

Financial Planning History Made in Malaysia

by Laura Garrison

For the first time in the world, a country is requiring that financial planners hold a professional designation in order to practice. The locale that is doing this? Malaysia. The designations that have been chosen to fulfill the requirement? The Certified Financial Planner (CFP) and Chartered Financial Consultant (ChFC) marks.

In September 2003, the Malaysian Parliament approved an amendment to the Securities Act 1983 (SIA), requiring that all who hold themselves out to be financial planners apply for an investment advisor's license before August 31, 2004. And while some of the requirements may seem familiar—financial planners being regulated by the Securities Commission (SC) because of the SC's authority over investment advisory activities—what the regulation consists of is radically different.

History

Inherent in the new licensing structure is a recognition by the Malaysian government that financial planning is no longer the "preserve of the high net worth individuals with significant wealth," said Datin Zarinah Anwar, deputy chief of the SC, in remarks at the Financial Planning Association of Malaysia's annual convention. "Rather, it is now also an issue for the middle income individual, an under-served market which represents a potential opportunity for the financial planning community."

The focus of this regulation is to make financial planning more accessible to the public, by increasing consumer confidence and describing more clearly the requirements financial planners must follow in order to use that title.

Four years ago, in its first year of existence, the Financial Planning Association of Malaysia began lobbying the Malaysian government to develop a framework for regulating financial planning. A proposal paper was submitted by FPAM that professionals holding the CFP mark should be exempt from governmental licensing. From there, the idea to have the CFP mark be synonymous with professional standards was just a step away.

For a profession so young in Malaysia—FPAM has less than five years under its belt—the terms "financial planning" and "financial planner" are surprisingly overused buzzwords. They are part of the jargon used by companies and consumers alike, with little understanding or discipline over what they truly mean and should consist of.

"The use of the term 'financial planner' has become generic," says Steve L. H. Teoh, vice president of FPAM. "With these licensing requirements in place, you can't do that anymore."

Edmond Cheah, CFP®, president of FPAM, estimates that in Malaysia roughly 100,000 people call themselves financial planners or advise clients that they provide financial planning services. They will no longer be able to do so, unlike in the United States, where the "holding out" requirement is fuzzy and does not require clear standards of competence or ethical conduct.

Another facet of consumer confusion in Malaysia comes from a myriad number of titles and descriptions that exist in the marketplace. Financial advisor, financial consultant, wealth advisor...this morass of titles means that consumers don't understand who does what or how they are regulated. Some people identify themselves as a financial planner on one set of business cards, but describe themselves by another title such as investment advisor on a different set. It is the intention of the SC to provide "regulatory certainty," where consumers know that anyone holding out as a financial planner or stating that they offer financial planning advice is required to adhere to the same licensing structure.

Says Teoh, "Rather than starting a new act, which we knew would have taken forever, we decided to encourage

the government to revise the current SIA. After all, this is something that had to be passed by Parliament."

The Requirements

The following are requirements for those practicing financial planning, but not giving investment advice:

- Either the CFP certification or ChFC designation
- Membership in FPAM or the Malaysian Association of Chartered Financial Consultants
- A minimum of RM50,000 (\$13,500US) in held capital
- Three years of relevant experience in the financial services sector

For those who also give investment advice, the minimum of paid-up capital increases tenfold to \$135,000US. Because it is not generally practical to provide financial planning services without investment advice, the financial planning requirements should be viewed as an adjunct license to the investment advisory requirement.

The penalty of practicing financial planning and not being licensed? A fine of RM 1 million (\$270,270US) or up to ten years in prison.

"The SC's recognition of the CFP mark as a prerequisite to obtaining a license to practice financial planning is further affirmation that the CFP certification meets the demanding standards expected of financial planners," asserts Cheah. The structure of how the audit process will work remains unclear, with the challenge being that the SC has experience auditing investment planning professionals, such as stockbrokers. It is uncertain how they will transfer this experience to judge the more abstract process of financial planning.

Comparing CFP and ChFC

Similar to the history of the ChFC in the United States, the ChFC in Malaysia historically has been a designation rooted in a culture of insurance. The ChFC has been granted in Malaysia for seven years; 400 people hold the mark. Much like the requirements of the ChFC in the United States, it requires three years of relevant work experience and mark holders must adhere to the Code of Professional Practice Standards. Initial education consists of 11–13 courses, depending on the past experience of the practitioner, amounting to approximately 450 hours of initial education.

Twenty hours of continuing education are required each year. The Malaysian Insurance Institute is the only education provider for the ChFC and is currently not offering initial education for this designation.

The CFP mark is a relative newcomer to Malaysia, being a part of the FPAM, which was established in December of 1999. Growth of the association has been brisk, with more than 8,000 members less than five years later, 3,200 of those holding the CFP mark.

Like the CFP mark in the United States, it is built upon the four E's: experience, education, ethics, and examination. It consists of a three-year experience requirement, an examination that is externally administered, a code of ethics very similar to the CFP Board's in the United States, and 240 hours of initial education.

Definition of a Financial Planner

"With these amendments, only licensed financial planners with necessary qualifications will be allowed to practice," says Cheah.

The Securities Commission's chairman, Datuk Ali Abdul Kadir, adds, "The SIA was amended...to clarify the

definition of 'investment advisor' to include a person who carries on a business of analyzing the financial circumstances of another person and provides a plan to meet that other person's financial needs and objectives, including any investment plan in securities, whether or not a fee is charged. In brief, any person who acts or holds himself out as a financial planner is required to be licensed by the SC."

And while this points to a blending of the professions of investment advisor and financial planner, they will be subject to different licensing requirements.

Indeed, this new licensing requirement will cast a very wide net. Cheah and Teoh stated that even if an advisor does not hold himself or herself out as a financial planner, but whose marketing materials refer to the financial planning services they provide, the requirement to be licensed as a financial planner kicks in.

Cheah envisions that on September 1, 2004, a scant 1,000 planners will be licensed under the new regime. Similar to the situation in the United States, many who hold the CFP mark are not necessarily practitioners. This will obviously make a dramatic difference in the planning landscape, as this will result in a planner population of one percent the size of the demographic before the licensing became mandatory.

This possible reality of how the licensing might affect the profession concerns some. Rajen Devadason puts forth the following scenario in his article published by FPAM's *4E Journal*: "Imagine the confusion and irony of having a CFP [certificant] meet someone new in a social setting and face the standard Malaysian question: 'So, what do you do?' Her answer may well be, 'I'm a Certified Financial Planner [certificant], but I'm not a financial planner.'"

Devadason goes on to say, "To make things better, financial planning should be brought to the masses, not effectively kept from them."

At the heart of Devadason's worry is how this licensing requirement will be implemented. He states that many of the 100,000 financial services professionals do not call themselves financial planners and yet use the financial planning process in limited instances, to the benefit of their clients. Should this licensing requirement be vigorously implemented, there is a worry that these financial advisors will turn their backs on the financial planning process in order to be clear in their avoidance of the licensing requirements.

Devadason believes that, "If that happens, it would be a tragedy because it would plunge Malaysian financial consumers back into the dark ages."

Cheah sees the new regulation as being a time of transition, where time will be required to gain market acceptance by both sides, the profession, and the consumers.

Cheah sees the profession as maturing in stages, the first stage being one of education, where both the profession and the public become more knowledgeable about what financial planning truly consists of.

He believes that the second element of the initial maturation will be the development of an independent financial planner model. Currently, there is no structure to support independent financial planners in Malaysia. This stems from a lack of sophistication on both the part of the consumer, who is unwilling to pay for financial planning advice, and the market, which is not well structured with products and the back-office infrastructure necessary to support planner independence.

Relevance in the United States

Marv Tuttle, executive director and CEO of the Financial Planning Association, recently stated the following in a speech to a gathering of local chapter members in Colorado: "Too long, financial planning has been regulated by the subsets of its whole and, therefore, from a transactional perspective. If it is to be successful as a profession, financial planning must stand on its own two feet and be recognized and defined for its comprehensive nature

and body of knowledge."

In light of this thinking, it seems that Tuttle would agree with the spirit of the financial planning regulation in Malaysia. While the licensing might not have all of the kinks worked out of it yet, probably most would agree that Malaysia's on the right track to move the profession forward.

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