



PASSING WITH FLYING COLOURS - OR NOT

Even though a recent survey showed Singaporeans had favourable financial habits, it is worrying that they did not seek professional advice, says financial planning expert David Choo.

The first Singaporean to swim the English Channel made front-page news on August 8, 2005, but Singapore's first financial literacy report received only a small mention. That Singapore had scored an A minus in the first financial literacy survey should have made front-page in the media, but it did not, perhaps, because there was no shocking news.

The survey conducted in March 2005 by Media Research Consultants Pte Ltd, which was appointed by the Monetary Authority of Singapore (MAS), covered slightly more than 2,000 Singaporeans between 18 and 60 years of age. The overall finding was "encouraging". In general, it turned out that Singaporeans have fairly healthy attitudes towards basic money management, financial planning and investment matters. More specifically, a majority of Singaporeans save, monitor their spending and are generally responsible in the use of credit. And most Singaporeans also

recognise the importance of financial planning and have done some basic financial planning. Those with investments considered the risk before investing and monitor their investments. The only downside is that many Singaporeans do not manage and plan their finances in a disciplined or structured fashion. And many do not have a clear idea of how much they need for their retirement, nor have they set aside sufficient cash savings to meet emergency needs. And the majority of Singaporeans are not well versed on the key features and mechanics of common financial products such as life insurance policies and unit trusts.

The survey report makes for interesting reading.

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It focussed on knowledge to make informed judgements, actions or decisions taken and attitudes. And the overall survey finding was that Singaporeans scored 67 out of 100 in financial literacy defined as “the ability of individuals to make informed judgement and take effective decisions in managing their finances”.

What I would like to do here is to focus on a few interesting details about how Singaporeans go about making their informed judgements.

Firstly, it must be an affront to many financial practitioners that 40 per cent of respondents said that they relied on the recommendations of their friends or relatives when deciding on whether to purchase a financial product. By contrast, only 20 per cent depended on the advice of financial advisers. Now, why is it

this way? Surely, to make informed judgements, it would be natural to consult the financial advisers, who should be more expert and knowledgeable than friends and relatives. But the reality is that, perhaps, there is the suspicion that financial advisers might be motivated more by self-interest, and it is also difficult to assess the competence and integrity of an adviser. What Singaporeans should know is that their fellow Singaporeans are themselves not so well-informed about financial planning and financial products, and it is safer to check things out with a financial adviser. But which one?

There was no question in the survey about whether Singaporeans know who is a tied agent, a licensed financial adviser, an exempt financial adviser and an independent financial adviser. I suspect that, if this question were to be presented, the answers would show that the majority of Singaporeans do not know the difference between these different categories or classes of financial advisers. It would certainly be helpful if the public education programme really settles this issue of what each type of adviser can do or cannot do for clients.

Another interesting thing is that 25 per cent of Singaporeans said that they did their own comparisons among similar financial products – a sort of DIY approach. This is somewhat alarming as the survey also revealed that insurance products and unit trusts are not as simple as they appear to be. For example, 58 per cent of respondents wrongly believe all bonuses in insurance policies are guaranteed. And 70 per cent wrongly believe they will get back term policy premiums when the policy ends. Moreover, some 67 per cent indicated that they do not have any investments, either because they had insufficient funds or deem investments too risky. Twenty-one per cent said they do not know enough about investments.

What emerges is that there are Singaporeans who do not know much about financial products but, who, for some reasons, prefer to make their own comparisons and decisions. Again, this looks to me to be their perception of the

value, or the lack of value, of financial advisers. There will be a few product providers who will encourage clients to deal direct and bypass the financial adviser. This is clearly a strategy of getting to clients and appealing to them without letting their products be scrutinized and compared by financial advisers. But the warning “buyers beware” should not be forgotten, as the reality is that financial products are complex and it pays to look into details and the fine print. The recent reports of the fine differences in Shield medical plans offered by the different firms serve as an example.

In the area of financial planning, some 72 per cent of the respondents did not seek advice from professionals because half were confident that they did not need help and could make financial decisions on their own. Singaporeans should be aware that a DIY approach to financial planning could be as disastrous as a DIY approach to building your own house.

The third interesting finding is that, even when Singaporeans do seek out financial advisers, they go for friends. For example, in the area of financial planning, 28 per cent responded that they had approached professional advisers to help them arrange their finances. But about half of those who did this approached professional advisers who are friends or relatives. While relationship is important, the question is whether these friends or relatives are the best advisers to turn to in terms of professional competence. Again, Singaporeans must remember that there are at least four different types of financial advisers and their capabilities differ in what they can really do for clients. One advice is to consult a friend and also consult a reputable financial adviser so that you can compare what each can offer. Patients have benefited from second opinions. Clients, too, can benefit from having more than one financial adviser.

The MoneySENSE national financial education programmes launched in October 2003 has already done much to raise the public's awareness of financial matters. The financial literacy survey shows that more has to be done by both the MAS and financial institutions and associations. While the client will do better if he is more well-informed and can decide more wisely on financial matters, I think he will go a longer way if he learns more about the role and value of competent financial advisers. DIY is only for the exceptional and is all right for hobbies, but can be time consuming and counter-productive in the area of financial planning and financial advice. **SI**

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