

Policy Document on Prudent and Professional Conduct by Financial Advisers: Summary of Key Feedback Received from Public Consultation and BNM's Responses

In August 2021, Bank Negara Malaysia (the Bank) has issued an exposure draft on the Prudent and Professional Conduct by Financial Advisers for public consultation. The Bank wishes to record its appreciation to the financial advisory industry for providing valuable insights and feedback that have in turn assisted the Bank in finalising the requirements in the policy document. Following the issuance of the Policy Document on Prudent and Professional Conduct by Financial Advisers (PD), this supplementary feedback statement is intended to summarise the key feedback received and the Bank's corresponding responses to provide greater insights on the Bank's policy and supervisory expectations.

No	Requirements	Feedback received	Responses
1.	Financial advisers (FA) shall provide suitable product options to meet customers' needs from at least three different insurers/takaful operators (ITOs) for each class of business.	FAs generally wish to maintain the current requirement (more than one ITO) due to the following reasons: <ol style="list-style-type: none"> Difficult to make exact/direct comparison for certain types of products; Customers' health condition may limit available options; Customers may want a product from a preferred ITO; and May result in customers being overloaded with information. 	<p>This revised requirement is necessary to enforce the Bank's expectations on FAs as an independent intermediary and ensure distinct differentiation between the services of FAs and agents.</p> <p>Furthermore, all approved FAs already have three or more "tie-ups" with ITOs at present.</p> <p>Hence, the proposed requirement has been retained in the PD. Nevertheless, in addressing the concerns raised by the industry, a new requirement has been included in the PD (Paragraph 12.2) where in the event there are limited product options that meet customers' needs, FAs are required to inform and obtain customers' consent before proceeding with the comparison and recommendation based on the limited product options.</p>
2.	The weightage for persistency ratio in the Balanced Score Card (BSC) has been proposed to be increased from 20% to 25%.	FAs generally are not agreeable to the proposed increase due to the following concerns: <ol style="list-style-type: none"> Seen as a "punishment" to FAs as non-payment or lapsation is beyond FAs' control i.e. customers' loss/reduction of income due to economic 	In view of the current pandemic situation and the ensuing uncertainties, the Bank agrees to retain the weightage for persistency ratio at 20%. The FA sector's consistency in producing the highest rates of persistency for insurance policies/takaful certificates sold compared to the other intermediary

		<p>conditions, launch of new and better products;</p> <p>b. FAs face margin challenges as have to fully bear operational costs (rental, staff cost) with no incentives or support provided by ITOs, unlike agents; and</p> <p>c. Has to be implemented across all intermediaries, including agents and banca to ensure level playing field.</p>	<p>channels has been taken into account in arriving at this decision.</p> <p>Nevertheless, the Bank will revisit this proposal more comprehensively and review the existing BSC weightages for all criteria across all intermediaries (including agents of ITOs and banca agents) at a later stage.</p>
3.	FAs are prohibited from using the term “independent financial adviser” without the prior written approval of the Bank.	FAs requested for the Bank to provide guidance on the use of the term “independent financial adviser”.	The Bank has included the factors for consideration in determining whether FAs are allowed to use the term “independent financial adviser”, in Paragraph 12.4 of the PD. These factors are in line with the factors adopted by the regulators in other countries.
4.	FAs must maintain a Professional Indemnity (PI) cover of at least RM200,000 net of deductibles for any one claim at all times. Notwithstanding the minimum PI cover specified, the Board must ensure the amount and scope of PI cover commensurate with the volume and nature of FAs’ business at all times.	FAs requested for the Bank to provide guidance on the basis for the minimum limit of PI cover to ensure similar practices across the industry.	The Bank has provided additional guidance under Paragraph 10.2 of the PD.
5.	FAs’ latest audited financial statements must be made available for access and inspection by members of public, at no cost: a) at FAs’ branch in Malaysia; or	Some FAs disagreed with this requirement on the basis that this requirement should only apply to financial service providers that handle clients’ monies, as premiums or contributions received by FAs are directly remitted to the	<p>The Bank wishes to reiterate that this is a legislative requirement under section 66 of the Financial Services Act 2013 and section 75 of the Islamic Financial Services Act 2013.</p> <p>Therefore, the requirement has been retained in the PD.</p>

	b) on FAs' website in an electronic form that is publicly accessible.	ITOs. Additionally, as FAs are not public listed companies, hence, should not be subjected to such requirements.	FAs do have the flexibility to determine whether to comply with this requirement through the cost-free option of publishing its audited financial statements on its website, or by ensuring a printed version is available for viewing at its branch(es) upon request.
6.	The Board of FAs must establish a board charter that sets out the mandate, responsibilities and procedures of the Board, including the matters reserved for the Board's decision.	Most FAs are of small set-up and may not have enough resources to implement a proper corporate structure i.e. the same individual dual-hatting as a director and senior management of the FA. Hence, blurring the line of roles, responsibilities and accountability.	The Bank acknowledges that FAs are generally smaller and less complex compared to other financial institutions. As such, the requirement under Paragraph 11.4 of the PD has been refined to require FAs to establish a board charter that <u>commensurate with the size and risk</u> of FAs' business.
7.	FAs must have a minimum paid-up capital of RM50,000.	The minimum of RM50,000 may be too low to instil confidence in clients and business partners. Hence, some FAs requested for the Bank to consider reverting to RM100,000.	The minimum requirement was revised earlier to streamline with the Securities Commission's requirement for its financial planners. Nevertheless, the Bank wishes to reiterate that the amount specified is a minimum requirement and FAs may increase their capital accordingly to correspond with their business size. As such, the requirement has been retained in the PD.