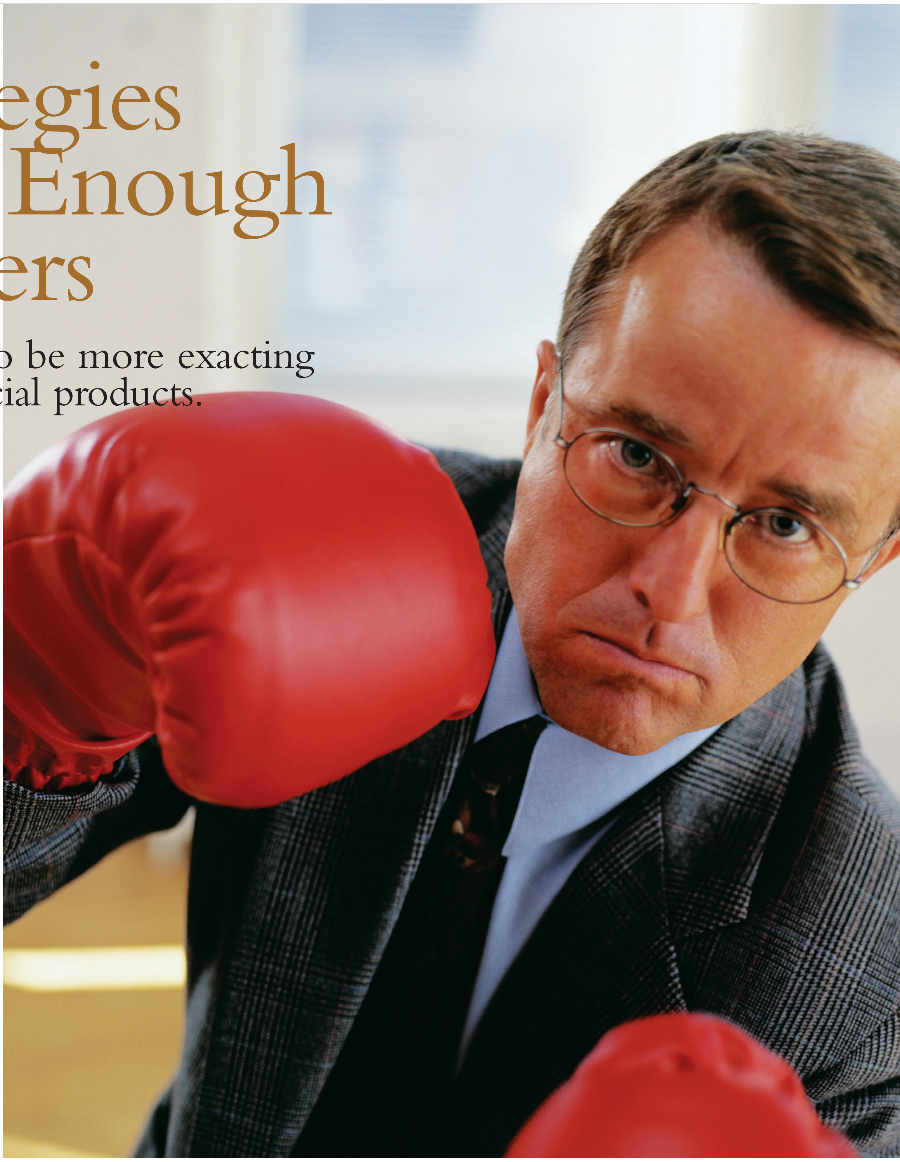
Coping Strategies Aren't Good Enough For Consumers



David Choo urges consumers to be more exacting when it comes to buying financial products.

The financial services industry is a serious business. It's regulated by the all-encompassing Financial Advisers Act implemented in 2002. But from time to time we still see uncharacteristic lapses and bad press.

The industry is a billion dollar business and is slated to be a fast-track growth area, which will be boosted by the wealth management sector. It boasts big reputable firms like banks, stock broking firms, insurance companies and fund managers as corporate players and thousands of well-trained and qualified representatives as individual players.

It is a highly regulated and supervised industry. The prescribed standards are high, some even say onerous. But from the looks of it, the actual standards and market practice still have some way to go.

Here is some of the bad press the industry has received in recent months:

- Insurance companies failing to keep to projected critical year (when the policy is deemed to be self-paying without anymore premium payments).
- Insurance companies failing to pay terminal bonus or paying much-reduced amounts.
- Insurance companies failing to keep to projected bonus payments.
- Insurance companies failing to disclose or highlight mortality charges in investment-linked policies.
- "Churning" of policies.
- Mis-selling on the part of banks – for example, clients thinking they bought a long-term fixed deposit when they were sold insurance or structured deposits.
- Agents rebating commissions as a way for clients to take out CPF money.

That there are some complaints and shortcomings is, in one sense, to be expected. Considering the hundreds of firms and tens of thousands of staff, agents, advisers and brokers involved, one can expect a few bad apples, a few slip-ups and even occasional blunders. By and large, the industry has progressed, if not by leaps and bounds, at least incrementally.

But often pressed for reasons why we still have these problems (after all we ought to have fixed all these the Singaporean way), I can only say that it takes time and a lot more changes yet.

Firstly, it must be noted that the financial service industry is not comprised of a homogenous group. The public should be aware by now - but many are still not - that the only licensed individuals representatives (sales or distribution people) are those in the licensed Financial Advisory firms.

Up to now, all the sales people in the life insurance companies, stock broking firms and general insurance brokers who sell life insurance and unit trusts are still not licensed individually.

This means that these firms can engage them without having to apply to the Monetary Authority of Singapore, whereas the representatives of FA firms are required to do so. The examination requirements apply to all but, in addition, the MAS licensing looks out for whether the applicant is "fit and proper".

It would go a long way if all sales people were licensed individually by a central body like MAS so that those with adverse records can be weeded out.

All sales people are covered by the compliance requirements of the Financial Advisory Act, Regulation and Notices, but most of those who are not licensed do not "feel" it. It can be safely said that when everyone who is giving financial advice and selling financial products is individually licensed by MAS, the practice standards will improve quickly and dramatically.

The industry is also not homogenous in another sense. The sales force ranges from the brand new agent or adviser who has just passed the requisite examinations, to the old hands with more than thirty years' experience. Besides the experience factor, we also see a wide disparity between the educational qualifications of the thousands of representatives in the different firms ranging from 'O' level and lower to Masters degrees.

The training provided also differs greatly from firm to firm with some firms struggling to fulfill the required minimum Continuing Professional Development (CPD) hours while others providing three to four times that.

Recruitment criteria also vary from firm to firm and it is normal that those terminated by one firm for lack of production and other shortcomings will find themselves in another firm the following week.

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So, given all these factors and the fact that we are only into then third year under the Financial Advisers Act, there will be complaints on malpractice.

The second thing which bedevils the financial service industry is the heterogeneity of products. It is difficult enough for consumers to understand the different types of life insurance products and the now much publicised investment–linked products.

Product names are becoming more fanciful and catchy, and it's harder to tell what they really are. The ongoing debate between the proponents of the whole life and term insurance both in offices and the press has still not settled and the jury is still out.

To add to the problem, every sales representative (agent, staff, adviser, broker) who passes a simple paper on investments can now offer unit trusts to consumers. A few representatives even throw in foreign land banking products and traded endowment products onto the plate for good measure and add to the indigestion.

Sales staff at banks have more products which they can offer to consumers – for example, structured deposits. To add to the complexity, advertisements in the press and posters promise 20 plus per cent interest which actually works out to be much less.

COPING STRATEGIES

Faced with complex, heterogeneous products sales representatives and consumers tend to adopt coping strategies.

Some sales representatives resort to selecting certain products and promoting them instead of doing comprehensive planning and analysis and having to contend with the plethora of products.

Many consumers decide based on brand name (the reputation of the company) and relationship (whether they know the representative). These two methods of choosing advisers leave to chance whether consumers will obtain the "best of the class" products.

Moreover, what gets conveniently left in the cold is the more professional approach of thorough fact-finding and meeting clients' total needs.

What is amazing is that, generally, product pushing and single-need selling still bring good results in terms of sales. Witness the growth of bancassurance and the great success of new product launches, whether of insurance, unit trust or structured deposits.

The heterogeneity of the institutions and distribution forces combined with the heterogeneity of the products make for an uphill task to raise practice standards.

In a speech to the Life Insurance Association in early March, Mr. John Palmer, the former deputy managing director of MAS, advocated consumer education to empower consumers with financial knowledge. "This is not going to be something accomplished in a day, in a month or a year," he noted.

The MAS must be lauded for doing its part for consumer education particularly through its website Money Sense.

All the associations of banks, stock brokers, insurance companies, financial advisers, agents, etc) should do their part to educate the public. But the primary responsibility is to

Players in the Financial Adviser Market					
Company	Exempt or licensed?	Must distribute products of at least four manufacturers	Representatives must be licensed by the MAS	Must give recommendation on reasonable basis	Must give fair and objective advice
Life insurance	Exempt	No	No	Yes	No
Banks	Exempt	No	No	Yes	No
Stockbroking firm	Exempt	No	No	Yes	No
General insurance broker	Exempt	No	No	Yes	No
Licensed FA					
i) Independent FA	Licensed	Yes	Yes	Yes	Yes
ii) FA	Licensed	No	Yes	Yes	No

have consumers' interests at heart and not to promote only what is in the particular association's interest.

While every institution and association seeks to survive and do well in today's highly competitive business environment, consumers must be discerning enough to take care of their own interests.

Three things are still not in consumers' interests in Singapore:

- **Three large life insurance companies still close their doors to licensed financial advisers and rely primarily on their tied-agents and banks on exclusive basis.** This means that many consumers do not have information on how these companies' products compare with others. It comes as a shock to many consumers when they do get to see comparisons made by financial advisers that what they thought is not what it really is. For one thing, the big firms don't necessarily have the best products.
- **The practice of gift-giving by bigger firms (banks, insurance companies) to attract consumers to purchase certain products.** MAS regulation and advice is that gifts are not to be such that they can be inducements – but as can be expected this is a rubber "yardstick". Human nature being what it is, a gift (or you can call it a bribe) open doors and hearts, and softens the consumer who ends up buying financial products like they would buy household items. When we are talking about things like furniture, refrigerators and foodstuff, gift and discount offers are not likely to give rise to malpractice. But when it comes to financial services and complex products, surely the practice of gift-giving can lead to a lowering of consumers' guard and the purchase of products which they may other wise not have bought. The primary problem with gifts as with rebating is monitoring. Prohibiting or allowing it suffers from the same problem. But a "rule" that there should be no such sweeteners or even a "moral" statement that gifts are not in place for the sale of financial products would go some way to keep the public forewarned when they are offered gifts.
- **Difference in licensing gives rise to a mixed bag of practitioners and consumer confusion as to who is really who.** Which consumers know the difference between a licensed adviser and exempt financial adviser? Which consumers know the difference between a licensed financial adviser and an independent financial adviser? It would be easier for consumers if every sales person goes through the same licensing procedure by MAS. It would be easier for consumers if they can still tell who is a tied agent and who is a broker, terms that have legal meaning. As should be known to all, an agent represents his company whereas a broker represents his client. The disclosure rules require every representative to tell who he really is but again the problem is with monitoring.

All said, the only force that can bring about improvements is the consumer. As the saying goes, consumers get what they deserve. If consumers ask for comparisons before they purchase, salespeople will have to deliver. And insurance companies will have to open up and consumers will have more choices.

If consumers do not get lulled into complacency by gifts, salespeople will have to demonstrate the benefits of their products. If consumers ask for the status of who they are dealing with they would know what the salesperson really can or cannot do.

When consumers are knowledgeable, sophisticated, more critical and demanding and understand their rights, then the financial service industry will improve. **si**

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