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Financial Planning in a Liberalised Market

Keynote Address

by

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at the

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Distinguished guests, ladies and gentlemen:

1. Good afternoon. I would like to extend my thanks to the Financial Planning Association of Malaysia for kindly inviting me to deliver the keynote address today, and to congratulate them on organising the Second International Financial Planning Annual Conference. To our guests from abroad, I say welcome to Malaysia and extend our deep appreciation for making this trip under what are clearly difficult travelling conditions for some of you.
2. The timing and venue for this conference are especially pertinent given the considerable and growing interest in Malaysia to develop the financial planning industry. In their feedback to the Securities Commission (SC) during the recently-concluded dialogue with the industry for this year, industry participants indicated that they are beginning to realise the significance of financial planning services in expanding the scope of their activities. In addition, there is, I believe, a growing awareness among the retail investing public of the need to have professional guidance in managing their personal financial affairs.
3. The initiative to hold this conference is therefore directly in line with the SC's own aims, as set out in the Capital Market Masterplan, to facilitate the development and growth of the domestic capital market. It would be useful at this point to briefly touch on the Masterplan, which the SC launched in February this year, in order to provide you with the context in which the development of the financial planning is taking place.

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Ladies and Gentlemen:

4. The formulation of the Masterplan was driven by the need to provide market participants with strategic clarity as to the vision and objectives for the capital market amid the changing marketplace. It is also intended to ensure that the capital market is well positioned to play its part in supporting national growth needs and aspirations, as well as meeting the challenges of international competition and increasing globalisation.
5. The decision to pursue the formulation of the Masterplan was, in part, driven by requests from industry participants at various industry dialogues for an overall long-term strategic plan that would identify key areas and timeframes for market enhancement and development. In addition, there was a clear need for an appropriate framework to ensure the orderly and effective deregulation and liberalisation of the capital market; and a determination as to areas where the capital market would strategically position itself both domestically and internationally.
6. The SC has from the start emphasised industry participation throughout the process of formulating the Masterplan. We had close consultation with the industry groups and market participants in the course of formulating the Masterplan, and are continuing with the same approach in its implementation. In fact the SC has just concluded its regular dialogue with the capital market industry for this year, and I am encouraged by the strong commitment of the industry to the implementation of the Masterplan. The constructive feedback and ideas contributed during the course of the dialogue was of significant value to the SC, and the promise of initiatives being taken by various industry groups to formulate their own plans augurs well for the successful realisation of the Masterplan's aspirations.
7. A wide range of very pertinent issues were raised and discussed during the dialogue—some of which will require consultation with other authorities. We will of course work closely with the government and relevant agencies to arrive at the best outcome for the industry. Financial planning was among the issues raised and it is to that I would now turn.

The need for financial planning

8. Why is the development of the Malaysian financial planning industry so important to the SC? For one thing, the financial planning services will become increasingly important as the capital market becomes larger and more sophisticated. The industry will act as an important link between investors and the growing array of choices available for investment. Moreover, as the nation progresses further and its people grow wealthier, the complexities of their financial situation will increase as well. Tax structures are likely

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to become more complex; short- and long-term financial and lifestyle goals will change. Financial planning, therefore, will provide those with financial assets the discipline and professional assistance needed in successfully managing their personal financial affairs. I'm sure that those of you from more developed countries are aware of the kind of market pre-conditions that led to the development of financial planning services in your countries. These too are becoming a major driving force in Malaysia.

9. So, in short, the financial planning industry will ensure that, as the wealth of country increases, we will make a successful transition from a nation of savers to a nation of investors. At this point, let me emphasise that, as far as the SC is concerned, financial planning is not an activity simply for the wealthy and those about to retire. Everyone-including possibly organisations-can benefit from professional financial advice. In addition, the notion that financial planning is not necessarily about achieving a certain target rate of return for the investing client. That is not the case, unless you are an investment adviser. At the same time, financial planning is not merely the act of selling financial products to the general public and it is definitely not merely the execution of orders on behalf of a client.
10. I should also like to add that the development of financial services will be an important factor in promoting an effective investment management industry. A major aim of the Capital Market Masterplan in this respect is to increase the amount of funds available for management, and to enlarge the number and diversity of players with access to those funds. Among other things, the plan recommends the further outsourcing the management of funds by major institutions. At the same time, the Masterplan recommends that measures be pursued to facilitate the development of the private pension fund industry. In this regard, a viable financial planning industry will be able to complement the domestic investment management industry. With all these in mind, the SC, through the Masterplan, announced its intention to facilitate the further development of a viable financial planning industry.

Steps to facilitate the development of the financial planning industry

11. Allow me now to relate to you what the SC will be doing to facilitate the development of the industry. A major part of our efforts is being focused on reviewing the body of laws under our purview with a view to ensure that there are no provisions that unnecessarily inhibit the provision of financial planning services, as well as carefully studying the approach taken in various other jurisdictions to identify measures that we could undertake. This is only the first in a series of steps.
12. Connected with this is the SC's own plan to enhance the role of remisiers and expand the scope of their activities. Let me reiterate that the SC will do everything it can to

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assist remisers in achieving their full potential. However, at the end of the day, remisers themselves must capitalise on this opportunity by equipping themselves with the necessary skills to succeed in this area. In this respect, we will be looking into appropriate programmes to ease suitably qualified remisers into the more demanding role of financial planners.

13. In addition to structural initiatives, the SC's Securities Industry Development Centre, in collaboration with other relevant organisations, will develop appropriate training programmes to complement those offered by professional organisations, such as the Certified Financial Planner Board of Standards and various other institutions of higher learning. This is in line with our commitment, as stated in the Masterplan, of ensuring that current market participants are fully prepared to benefit from financial planning but also to ensure the development of a pool of high-calibre financial planners.
14. In order to ensure that the development of the financial planning industry meets the expectations of all stakeholders, the SC will most likely have to leverage the inside knowledge, experience and expertise of those in the industry themselves. In this respect, we will strive to work closely with the relevant organisations representing the common interest of the financial planning industry. We have in the past worked closely with the relevant industry bodies in relation to the development of that industry and this is no different. There will therefore be scope for greater consultation and engagement between the regulators and organisations representing the financial planning industry. Today is in fact a good example of this and I hope this will be more to come in the future.
15. As a further indication of our commitment to develop the Malaysian financial planning industry, let me emphasise that the reviews, engagements and proposed training will not be a one-off effort. Instead it will be continuous to ensure the process remains dynamic and any emerging issues are addressed in a coherent and timely manner.

Maintaining trust in a competitive market place

16. The SC will do what is within its power to facilitate the development of the financial planning industry but at the end of the day, the success of an industry will depend on the clients being served. Clients are the lifeblood of any business. As the former Chairman of the United States Securities and Exchange Commission, Arthur Levitt, had once stated:

Nothing more than the power of an informed investor increases competition. Nothing more than the power of pragmatic, but demanding investors boosts innovation. And, nothing more than the power of confident investors guarantees a steady flow of business.

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17. Financial planners and producers of financial products alike must take heed of this and be careful not to kill the goose that lays the golden egg. In a growing industry, it is easy to forget this when the focus is solely on increasing one's market share. However, for a business in a highly competitive industry to be able to go from strength to strength, you just cannot run away from the fact that you need to maintain the trust and goodwill of your consumers and to further build on that reputation to be able to gain new markets. In this respect, financial planners-whether tied or free, fee-based, commission-based, bonus-based or a mixture of all three-must always put the interest of the clients first and ensure that any advice given does not in any way contradict this principle. In other words, the financial advice must not be " tainted by salesmanship" .
18. To this end, I am delighted to note that the various code of ethics adopted by most professional organisations representing the financial planning community, including that of our gracious host today, expressively recognises the need for financial planners to conduct their profession in a manner that is independent, fair, competent and objective while at the same time observing high standards of professionalism and integrity. Ethics are at the core of a healthy industry. Wise investment professionals, for the sake of the industry, will support the goal of " setting a higher standard" and enforcing it.
19. All this while I have focused on the need for financial planners to impart their advice in an independent, ethical and professional manner. However, this is but one side only of the equation. Equally responsible in ensuring that consumers are treated in a fair manner, producers of financial products must also lend a hand in lifting standards and maintaining the trust of consumers. Competitive pressures are so great these days that firms may be tempted to bring new products to market quickly without careful preparation of disclosure documents and mechanisms to monitor compliance by themselves. Intense competition inevitably leads to aggressive marketing and advertising for both new and existing products. As competition increases and revenues decline, producers of financial products often undertake cost-cutting measures, sometimes at the expense of a firm's compliance program. An aggressive competitor may even be tempted to engage in conduct that may be less than acceptable. Notwithstanding any apparent success of such conduct, I think that it is imperative that other producers of financial products do not follow suit. I can assure you that one way or another, those crossing the line will come to the attention of regulators.



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Conclusion

Ladies and Gentlemen:

20. I hope what I have spoken of at great length today has been useful to you. Regardless to say, we welcome your input and ideas as we work through the challenges that lie ahead, not just with respect to the development of a viable financial planning industry but with respect to the development of our capital market as a whole. As I have said many times before, the SC has taken a pro-active step in preparing the Malaysian capital market for challenges of the new Millennium through such initiatives such as the Capital Market Masterplan. Ultimately, however, the success of any developmental endeavour hinges on the combined efforts and commitment of all market participants. I hope that the strategic partnership between industry and the regulatory authorities will see us achieve our common vision for the capital market, and lay a strong foundation for its further progress thereafter.

SECURITIES COMMISSION
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