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Financial Planning in Malaysia

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http://www.youtube.com/watch?v=y-HahCHPX6w

History

- Background
  - Financial industry started off with the banks, insurance, unit trusts in the 50s
  - KLSE (Now Bursa Malaysia) established in 70s – share trading
  - Property at the peaks in the 90s – all time favorite investment vehicle
  - In the 90s increasing public awareness of the need for financial planning

History

Significant developments

- Dec 1999 : Formation of Financial Planning Association of Malaysia (FPAM) in promoting FP to the public, CFP programs and trademarks
- 2004: The first country to introduce legislation that requires a person to be licensed before he can hold himself out to be a 'financial planner' under the Capital Market Service Act 2007, Securities Commissions
- 2004 : Malaysia Financial Planning Council established and introduced RFP (Registered Financial Planning course)
- 2005 : Financial Advisor license was introduced under Insurance Act 1996 under Bank Negara Malaysia
- 2007: introduction and recognition of Islamic Financial Planning certification
  - -FPAM & Islamic Banking & Finance Institute receive RM1.5 m grant from Capital Market Development Fund

Licensing & Regulations

Securities Commission
Capital Market Service Act 2007

Bank Negara Malaysia (Central Bank)
Insurance Act 1996

Capital Market Service License (CMSL)
"Financial Planner"
CMSLR (Representative)

Corporate Unit Trust Adviser License -3

Financial Adviser (FA)
Financial Adviser Representatives (FAR)

- Qualification CFP/ChFC/RFP/IFP
- Currently
  - Corporate – 34
  - Individual -11
  - Representatives -212

- Qualifications RFP/CFP
- FA – 9 companies
- FAR - 95

2 Licenses 2 Authorities – overlapping?

CMSL definition of Financial Planner

- 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 relation thereto,"

2 Licenses 2 Authorities

"financial adviser" means a person who carries on financial advisory business;"financial advisory business" means any or all of the following services:-

(a)analysing the financial planning needs of a person relating to insurance products;

(b) recommending the appropriate insurance products;

(c) sourcing insurance products from a licensed insurer;

(d) arranging of contracts in respect of insurance products; or

(e) other financial services as prescribed by the Bank.

How many actually licensed and provide financial planning advisory services?

FPAM Type of membership	Number of members
Charter members	34
Corporate members	12
Total	**46**

MFPC Type of membership	Number of members
Organizational members	7
Corporate members	48
Total	**53**

Membership Overlaps

Certified members (CFP)	4,043
Associate members (AFP)	3,477
Trade members	3,757
TOTAL	**11,277**

55 licensees under CMSL
212 reps

5%

Certified members RFP	1,600
Associate members	400
Students	4,000
TOTAL	**6,000**

9 licensees under CMSL; 95 reps

Key Distribution Channels for Planning Advice

- Financial Planning Companies with CMSL
- Financial Adviser Licensees
- Banks
- Insurance companies
- Unit trusts companies
- Stock Brokerage
- Accounting , Tax Firm
- Legal Firms

Trends of Market
Type of planning & compensation

Mono Service/Products	Integrated Services/ Products Majority commission driven	Comprehensive Service
• Bank/ Outsourcing agency – banking and financing • Insurance Co./Agency – whole life, endowment & term life plans • Investment Co./Agency – trading, product driven & own products	• Life/ General insurance analysis • Unit Trust investment analysis • Will writing • Mortgage	• Retirement Planning • Investment Planning • Insurance Planning • Tax Planning • Estate Planning • Business Succession
Salary & Commission based	Salary & Commission based	Fee & Commission based

Key Opportunities

- Public awareness programs organised by authorities and organizations to create awareness and promote Financial Planning
  - EPF
  - BNM
  - SC
  - FPAM
  - MFPC
- Establishment of AKPK(Credit Counseling) to public to help debt management
- More educated and sophisticated customers
- Infancy stage

Key Challenges - Public

- Public mindset & awareness
  - EPF (Employee Provident Funds) contributions sufficient for retirement needs *[Account I & II for diff needs]*
  - Procrastination – no urgency
  - Not willing to pay for advice – no posted voice benefits > fee paid
  - Lack of financial planning knowledge – eg enough to have insurance policy
- Concept of personal financial planning – debatable
  - Everybody claims to provide financial planning
  - Confused the public
  - Not proper servicing the client, damage the reputation of certified and licensed financial planners

Key Challenges - Regulators

- Lack of enforcement by regulators on licensing
  - With license subject to compliance , licensing cost
- Different standards of certification RFP & CFP
  - both recognised by Securities commissions and Bank Negara Malaysia for the CMSL & FA license
- 10 years in the industry still young in development – why?
  - Securities Commission
    - Financial Planning not SC ‘s focus
    - No clearly defined ruling/standards in the Capital Market Service Act
  - Both Financial Adviser & CMSL overlaps
  - Both authorities SC & BNM not working closely to integrate both licenses

Key Challenges – Financial Planners

- Transition from product pusher to advisory – takes time
  - Conflict between advice and quick $
  - Market timing
- Fiduciary duty to clients - new cultural shift required (FP mostly tie-agents to insurance/UT companies for products)
- Mandatory EPF savings discourage individual planning & savings for retirement
- Offshore investment restrictions limit investment options
  - EPF (Account I for Unit Trust offshore investment – not allowed since 2007)
  - Unit Trust offshore investment limit 30% of NAV of all resident funds of the UT company
  - Not properly diversified

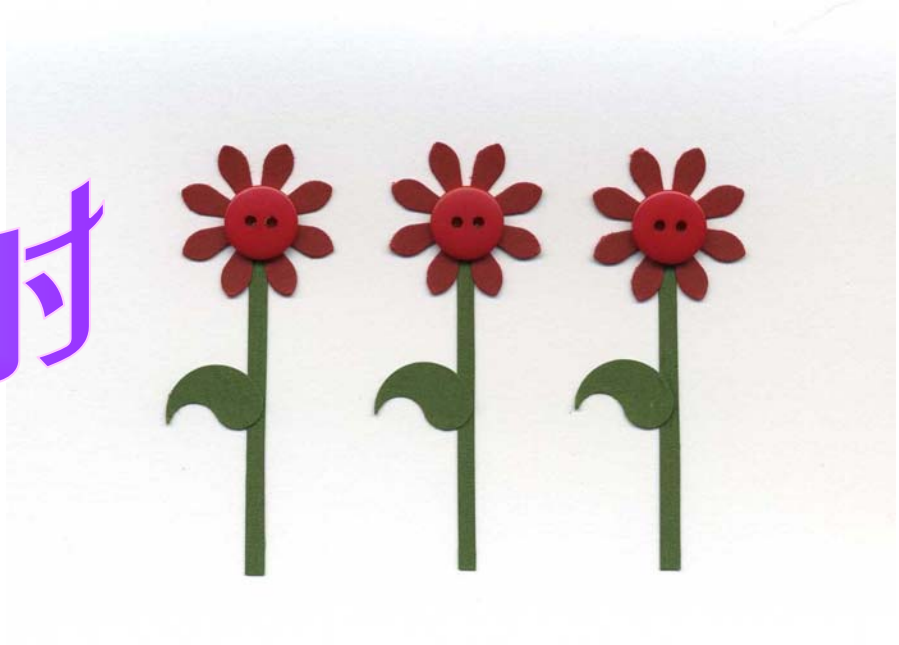
Sharing Experience

- CIMB Wealth Advisors Financial Care Centre established since 2004
- Evolutions – business model
- Services & products provided
- Current status of planners, clients
- Planners transitions path to advisory

terima kasih

thank you

谢谢



- ADDITIONAL INFORMATION

MALAYSIA DEMOGRAPHICS

Land Area: 329, 758 sq km

Population: 27.17 mil (2007)

Capital: Kuala Lumpur

Ethnic Group: Malays (57%), Chinese (25%), Indians (7%) & Others (11%)

Language: Bahasa Malaysia is the national language while English is the nation's second language.

Religion: A multi-religious society.

The federal of Malaysia comprises of Peninsular Malaysia and the states of Sabah and Sarawak on the Island of Borneo. There are 11 states in Peninsular Malaysia, 2 states on the Island of Borneo and 3 Federal Territories – Kuala Lumpur, Labuan and Putrajaya.

POLITICAL STRUCTURE

PARLIAMENTARY DEMOCRACY

Malaysia has an appointed senate (upper house) and an elected House of Representatives (lower house).

Each of the 13 states has an assembly and a chief minister and the 3 federal territories are directly governed by the commanding government.

RULING COALITION

The current ruling coalition is Barisan National (led by the United Malays National Organization (UMNO) and including the Malaysian Chinese Association (MCA), the Malaysia Indian Congress (MIC) and Gerakan.

HEAD OF STATE

HM Yang Di-Pertuan Agong Tuanku Mizan Zainal Abidin

HEAD OF GOVERNMENT

Prime Minister Y.A.B. Dato' Seri Najib Razak…

GOVERNMENT STRUCTURE

FEDERAL CONSTITUTIONAL MONARCHY

Malaysia is government by a Parliamentary democracy with a bicameral legislative system. The head of state is the Yang Di-Pertuan Agong, a position that is awarded to a different State Monarch every five years and the Head of Government is the Prime Minister.

The government will oversee the implementation of annual budget and spending measures laid out in its various financial initiatives. The exchange rate with the US Dollar was replaced in July 2005 by a managed float against a trade-weighted basket of currencies.

TAXATION SYSTEM

PROGRESSIVE INCOME TAX SYSTEM

We adopt a progressive income tax system, whereby the first RM2,500 of earnings is untaxed, but income above this level is subject to tax rates ranging from 1% to 27%, with the top rate applying to earnings in excess of RM250,000.

TAX INCENTIVES

Malaysia offers attractive tax incentives for the business society, both on the institutional and personal level. These advantages are also applicable for international banking and Takaful operators as well as foreign conventional and Islamic fund management companies.

TAX STRUCTURE

Prior to 1 Jan 2008, Malaysia adopted the imputation system which required the imposition of tax on the profit at corporate level and again at shareholders level

With effect from year assessment 2008, the single-tier tax system was introduced whereby corporate income is taxed at corporate level and this is final tax.

THE FINANCIAL INDUSTRY

BANKS

THE BANKING LANDSCAPE

Through a consolidation exercise, Malaysia now has 22 commercial banks in operation, of which 9 are domestic banks and 13 are locally incorporated foreign banks. These banks come under the purview of Bank Negara Malaysia, the country's central bank and are members of The Association of Banks in Malaysia. Commercial banks constitute the largest and most important group of financial institutions with total assets of over RM1 billion and employ a total workforce of more than 95,000 staff.

ISLAMIC FINANCE INSTITUTIONS

Malaysia's Islamic finance industry has been in existence for over 30 years. The enactment of the Islamic Banking Act 1973 enabled the country's first Islamic Bank to be established, and have since then liberalized the Islamic financial system. Currently, Malaysia has a significant number of full-fledged Islamic banks including several foreign owned entities and conventional banks who have established their Islamic subsidiaries.

THE FINANCIAL INDUSTRY

INSURANCE

THE INSURANCE INDUSTRY

The insurance market continues to expand in both life and general sectors underpinned by a more educated nation and improved lifestyle. Both insurance penetration and density levels have been enhanced, underscoring its growing importance within the economy in promoting economic activity and individual financial well-being.

Total assets of insurance funds have grown significantly from RM86.8 million in 2004 to RM122.5 million in 2007, mainly contributed by the life fund assets.

As at 2007, there are 126 licensees governed by the Bank Negara Malaysia under the insurance act 1996. Policy measures were put in place to promote the fair treatment of policy owners, guidelines on bonus revisions and strengthen the foundation for business practices. The industry has an agency force of over 78,000 in the life insurance sector and more than 39,000 in the general insurance sector.

THE FINANCIAL INDUSTRY

SHARE TRADING

BURSA MALAYSIA BERHAD

Established in 1973 and listed in 2005, Bursa Malaysia is an exchange holding company approved under Section 15 of the Capital Markets and Services Act 2007. It is to date one of the largest bourses in Asia with just under 1,000 listed companies offering a wide range of investment choices to the world. Companies are either listed on Bursa Malaysia Securities Berhad Main Board for larger capitalised companies, the Second Board for medium sized companies or the MESDAQ Market for high growth and technology companies.

Its diverse staple of products include equities, derivatives, exchange traded funds and off shore investments, which can either be conventional or Syariah compliant.

THE FINANCIAL INDUSTRY

UNIT TRUST

THE HISTORY

Malaysia introduced the unit trust concept relatively early compared to its Asian neighbors, when, in 1959, a unit trust was first established by a company called Malayan Unit Trust Ltd. During the initial 20 years of formation, only 5 unit trust management companies were established with 18 funds launched.

THE GROWTH

With the centralisation of industry regulation, the industry experienced exponential growth from 1991 onwards. The establishment of the Securities Commission in 1993, coupled with the implementation of the Securities Commission (Unit Trust Scheme) Regulations in 1996 and extensive marketing strategies adopted by the ASN and ASB (Amanah Saham Bumiputera), played key roles in making unit trusts household products in Malaysia.

THE STATISTICS

As at Jan 2009, there are 39 unit trust management companies in the country with total NAV of over RM136 billion, which is about 20.5% of the market capitalization.

THE FINANCIAL INDUSTRY

REAL ESTATE

THE BACKGROUND

From 1990 – 97, Malaysian home prices surged by 117%, reflecting a property bubble prior to the onset of 1997-98 Asian financial crisis. Since year 2000, Malaysia's home prices have largely grown in line with inflation and wage growth and has not witnessed a major price boom in property since the mid-1990s.

PROPERTY MARKET

Malaysian residential property prices have been relative stable despite the crisis. The latest Malaysia House Price Index (MHPI) shows that average home prices still grew 4.2% in 2Q2008. Property prices in the up market segment is supported by stronger income growth of the middle-upper classes which grew 22-28% in EPF savings per year.

THE STATISTICS

Klang Valley that comprises of Kuala Lumpur and Selangor districts made up the major composition of the country's property market. There are a total of 1.5million units of residential accommodation against a population of 6.3million, with an average household size of 4.5 to 5 persons. At this ratio, the real estate market in this area continues to flourish and remain resilient despite the market downturn.

FINANCIAL PLANNING ASSOCIATION OF MALAYSIA

THE BACKGROUND

- non-profit organization, formed Dec 13, 1999
- mission to raise the standards of competency and ethical practice of qualified Financial Planners in Malaysia and to educate the public on the benefits of financial planning.
- promote the CFP certification process and the CFP designation as the highest level of competence in the financial planning profession in Malaysia.
- The Association is represented by a group of corporate and professional individuals representing the diverse financial services industry such as insurance, unit trusts, banking, legal services, stockbroking, accounting services and assets management.
- The primary purpose of FPAM is to educate the Malaysian public in the process and benefits of financial planning and to raise the professionalism in the delivery of financial products through a more comprehensive and holistic approach.
- Towards this, FPAM endeavors to provide professional education programs for candidates aspiring to be CFP licensees, through qualified, Approved Education Providers.

MAYSIA FINANCIAL PLANNING COUNCIL

THE BACKGROUND

- Established in 2004
- Beginning with the life insurance industry the MFPC endeavors to represent financial planning providers and practitioners related industries.
- Under the umbrella of the MFPC, the life insurance industry has successfully adopted the RFP as a common benchmark qualification for financial planners within the industry.
- The MFPC also aims to achieve the vision and objectives of the Financial Sector Masterplan and Capital Market Masterplan in improving the professionalism, technical ability, financial advise, productivity and quality of the agency force.
- Currently MFPC memberships:
    - RFP 1600
    - Affiliates RFP 400
    - RFP students 4000

SECURITIES COMMISSION

BACKGROUND INFORMATION

Established on 1 March 1993 under the *Securities Commission Act 1993 (Capital Market Service Act 2007)*, the Securities Commission is a self-funding statutory body with investigative and enforcement powers. It reports to the Minister of Finance and its accounts are tabled in Parliament annually. Apart from discharging its regulatory functions to protect investors' interest, the Securities Commission is also obliged by statute to encourage and promote the development of the securities and futures markets in Malaysia.

THE FUNCTIONS

Its regulatory functions include review the viability of the IPO proposal; evaluate PDS proposals, monitoring of compliance with the securities laws, regulations and guidelines relating to issues; offers of PDS; evaluate proposals on take-overs and mergers; analyses the effect of proposals in particular the Bumiputera and foreign participation; evaluate proposals relating to the issuance of securities by collective investment schemes.

It is also the licensing authority that regulates the financial planning industry by monitoring the quality and practices of licensed financial planners.

BANK NEGARA MALAYSIA

MALAYSIA'S CENTRAL BANK

Established in 1959 under the Central Bank of Malaya Ordinance, 1958, its principal function is to promote monetary and financial system stability, foster a sound and progressive financial sector so to achieve sustained economic growth for the benefit of the nation.

To ensure the availability and cost of money and credit in the economy are consonant with national macroeconomic objectives, the Bank plays a few vital roles as:

* the banker for currency issue

* the keeper of international reserves and safeguarding the value of the Ringgit

* the banker and financial adviser to the Government

* the agency responsible for monetary policy and management of the financial system

* the banker to the banks

EMPLOYEES PROVIDENT FUND

BACKGROUND OF EPF

The EPF is a social security institution formed according to the Laws of Malaysia, Employees Provident Fund Act 1991 (Act 452) which provides retirement benefits for members through management of their savings in an efficient and reliable manner.

THE STATISTICS

Its members comprise of private and non-pensionable public sector employees. As at 31st December 2007, EPF has a total of 11.69 million members. The total number of active and contributing members is 5.4 million with a total of 428,319 active employers. EPF guarantees a minimum of 2.5 per cent dividend annually. To ensure dividend payments, the EPF invests members' contribution in approved financial instruments for optimum returns.

GROWTH IN EPF SAVINGS

Upper middle class & high net worth individuals (>RM500,000) grew 22-28% per year in 2005-06.

Lower middle classes (<RM15,000) grew 6-7% per year.