BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Prudent and Professional Conduct by Financial Advisers

Applicable to:
1. Approved financial advisers
2. Approved Islamic financial advisers

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PART A OVERVIEW

1 Introduction

1.1 In carrying on its financial advisory business or Islamic financial advisory business, an approved financial adviser under Financial Services Act 2013 (FSA) or Islamic Financial Services Act 2013 (IFSA) is expected to provide independent advice and recommendations that would have significant impact on the long-term financial well-being of financial consumers. It is therefore important that an approved financial adviser manages its business and conduct in a fair, impartial and professional manner that instils trust and confidence among financial consumers.

1.2 This policy document sets out the requirements that must be met by an approved financial adviser on an on-going basis.

2 Applicability

2.1 This policy document is applicable to an approved financial adviser as defined in paragraph 5.2.

3 Legal provisions

3.1 The requirements in this policy document are specified pursuant to the following –

No.	Provisions	Section	
		FSA	IFSA
(a)	Minimum amount of professional indemnity insurance or takaful	11(3)	
(b)	Requirements on minimum capital funds or surplus of assets over liabilities	12(1), 12(4)	
(c)	Other permitted business activities	14(1)	15(1)
(d)	Form of establishment	24(2)(b)	21(2)(b)
(e)	Notification of establishment or relocation of office	25(2)	22(2)
(f)	Power of Bank to specify standards on prudential matters	47(1)	57(1)
(g)	Notification of appointment/reappointment of chairman, director, chief executive officer or FAR	54(4)	63(4)
(h)	Requirements of FAR	60(1)	69(1)
(i)	Notification on cessation from office	62	71

No.	Provisions	Section	
		FSA	IFSA
(j)	Notification on the appointment of auditor	67(3)	76(3)
(k)	Notification on cessation of auditor	70	79
(l)	Power of Bank to specify standards on business conduct	123(1)	135(1)
(m)	Submission of document or information to the Bank	143(2)	155(2)

3.2 The above table reflects the specific paragraphs under which the relevant requirements are made. For the avoidance of doubt, certain requirements in this policy document are made pursuant to more than one provisions of the FSA or IFSA.

3.3 The guidance in this policy document is issued pursuant to section 266 of the FSA and section 277 of the IFSA.

4 Effective date

4.1 This policy document comes into effect on 26 April 2022.

5 Interpretation

5.1 The terms and expressions used in this policy document shall have the same meanings assigned to them in the FSA and IFSA, as the case may be, unless otherwise defined in this policy document.

5.2 For the purpose of this policy document –

"**S**" denotes a standard, an obligation, a requirement, specification, direction, condition and any interpretative, supplemental and transitional provisions that must be complied with. Non-compliance may result in enforcement action;

"**G**" denotes guidance which may consist of statements or information intended to promote common understanding and advice or recommendations that are encouraged to be adopted;

"**approved financial adviser**" collectively refers to an approved financial adviser under the FSA and an approved Islamic financial adviser under the IFSA, unless otherwise specified;

"**financial adviser's representative**" **or** "**FAR**" collectively refers to an approved financial adviser's representative and an approved Islamic financial adviser's representative, unless otherwise specified;

"**senior management**" refers to the Chief Executive Officer (CEO) and senior officers as defined in FSA and IFSA, of an approved financial adviser.

6 Related legal instruments and policy documents

6.1 This policy document must be read together with other relevant legal instruments and policy documents that have been issued by the Bank, in particular –

(a) Policy Document on *Application Procedures to Carry On Financial Advisory Business and Islamic Financial Advisory Business issued on 26 April 2022*;

(b) Policy Document on *Fair Treatment of Financial Consumers* issued on 6 November 2019;

(c) Policy Document on *Shareholder Suitability - Notification and Application Procedures* issued on 3 June 2019;

(d) Policy Document on *Fit and Proper Criteria for Approved Person* issued on 24 December 2018;

(e) Policy Document on *Prohibited Business Conduct* issued on 15 July 2016; and

(f) *Guidelines on Proper Advice Practices for Life Insurance/Family Takaful Business* issued on 17 August 2012.

7 Policy documents superseded

7.1 This policy document supersedes the *Guidelines on Application for Financial Adviser's Licence under the Insurance Act 1996* issued on 18 September 2007.

PART B POLICY REQUIREMENTS

8 Form of establishment

S 8.1 An approved financial adviser must be a company incorporated under the Companies Act 2016.

9 Capital funds requirement

S 9.1 For purposes of sections 12(1) and 12(2) of both the FSA and IFSA, the minimum capital funds of an applicant and an approved financial adviser, as the case may be, is RM50,000[1] which shall comprise the sum total of –

(a) paid up ordinary shares;
(b) reserves;
(c) retained profits or accumulated losses; and
(d) audited profits for the period, or audited and unaudited losses for the period,

minus loans, advances and investments given to shareholders, directors or other related parties.

10 Professional indemnity (PI)

S 10.1 An approved financial adviser must maintain a PI insurance or takaful cover with a minimum limit of indemnity of at least RM200,000 net of deductibles for any one claim at all times.

S 10.2 Notwithstanding the minimum limit of PI insurance or takaful cover specified in paragraph 10.1, the Board of Directors (Board) of an approved financial adviser must ensure that the amount and scope of PI insurance or takaful cover is commensurate with the volume (*e.g.* based on revenue or premiums or contributions transacted), nature and risk of business of the approved financial adviser at all times.

11 Appointment and responsibilities of Board of Directors and senior management

S 11.1 An approved financial adviser must appoint at minimum two (2) directors and one of its directors must be its appointed FAR.

[1] Based on the following *Gazette* Orders:

(a) the Financial Services (Minimum Amount of Capital Funds) (Approved Person) Order 2013 [P.U.(A) 204/2013] (as amended by the Financial Services (Minimum Amount of Capital Funds) (Approved Person) (Amendment) Order 2014 [P.U.(A) 355/2014]); and
(b) the Islamic Financial Services (Minimum Amount of Capital Funds) (Approved Person) Order 2013 [P.U.(A) 210/2013] (as amended by the Islamic Financial Services (Minimum Amount of Capital Funds) (Approved Person) (Amendment) Order 2014 [P.U.(A) 356/2014]).

S 11.2 A director must not be disqualified under section 59(1) of the FSA or section 68(1) of the IFSA, and must have been assessed by the approved financial adviser to have complied with the Policy Document on Fit and Proper Criteria for Approved Person.

S 11.3 An approved financial adviser must appoint a CEO who devotes the whole of his professional time to the service of the approved financial adviser and resides in Malaysia unless the Bank approves otherwise in writing.

Board of Directors (Board)

S 11.4 The Board must establish a board charter that sets out the mandate, responsibilities and procedures of the Board that commensurate with the size and risk of an approved financial adviser's business, including the matters reserved for the Board's decision.

S 11.5 The Board has the overall responsibility for promoting the sustainable growth and financial soundness of the approved financial adviser, and for ensuring reasonable standards of fair dealing, without undue influence from any party. In fulfilling this role, the Board must –

(a) oversee the implementation of the approved financial adviser's governance and internal control frameworks to ensure compliance with this policy document and other applicable requirements specified by the Bank, and periodically review whether such implementation remains appropriate taking into account, among other things, material changes in the approved financial adviser's customer profiles, product options and external environment that may affect the quality of advice provided to consumers;

(b) monitor the compliance with any other law applicable to the approved financial adviser; and

(c) promote, together with senior management, a sound corporate culture within the approved financial adviser which reinforces ethical, prudent, professional behaviour and give due consideration to customers' interest.

S 11.6 The Board's responsibilities outlined in this policy document shall be read together with section 56 of the FSA and section 65 of the IFSA, any other applicable requirements in the FSA and IFSA and other relevant policy documents.

Senior management

S 11.7 An approved financial adviser must ensure its senior management is responsible for ensuring the following:

(a) effective policies and procedures are established and implemented for, among others, the following areas:

(i) risk management and appropriate controls to manage and monitor risks, e.g. having effective controls in place to manage issues of conflict of interest, conduct of all staff and handling clients' monies; and

(ii) sufficient and timely reporting or escalation of issues to the Board;

(b) decision making processes give adequate consideration to customers' interests; and
(c) a robust assessment is conducted to approve any deviation from policies and procedures. Material deviations must be reported to the Board.

S 11.8 An approved financial adviser must ensure its senior management consist of individuals with the appropriate skill set and experience to support and manage the financial advisory business or Islamic financial advisory business, as the case may be.

12 Business conduct requirements

S 12.1 An approved financial adviser shall provide suitable product options to meet customers' needs from at least three (3) different licensed insurers or licensed takaful operators for each class of insurance or takaful business.

S 12.2 In the event that there is less than three (3) or no suitable product options that meet customers' needs, an approved financial adviser shall notify and explain the limitations to the customers accordingly, in line with the requirements in the *Guidelines on Proper Advice Practices for Life Insurance/Family Takaful Business.* The approved financial adviser must obtain consent from customers before proceeding with the comparison and recommendation based on the limited product options. The approved financial adviser is prohibited from recommending the purchase of any other insurance or takaful product for the sole purpose of securing a sale.

S 12.3 An approved financial adviser is prohibited from using the words "independent financial adviser" or "independent Islamic financial adviser" (*penasihat kewangan bebas atau penasihat kewangan Islam bebas*) without the prior written approval of the Bank.

G 12.4 In assessing and approving an approved financial adviser's application to use the word "independent", the Bank may take into consideration factors such as whether the approved financial adviser receives any commission or any other benefit from the licensed insurers or licensed takaful operators which may create product bias, and whether the approved financial adviser operates without any conflict of interest created by any connection to, or association with any licensed insurers or licensed takaful operators .

13 Other permitted business activities

S 13.1 In addition to its approved financial advisory business or approved Islamic financial advisory business, as the case may be, an approved financial adviser is permitted to carry on any regulated activities under Schedule 2, Part 1 of the Capital Market Services Act 2007 (CMSA) for which the approved financial adviser has been licensed under the CMSA.

G 13.2 An approved financial adviser is also permitted to analyze, recommend, source or arrange a contract in respect of banking or Islamic banking products and services.

14 Requirements on Maintaining Professionalism of FAR

S 14.1 An approved financial adviser must ensure that its financial advisory business or Islamic financial advisory business, as the case may be, is only carried on by FARs who are appointed in accordance with paragraphs 14.2, 14.3 and 14.4.

Criteria

S 14.2 An approved financial adviser must only appoint FARs that meet the following criteria –

(a) at least 21 years of age;
(b) a resident in Malaysia;
(c) has the qualifications specified in paragraph 14.3 or paragraph 14.4, as the case may be;
(d) appointed on a full-time basis; and
(e) a fit and proper person for purposes of *the policy document on Fit and Proper Criteria for Approved Person.*

Qualifications

S 14.3 An approved financial adviser carrying on financial advisory business must only appoint FARs with the following qualifications –

Qualification	Mandatory Areas of Knowledge
Registered Financial Planner offered by the Malaysian Financial Planning Council (MFPC); or Certified Financial Planner offered by the Financial Planning Association of Malaysia (FPAM)	1. Foundation of Financial Planning 2. Risk Management 3. Insurance Planning 4. Investment Planning

S 14.4 An approved financial adviser carrying on Islamic financial advisory business must only appoint FARs with the following qualifications –

Qualification	Mandatory Areas of Knowledge
Shariah Registered Financial Planner offered by MFPC; or Islamic Financial Planner offered by the Islamic Banking & Finance Institute of Malaysia and FPAM.	1. Foundation of Islamic Financial Planning 2. Risk Management 3. Takaful Planning 4. Shariah Investment Planning

G 14.5 Notwithstanding paragraphs 14.3 and 14.4, an approved financial adviser may appoint FARs with an equivalent qualification from a higher learning institution recognized by MFPC and FPAM.

Continuous Professional Development (CPD)

S 14.6 An approved financial adviser must ensure that its appointed FAR attends a minimum of 20 hours of CPD programmes each year. An approved financial adviser must refer to MFPC and FPAM on the type of courses which qualify for the CPD hours and such courses shall include both relevant technical and non-technical courses.

Balanced Scorecard (BSC) Framework

S 14.7 In enhancing the professionalism of appointed FARs, the Board and senior management of an approved financial adviser shall undertake the following –

(a) develop and approve the remuneration policy, which includes parameters for the implementation of the BSC Framework;

(b) ensure adequate training and support are provided to the appointed FARs[2] to understand the key outcomes and implementation of the BSC Framework;

(c) ensure that the performance of the appointed FARs is reviewed against the Key Performance Indicators (KPIs) of the BSC Framework at least annually;

(d) ensure that the maintenance of contracts or promotion of the appointed FARs are assessed against the performance under the BSC Framework; and

(e) monitor the effective implementation of the BSC Framework and take timely corrective measures as required to promote the objectives of the BSC Framework.

S 14.8 The BSC Framework shall only be applicable to the sale of regular premium or contribution products that are subject to the *Guidelines on Proper Advice Practices for Life Insurance/Family Takaful Business.*

G 14.9 In relation to paragraph 14.8, the BSC Framework is not applicable to the sale of products that generally have low inherent conduct risks due to the products' simplicity, are short term in nature or when dealing with more capable master policy owners who have the capability of making informed decisions, such as –

(a) life insurance/family takaful products sold through direct marketing and telemarketing, including that marketed through internet and mail services;

(b) group products;

(c) business products such as key man insurance/takaful;

(d) simple term products sold as ancillary products to loans/financing, including the mortgage reducing term assurance/takaful products;

(e) stand-alone/individual medical and health insurance/takaful;

[2] Approved financial adviser may exempt new appointed FARs from the BSC in the first 2 years of appointment. For FARs or former insurance agents or takaful agents who are reappointed by another approved financial adviser, BSC shall apply the next calendar year.

(f) pre-packaged simple employees' benefit products that are marketed at the workplace; and
(g) additions (top-ups), exclusions (deletions) and changes to existing inforce products.

S 14.10 The percentage of BSC commission payable by an approved financial adviser to its appointed FARs must be set at 25% of total commissions payable.

G 14.11 In relation to paragraph 14.10, the Bank may gradually increase the proportion of the BSC commission.

S 14.12 For the purpose of calculating the BSC commission for its appointed FARs, the approved financial adviser must assign the minimum score and weightage of each KPI according to the table as attached in **Appendix I**.

S 14.13 In the event its appointed FARs are unable to meet the KPIs specified in **Appendix I,** an approved financial adviser shall utilise the portion of BSC commission for further training and development of its under-performing appointed FARs.

S 14.14 In relation to paragraph 14.13, an approved financial adviser shall –
(a) not utilise savings in commission from under-performing appointed FARs to subsidise allocated annual training expense intended for all appointed FARs;
(b) not utilise savings in commission to pay for any incentives and rewards to under-performing appointed FARs;
(c) design specific training programmes for under-performing appointed FARs to raise their current competency and skills to the level of a performing appointed FAR including the following:
(i) ensure the course content is sufficiently differentiated from the regular training courses conducted for all appointed FARs to address specific areas for improvement; and
(ii) review periodically the effectiveness of these specific training programmes based on feedback from under-performing appointed FARs and make necessary changes to cater for changing needs and competency gaps;
(d) seek the Bank's prior approval in the event the approved financial adviser wishes to utilise any savings in commission for purposes other than to design and deliver specific training programmes for under-performing appointed FARs; and
(e) fully utilise any unused savings in commission by the end of the first quarter of the next financial year, unless otherwise permitted in writing by the Bank.

S 14.15 An approved financial adviser shall submit to the Bank an annual report on the performance of its appointed FARs against the KPIs of the BSC Framework which has been reviewed by the Board and senior management, and the information on the amount of BSC commissions payable to its appointed FARs **by the end of March of the following year** using the template in **Appendix II** to:

Director,
Consumer and Market Conduct Department,
Bank Negara Malaysia.

15 Publication of financial statements

S 15.1 For purposes of section 66 of the FSA and section 75 of the IFSA, an approved financial adviser's latest audited financial statements must be made available for access and inspection by members of the public, at no cost whatsoever –

(a) at every branch of the approved financial adviser in Malaysia; or
(b) on the approved financial adviser's website in an electronic form that is publicly accessible.

16 Notifications

S 16.1 An approved financial adviser must notify the Bank in writing within seven (7) days after the date of the following changes:

(a) for purposes of section 25(2) of the FSA and section 22(2) of the IFSA, the establishment or relocation of an office;
(b) for purposes of section 54(4) of the FSA and section 63(4) of the IFSA, the appointment, re-appointment, election or re-election of its chairman, director, chief executive officer or appointed FAR;
(c) for purposes of section 62 of the FSA and section 71 of the IFSA, the cessation from office of its chairman, director, chief executive officer, senior officer or appointed FAR, as the case may be, including the reason for such cessation;
(d) for purpose of section 67(3) of the FSA and section 76(3) of the IFSA, the appointment or reappointment of an auditor; and
(e) for purposes of section 70 of the FSA and section 79 of the IFSA, cessation of auditor, including the reason of such cessation.

APPENDIX I

MINIMUM SCORE AND WEIGHTAGE OF EACH KPI

	KPIs	Minimum Score	Weightage
a	Number of suitable product options provided to meet customer needs	Suitable products from at least three different product providers[3]	20%
b	Completion rate of customer fact finding (CFF) option 1 and 2	80% and above	20%
c	1st year persistency ratio	90% and above	20%
d	2nd year persistency ratio	80% and above	20%
e	Number of substantiated complaints	0	10%
f	Meeting Continuous Professional Development (CPD) hours	20 hours	10%

[3]Excluding genuine circumstances (i.e. product limitations vis-à-vis customers' specific needs, customers preferring a particular ITO) that prevent an approved financial adviser from comparing products from at least three different product providers. An approved financial adviser shall notify and explain the limitations to the customers accordingly as well as obtain consent from customers before proceeding with the comparison and recommendation based on the limited product options as per paragraph 12.2.

APPENDIX II

TEMPLATE FOR SUBMISSION OF BSC REPORT

Balanced Score Card (BSC) Implementation [Jan - Dec 20xx]
Financial Adviser Representatives (FAR)

Financial Adviser (FA):	
Total number of FARs:	
Data period:	Jan - Dec 20xx

Please fill in the boxes in yellow with the respective number of FARs that were able to meet or not meet with the BSC KPI threshold.

BSC KPIs		Weightage	Score	Actual Score		
				Not Met	Met	Total
KPI I	**Number of Suitable Product Options Provided to Meet Customer's Needs**	10%	Suitable products from at least three different product providers			
	No. of FARs					
	% by score					
KPI II	**Completion Rate of Customer Fact Finding (CFF) Option 1 and 2**	20%	80% and above			
	No. of FARs					
	% by score					
KPI III	**1st Year Persistency Ratio**	25%	90% and above			
	No. of FARs					
	% by score					
KPI IV	**2nd Year Persistency Ratio**	25%	80% and above			
	No. of FARs					
	% by score					
KPI V	**Number of Substantiated Complaints**	10%	0			
	No. of FARs					
	% by score					
KPI VI	**Meeting CPD Hours**	10%	20 hours			
	No. of FARs					
	% by score					

Amount (in RM) of BSC Commissions Payable

PERIOD	Total No. of FARs	UNDER-PERFORMERS (Not Met)			NORMAL PERFORMERS (Met)	
		No. of FARs	Total Amount of Commission Paid (RM)	Total Amount of Commission Saved (RM)	No. of FARs	Total Amount of Commission Paid (RM)
1 Jan 20xx - 31 Dec 20xx						

REMARKS