme, the representatives of FA must attend a minimum of 30 hours of Continuous Professional Development programme (CPD) each year. The type of courses which qualify for the CPD can be drawn from a wide range of courses offered by various providers, such as MII, the National Association of Malaysian Life Insurance and Financial Advisors (NAMLIFA) and insurance companies, and shall include both relevant technical and non-technical courses.
- Fit and Proper Criteria  
The representatives of FA must always meet the fit and proper criteria prescribed under the Act and comply with the circulars/guidelines on corporate governance issued by the Bank from time to time. Appointment of FA's representatives is subject to the Bank's approval under section 70(1A) of the Act.

#### **Other Requirements**

- Compliance with Code of Conduct  
The FA and its representatives must always adhere to the circulars/guidelines and other directives issued by the Bank, the rules and regulations and the code of ethics issued by MFPC on the conduct of financial advisory business or sales of insurance products in Malaysia.
- Annual Licence  
The licence will be renewed annually subject to compliance with specified licensing requirements. A licensing fee of RM500 shall be made payable to the Bank upon approval of a new licence or renewal of an annual licence.

- Other Generic Requirements

The FA will also be subject to other generic requirements imposed on licensees under the Act.

### **Moving Forward**

In its initial stage of development, the financial planning industry in Malaysia will be functionally regulated, whereby the respective authorities will be responsible for regulating the activities under their respective domain. In this connection, the FAs that provide advice on insurance products will be under the purview of the Act, with the Bank as the primary regulator. The FAs will also be subject to the requirements of Securities Commission in respect of investment advisory services, in the event that the FA intends to provide such services. This functional approach will be reviewed once the financial planning industry has evolved in size and scope of activities. The ultimate objective would be to evolve a regulatory framework that would facilitate the development of the industry.

In tandem with the concept of a holistic regulatory approach, the Bank encourages the establishment of a single self-regulatory organisation for the financial planning industry that can provide and enforce a set of stringent code of ethics and compliance requirements to ensure that the public is served professionally. Towards this goal, MFPC which was set up by MII, NAMLIFA and Life Insurance Association of Malaysia, has undertaken significant initiatives to coordinate the formation of a national body responsible for unifying financial planning practices. This body is expected to enforce a set of stringent code of ethics to uphold the professional image of the players in the industry and to promote further development and advancement of the financial planning fraternity.

A series of road shows and seminars will be organised by MFPC together with other related associations, throughout Malaysia, to create public awareness on the importance of financial planning and to promote the growth and development of financial advisers that can provide the whole spectrum of financial services to consumers.

### **Conclusion**

With the implementation of these initiatives, it is envisaged that consumers will be able to obtain high quality professional advice on financial products, including insurance that will most effectively meet their financial planning objectives.

The orderly development of financial advisory services in the country is expected to enhance the market penetration of the life insurance industry, in addition to promoting greater professionalism in the distribution of insurance as well as financial products.