

Norhana Endut: Keynote address - 13th Association of Financial Advisers (AFA) Annual Conference 2024

Keynote address by Ms Norhana Endut, Assistant Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the 13th Association of Financial Advisers (AFA) Annual Conference 2024, Kuala Lumpur, 23 July 2024.

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It is my great pleasure to be here this morning at the 13th annual conference of the Association of Financial Advisers (AFA). Allow me to first congratulate AFA for making this conference an annual event, and to the team on the successful organisation of this year's conference.

In a world that is constantly evolving, the financial advisory landscape is no exception. Driven largely by technological advancements, regulatory reforms, and shifting consumer expectations, it is essential for financial advisers to be adaptable and forward-thinking in such a dynamic environment. Today, I wish to share some insights and strategies that can support financial advisers in providing meaningful and quality service to your clients, in line with this year's theme – "Client Centric Advising".

Before diving into the strategies, let me share some findings from the Customer Satisfaction Survey conducted by the industry¹. Based on the Survey, it has shown that 74% of customers have positive sentiments about their insurance and takaful experiences. This positive sentiment is largely due to customers' interactions with agents and customer-facing staff at the insurers and takaful operators (ITOs). Though independent of the ITOs, financial advisers too, play an equally vital role in understanding each of your client's unique financial needs and goals, contributing significantly to this positive experience in enhancing customer satisfaction and strengthening relationships.

A progressive and inclusive financial system thrives when financial institutions give due regard to consumers' best interest and needs. In line with this aspiration, Bank Negara Malaysia's mandate to regulate the business conduct of financial institutions aims to foster trust and confidence in the financial system. Integral to this mandate is the role of financial advisers, who serve as the frontline representatives for consumers. Through your commitment to client-centric advising, consumers will continue to be able to receive personalised, transparent, and trustworthy advice, thereby reinforcing consumer confidence in the financial ecosystem.

Ladies and gentlemen,

For Bank Negara Malaysia, we are committed to closely monitoring the evolving trends in the advisory industry, so that financial consumers continue to benefit from appropriate advice and fair treatment. In view of this, we have recently issued a revised Policy Document on Fair Treatment of Financial Consumers in March 2024 which marks a significant step forward in ensuring that financial consumers in vulnerable circumstances are accorded fair treatment in their dealings with financial institutions.

The new obligations which are also applicable to financial advisers include extending appropriate support to meet the specific needs of vulnerable consumers, thereby reducing the likelihood of unfair treatment, undue financial hardship, or exclusion from essential financial services. Financial advisers must now train your representatives to recognise and address the needs of vulnerable consumers, as well as enhancing customer service processes to provide tailored responses well suited to the specific individual circumstances of this group.

For example, clients who find it challenging to read standard printed documents due to being visually impaired are deemed as vulnerable financial consumers. Thus, a financial adviser's representative must take proactive steps to accommodate their needs by scheduling regular calls or in-person meetings to explain all relevant information. They can also verbally summarise key points and ensure the client has ample opportunity to ask questions and seek clarification. By committing to these principles, financial advisers can build stronger, more trusting relationships with your clients, fostering a more inclusive and resilient financial sector.

The recent decade has witnessed growth in the medical and health insurance and takaful (or MHIT) business. This emanates from the rising consumer demand for better access to quality healthcare and an increasing awareness of MHIT coverage as a financial safeguard when faced with unexpected health events. Bank Negara Malaysia is actively pursuing reforms to maintain the accessibility and sustainability of MHIT protection. These efforts are reflected in the Policy Document on MHIT Business issued early this year in February 2024.

One of the key strategies of the policy is that Malaysia now mandates the ITOs to offer MHIT products with a co-payment feature² as a lower-cost option to consumers. Nevertheless, consumers can still continue to purchase MHIT products that are currently offered by ITOs without the co-payment feature, preserving consumer's choice. In addition, ITOs are expected to offer a range of MHIT products with varying co-payment levels that would cater to the different financial needs and circumstances of consumers, which further preserves competition.

It is also important to note that the policy institutes higher standards for MHIT business conduct and sales practices among ITOs and their intermediaries. This includes enhanced disclosure requirements and additional guidance to the ITOs to ensure fair and equitable repricing practices. In particular, the enhanced product disclosure sheet incorporates behavioural insights elements, where a step-by-step guide is introduced to assist consumers before deciding on a MHIT product. Intermediaries, including financial adviser's representatives are also expected to play a role in guiding consumers through this new process.

Ladies and gentlemen,

Let me now touch for a moment on some observations of financial advisers' practices. Over the past three years, financial advisers have consistently led the way in terms of persistency rates, outperforming other channels such as agents and Bancassurance or Bancatakaful³. This notable achievement highlights financial advisers' dedication and commitment to your clients, as well as your ability to deliver high-quality advice and services. For this, I would like to take the opportunity to commend the dedicated efforts

of financial advisers. Your hard work and professionalism deserve recognition and appreciation.

Financial advisers play a crucial role in assisting clients to make informed decisions by providing transparent, personalised, and trustworthy advice. This is especially true with the new requirements in the Policy Document on MHIT business, where financial advisers must demonstrate your expertise to ensure clients understand the cost-sharing features and the nuances of repricing practices.

In today's landscape, where misinformation can spread easily on social media, financial advisers must be at the forefront carrying the voice of knowledge and integrity. Unfortunately, we have observed that some agents and financial adviser's representatives have circulated misleading posts, claiming that due to Bank Negara Malaysia's policies, consumers would no longer be able to purchase medical reimbursement products without co-payment features. These actions cause confusion and an undue anxiety among the public and create a false sense of urgency, compelling rushed purchases. Therefore, it is crucial for financial adviser's representatives to carefully verify information for accuracy before sharing it with the public, to provide reliable guidance and counter misinformation effectively.

In line with these reforms, the role of financial advisers is more critical now than ever. More importantly, financial adviser's representatives should seize the opportunity to lead the way in educating and empowering consumers about the new policies. This requires financial advisers to keep abreast with the developments within the industry as well as regulatory policies. At the same time, financial advisers need to manage your business with fairness and professionalism. Doing so will foster trust and confidence among financial consumers, thereby promoting growth and strengthening the overall financial system.

Ladies and gentlemen,

As we look ahead, it is clear that there are opportunities for further enhancement within the AFA. One key area is increasing AFA's visibility in the financial ecosystem and among industry peers. Strategically positioning AFA as a thought leader allows financial advisers to build greater credibility and influence within the industry.

One effective strategy involves proactively writing and producing articles on relevant financial topics for publication on AFA's website. These insights not only showcase the expertise of financial advisers but also contribute valuable perspectives to ongoing industry discussions. Additionally, enhancing AFA's website and bolstering financial representatives' presence on social media can amplify the reach of these insights. This approach fosters meaningful connections and dialogue within the financial ecosystem, strengthening AFA's role as a central hub for industry insights and collaboration.

While it is crucial to empower consumers to seek knowledge and make informed decisions, there is also a need for AFA to play its part by proactively going on the ground and engaging the local communities. One possibility of doing this is by having AFA to partner up with the Financial Education Network (FEN)⁴, an inter-agency platform comprising of institutions and agencies committed to improving financial literacy of Malaysians. By leveraging FEN's initiatives, AFA can participate in

roadshows and community events to further extend AFA's reach and impact. These initiatives would not only educate the public but also demonstrate AFA's commitment in promoting financial literacy. By being present and active in such engagements, AFA can foster deeper connections and trust within the broader financial community.

Now, let me share some emerging trends shaping financial behaviour in Malaysia. The widespread adoption of technology and the increased number of financial influencers or 'finfluencers' are now significantly influencing how Malaysians make financial decisions.

Globally and in Malaysia, the rise of 'finfluencers' signals a notable trend, particularly among Generation Z, who are increasingly turning to social media for financial advice. According to the World Economic Forum, this demographic is nearly five times more likely to seek financial guidance from platforms like social media compared to older generations aged 41 and above.⁵

However, it is crucial to note that not all advice from 'finfluencers' should be taken at face value. Some may promote risky practices like pump-and-dump schemes, which artificially inflate asset prices before selling off, potentially leaving followers at a loss. Unlike financial adviser's representatives, 'finfluencers' often lack the necessary qualifications and regulatory oversight, making their advice potentially less reliable and sound in assessing risks and ensuring financial security.

Therefore, financial advisers must recognise the importance of engaging with 'finfluencers' and staying informed about emerging trends. Equally important is your proactive commitment to providing credible, client-centred advice that counters misinformation and empowers consumers to make well-informed financial decisions. Financial adviser's representatives have the required qualifications, positioning them to provide trustworthy advice, which stands in stark contrast to the potentially unreliable and unsubstantiated information shared by 'finfluencers'. Moreover, financial advisers should also leverage on digital channels to disseminate accurate information and engage effectively with clients and the broader public.

In line with this year's theme of "Client Centric Advising," and recognising the evolving societal and market dynamics, it is crucial for financial advisers to consider the following proactive strategies:

Firstly, given the prevalence of misinformation on social media, financial advisers should adopt proactive strategies such as using online platforms to disseminate accurate financial information and debunk myths effectively.

Secondly, implementing aggregation services can significantly enhance financial advisers' credibility online. By curating and presenting diverse financial insights from reputable sources, advisers can provide clients with comprehensive perspectives and informed decision-making tools. This approach not only establishes trust but also reinforces financial adviser's role as a reliable guide and reference in recommending complex financial products that best suit consumers' needs.

Lastly, transparency and ethical behaviour in online interactions are paramount. Financial advisers should prioritise disclosing any potential conflicts of interest and adhering to industry regulations. This will foster long-term client relationships built on trust, accountability, and ethical conduct.

Ladies and gentlemen,

As we embrace a client-centric advising approach, trust emerges as the cornerstone of building strong adviser-client relationships and facilitating effective communication. This reminds me of a quote from Benjamin Franklin, who once said, "It takes many good deeds to build a good reputation, and only one bad one to lose it". This sentiment resonates deeply with financial advisers, highlighting the critical importance of upholding integrity and reliability at all times to nurture enduring trust with clients.

Thank you very much and I wish you a productive conference ahead.

¹ The Customer Satisfaction Survey (CSS 2022/2023) findings for the insurance and takaful sector.

² Co-payment refers to a specified amount or percentage that a policy owner/takaful participant must pay upon incurring a medical expense covered under a MHIT policy /takaful certificate, with the remainder of the medical expense being covered by the licensed ITO based on the coverage of the MHIT policy/takaful certificate.

³ Financial advisers have the highest persistency rates across all ten policy years, in comparison to agents and Bancasurance or Bancatakaful.

⁴ The Financial Education Network is an inter-agency grouping co-chaired by Bank Negara Malaysia and Securities Commission Malaysia and with members comprising Ministry of Education, Ministry of Higher Education, Perbadanan Insurans Deposit Malaysia, Employees Provident Fund, Agensi Kaunseling dan Pengurusan Kredit and Permodalan Nasional Berhad.

⁵ Why companies should learn from the rise of the 'influencer' (World Economic Forum, weforum.org)