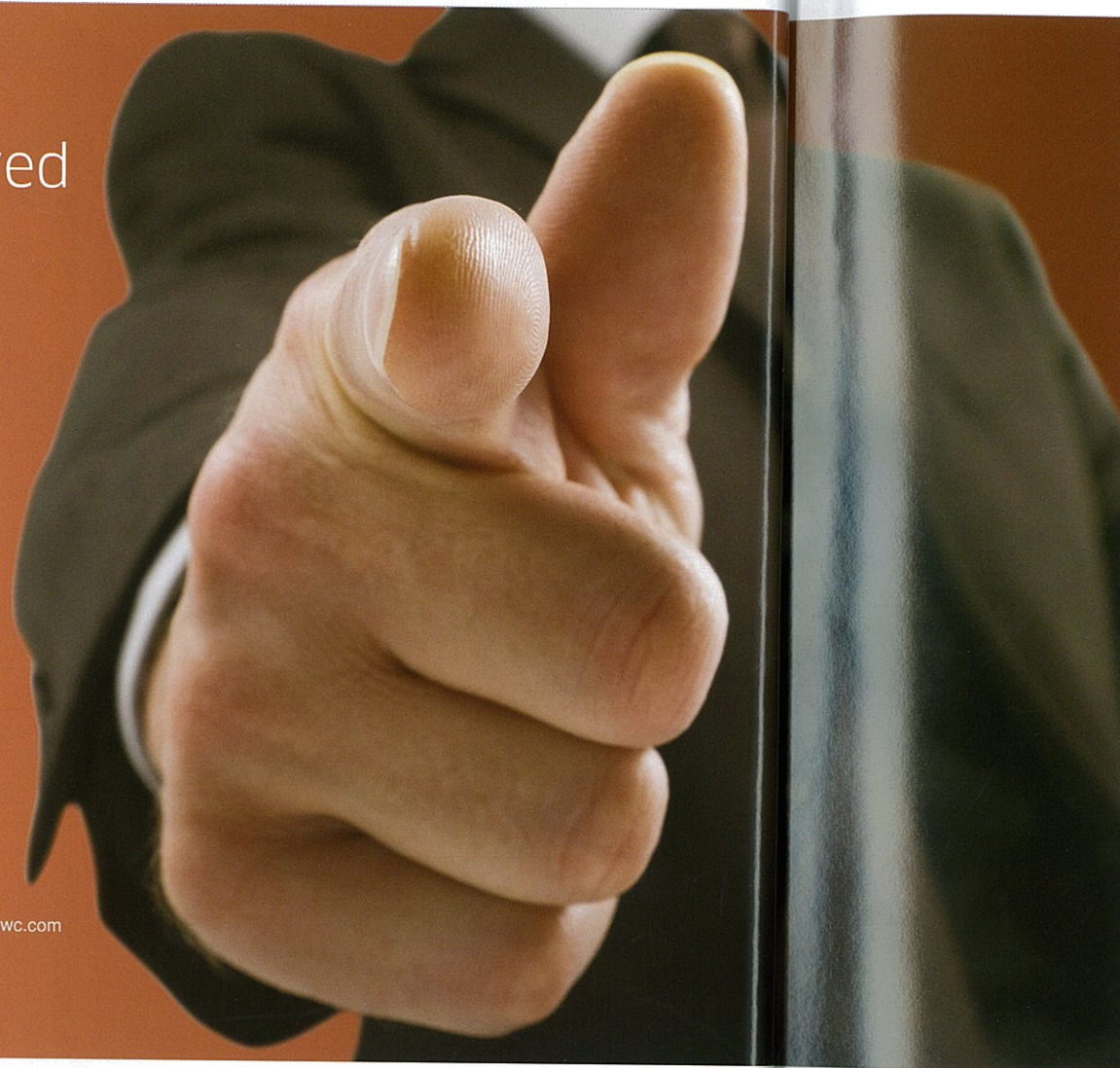


The New And Improved Malaysian Financial Services Landscape

What It Means To YOU



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The United Kingdom, the United States of America, the European Nations. Closer to home, we have Thailand, Indonesia and Singapore. What do these countries have in common with Malaysia? One can now add onto that list as countries that have introduced significant regulatory reforms in the financial services sector in their respective jurisdiction in the past 5 years. The US for instance, introduced the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010 with the objective of regulating the financial market so as to ensure that the likelihood of another financial crisis occurring is minimised. Just last year, the European leaders agreed to institute a single regulator with broad oversight over the 17-nation euro zone. Indonesia and Singapore also introduced new reforms in their financial markets, with the establishment of the Financial Services Authority or Otoritas Jasa Keuangan, and the amendments to the Monetary Authority of Singapore Bill 2013 and the Financial Institution Bill 2013, respectively, with both countries seeking to create and ensure a sustainable and stable environment whilst seeking to protect consumer and public interest.

The evolution of Malaysia's financial services regulations

As with the other nations, Malaysia has also taken the step forward in introducing new reforms within the Malaysian financial services sector with the gazetting of the new Financial Services Act 2013

These new Acts places greater requirements on financial services institutions with emphasis on the entity's financial security and business conduct, and the effects of these new reforms are expected to be wide-ranging and may change how Malaysian financial services institutions operate in the future.

("FSA") and the Islamic Financial Services Act 2013 ("IFSA") which came into effect from 30 June 2013. These new Acts places greater requirements on financial services institutions with emphasis on the entity's financial security and business conduct, and the effects of these new reforms are expected to be wide-ranging and may change how Malaysian financial services institutions operate in the future.

Broadly, the FSA and IFSA will have an impact on the following areas:

- The establishment/identification of 'Financial Holding Companies'
- Greater oversight from Bank Negara Malaysia ("BNM")
- Limits on shareholding
- Composite licensees will become a thing of the past
- Greater responsibility on consumer protection

The establishment/identification of 'Financial Holding Companies'

Both FSA and IFSA require financial holdings companies ("FHC") to be identified and an application to be submitted to BNM to be

approved as an FHC. This requirement has significant implications for a financial services group and on those corporate groups with entities in the financial services sector as the new Acts allows BNM oversight powers over FHCs in addition to the related entities within the group should any of the other subsidiaries pose a risk to the financial institution ("FI").

Greater oversight from BNM

Key oversight measures include:

- Intervening in the FI's operations to enhance prudential, risk management and governance standards
- Guidelines issued by BNM are incorporated into law to require FIs to ensure that their internal policies and procedures reflect BNM's standards on prudential requirements
- Action can be taken by BNM against both corporations and individuals that fail to comply with the provisions of the Acts and also take civil action on behalf of any corporation or individuals. The Acts also re-defines the term 'individual' as those beyond directors of the entity, the CEO and senior management to anyone who forms part of the decision making process.

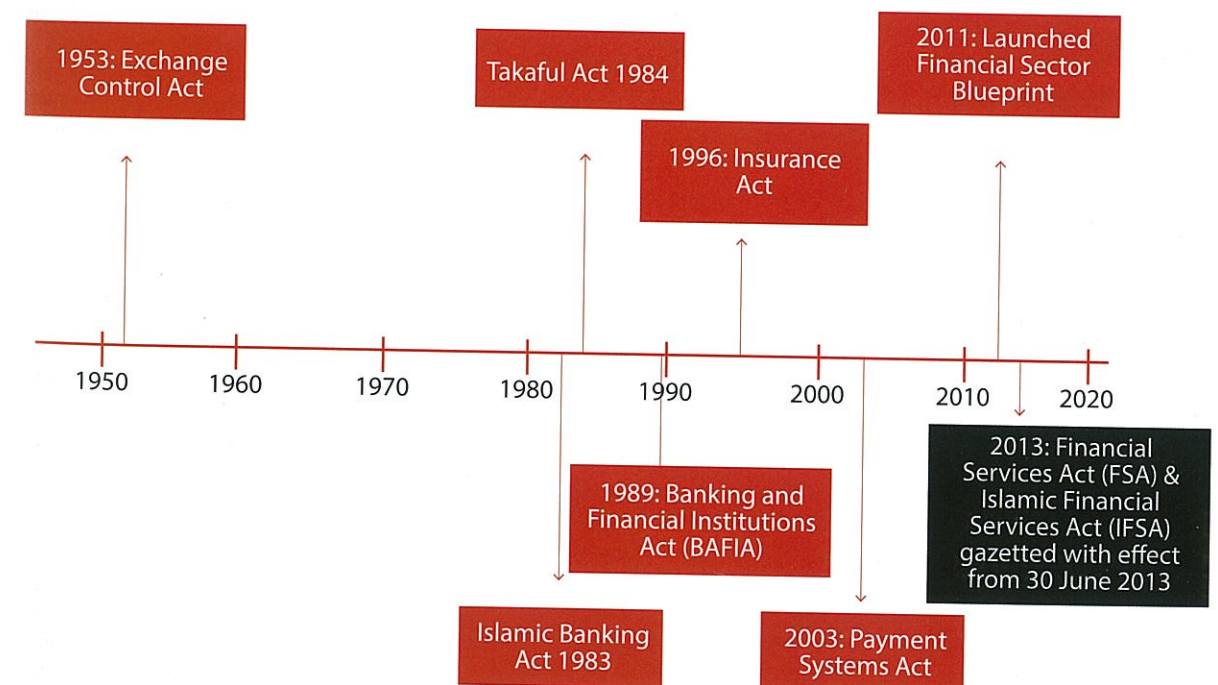


Diagram 1: Evolution of financial services regulations

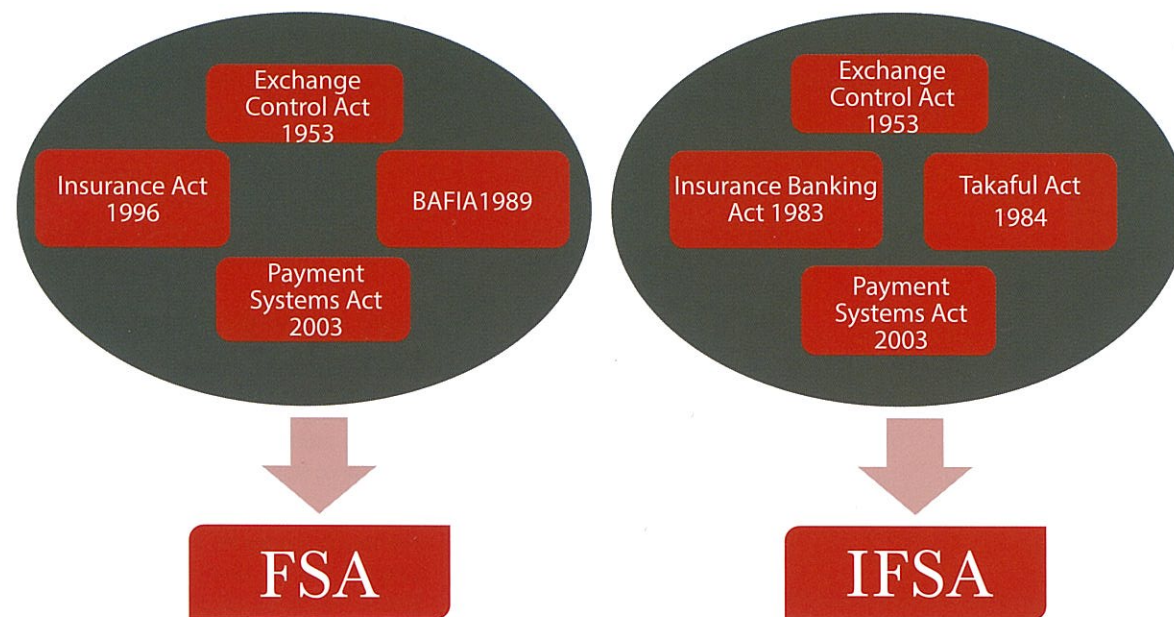


Diagram 2: Consolidation of previous Acts

Limits on shareholdings

Under the FSA, no individuals are permitted to hold more than 10% interest in the shares of a FI. The IFSA however, allows equity interest exceeding 10% provided that the individual provides enforceable undertaking not to exercise control in that FI.

Composite licensees will become a thing of the past

The introduction of the new Acts will see the breakup of composite licensees, both conventional insurers and takaful operators and existing players are to comply with this change by 2018. Licensed professional reinsurers and retakaful operators are however exempted.

Greater consumer protection

Other than owing a fiduciary duty to their shareholders, FIs are expected to look after a wider set of stakeholders' interest under the Acts, including having to consider policyholders' interests over and above the interests of shareholders and protecting the consumer's interest.

The move to split the composite license will align Malaysian insurers with their global counterparts.

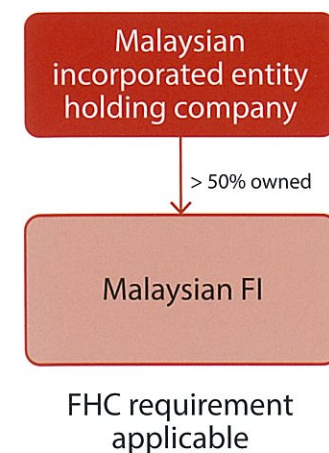
What Matters to You

The requirement to establish/identify FHCs is not expected to have a significant impact on Malaysian insurers as most of the insurers are either held within a financial services group or directly held by entities incorporated outside of Malaysia, the latter of which would not be subjected to this requirement. However, this may not be as straight forward in certain shareholding structures and shareholders and stakeholders alike would need to seek clarity over the application of this new requirement.

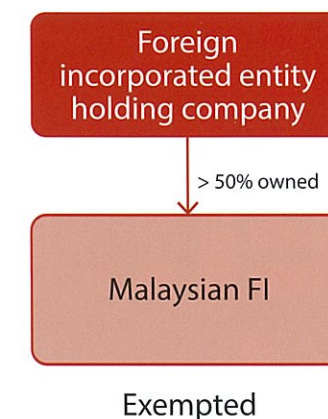
Whilst previously issued as guidelines, the FSA now introduces great consumer and public interest protection requirements that will require insurers to strengthen its business conduct in the promotion of financial services and products. This means no force-selling and no telling of half-truths for such actions may result in imprisonment not exceeding five years, and/or a fine of no more than RM10 million, or both. Questionable business practices or conduct may also implicate directors of the company as the FSA places more stringent duties and liabilities on directors and CEOs.

The move to split the composite license will align Malaysian insurers with their global counterparts. However, this may be a cause of concern amongst the present shareholders as additional costs may be incurred in having to set up separate units, including boards and management function, and separate capital requirements albeit separate technical reserves are presently maintain. The present shortage in talent particularly those in the actuarial field that is further fuelled by the new requirement for general insurers to have an Appointed Actuary, and life insurers to have different actuaries separately responsible for product pricing and liability valuation, may amplify the war for talent amongst insurers as they seek out the best and the brightest.

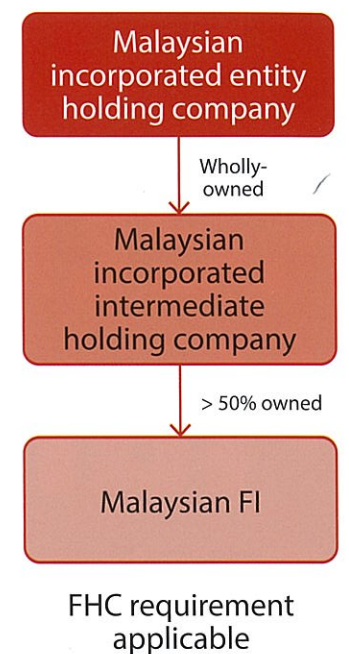
Example A



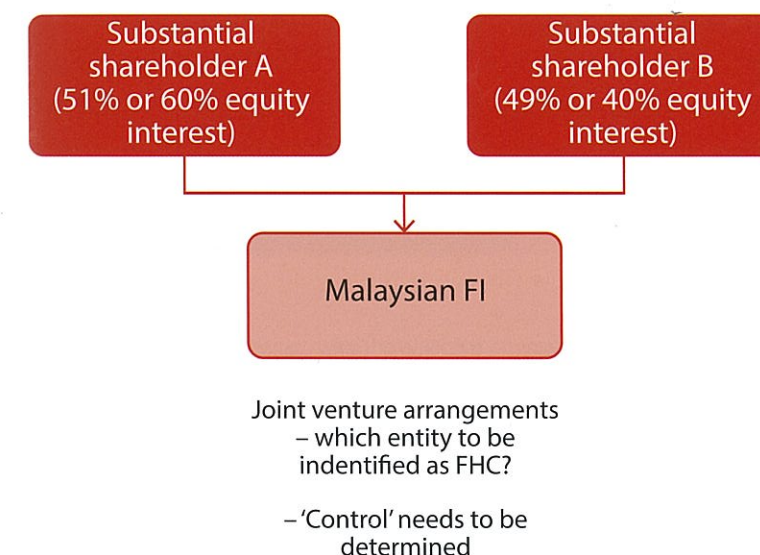
Example B



Example C



Example D



Example E

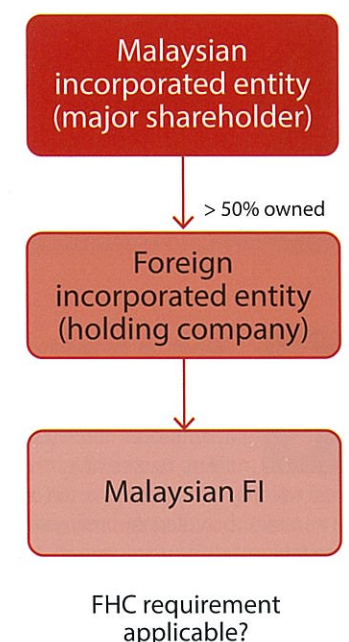


Diagram: Applicability of the FHC requirement

Would this change spur further mergers-and-acquisitions ("M&A") opportunities in the market? That may not necessarily be the case as one weighs out the cost and benefit of holding onto both entities from a strategic view where one can still leverage on one another in areas such as agency distribution, and still be a viable investment prospect. M&A opportunities may still arise as the market remains very attractive but it is unlikely that this new requirement will be the main catalyst to consolidation.

Conclusion

The introduction of the new FSA is undoubtedly a step in the right direction to provide the necessary groundwork to strengthen Malaysia's financial sector foothold further in the future. What perhaps would be the biggest challenge for the regulators and the insurance industry is to remain market focused whilst putting the FSA into practice and that would mean having a more coordinated and proactive relationship between the regulators and the industry.