



Yap Yew Piang

Taking the Next Leap of Faith

If you think financial planning is a simple matter of buying life insurance policies, unit trusts or equities, it is time for a rethink. Especially for those without proper guidance, adopting a do-it-yourself approach in the financial planning process may have a negative impact on your financial health. This is where independent financial planners come in. But first, there must be a shift in mindset towards professional investment advice.

By Timmy Tan

Are your investments financially sound, and are you on track for building a comfortable retirement nest egg? Well, according to the Central Provident Fund (CPF) Board, during the financial year ending in September 2001, six out of every 10 CPF investors either lost money on their investments or were unable to make enough to better

the interest they would have earned in their CPF accounts if they had left their money alone.

Admittedly, it was a bad year for investments the world over, but the numbers still tell a sad story when it comes to the management of people's personal finances. "The statistics are grim and a reflection of how the majority of people can't even invest wisely enough to cover the 2.5% interest earned in their CPF accounts. What's more, half of the people who hit 55 years of age do not even have the minimum S\$75,000 in their CPF, the least that is required in the minimum-sum scheme," observes Patrick Lim, manager of independent financial advisory firm PromiseLand Independent.

Investors are also worryingly ignorant when it comes to insurance. "Insurance is a long-term investment. Paying for a premium policy over the course of 35 to 40 years is a huge investment but because people pay annually they do not realise it," explains David Choo, PromiseLand's founder and managing director. "There can be a significant difference in the terms of life insurance policies from one insurer to the next. If chosen correctly, savings could amount to hundreds or even tens of thousands of dollars a year.

A poor report card

During the financial year that ended in September 2001, the Central Provident Fund Board has worked out that only 35% (216,000) of CPF members made profits that they could withdraw from their CPF Investment Scheme Ordinary Accounts (CPFIS-OA). However, 206,000 of them made less than S\$5,000 each, which means that only 10,000 individual CPF members made more than that.

Another 39% made money, but for these 239,000 investors, positive returns were insufficient to cover the interest they would have earned from their CPF accounts. Another 22% (133,000) made losses when investing their CPFIS-OA funds and the remaining 4% only managed to break even.

All in all, 61% of CPF investors failed to generate returns that were higher than their CPF-savings interest rate, which means that those 372,000 people would have made more money if they had left their CPF accounts untouched.

“Many think investing only involves basic rules and they neglect proper financial planning,” Mr Choo continues. “When we show them a financial plan, they are surprised. They have a simple perception of financial planning until they are shown the real thing.”

What goes wrong?

A ‘do-it-yourself’ mentality is arguably the biggest hurdle in the way of sound financial planning, coupled with the fact that getting investments started is relatively easy. To invest in equities, for example, all you have to do is open a Central Depository Account and get a stockbroker. After that, it is easy to get hooked on speculating until you are caught out by a down trend, losing money by buying high and selling low.

As for unit trusts, many retail investors find that their defences break down once distributors offer attractive gifts as bait. They get sucked into a vicious cycle of buying into financial products that do not truly fit in with their needs. Then there are insurance agents who adopt the ‘heart-pulling’ strategy to push their products to family and friends, making recommendations driven purely by commissions and not their clients’ needs.

A new beginning

The Financial Advisers (FA) Act came into effect last year without much fanfare, but it actually marks the beginning of

a new financial-planning landscape in Singapore, as Mr Choo explains: “With the FA Act, barriers between banking, stockbroking and insurance will come down. In the past, there was an artificial barrier as only a few products were sold through each institution. Now financial planners will be encouraged to promote more products, not just one.”

Over time, financial planners are expected to offer more professional financial advice, though there are many challenges to be overcome before this goal can be realised. Consumers, for example, do not have a sufficient understanding of what financial planning involves, and sometimes they are not the only ones. “Even professionals are not always aware of the intricacies of financial planning. It is not a matter of talking to one person and signing a form within the hour. One must realise the long-term nature of the investment,” explains Mr Choo.

In short, more must be done to educate the public, ensuring that they understand the need for financial planning and are aware of its intricacies. But even then, will people be prepared to pay fees in return for advice, and how much should advisers be charging? That, says Mr Choo, depends on the nature of the client and their individual needs – fees could amount to a few hundred dollars or a few thousand.

Above all, there is the issue of just how “independent” financial advice really is, as not all banks and broking houses, for example, have applied to be independent financial advisers. “This speaks volumes,” says Mr Choo. “Their agency force will be tasked to sell their own firm’s products and there could be channel conflicts because, ideally, every insurance company should distribute to independent financial planners. Moreover, financial planners can recommend something and not be held accountable for it. Independent financial planners can’t.”

And don’t forget that the banks have a ready pool of clients



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“Independent financial planners champion the cause of the clients – we represent the clients and not the financial institutions.”

~ David Choo

Leading the pack

PromiseLand Independent Pte Ltd is a licensed independent financial advisory firm and an independent specialist in financial planning, especially for insurance products and services, and unit trusts. PromiseLand was founded in 1986 and was an early pioneer in a field that champions the cause of its clients.

"We represent the clients and not the financial institutions," explains PromiseLand's founder and managing director David Choo. By tying up with other specialists, namely Fundsupermart.com for unit trusts, Excelsus for general insurance and DMG & Partners Securities for equities, an IFA (Independent Financial Advisers) network is now available to meet the total needs of clients.



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The PromiseLand team



Standing, left to right: Joan Lim, John Kong, Patrick Lim and Kwok Chee Seng
Seated, left to right: David Choo and Kenny Low

The use of information technology is also central to PromiseLand's drive to enhance the services it provides for more than 10,000 clients. "We are developing a client-management system. All data regarding the client is captured in the system and is available to our IFAs. We have case studies and the factual stuff for data mining. We are preparing for growth and that explains the investment into client data. We are in the business to expand the investment scope of our clients, because it is a lifelong commitment," says Mr Choo.

Training and development is also a key area of focus. The required industry standard is for staff to undergo at least 30 hours of training each year, but PromiseLand's staff can expect up to 100 hours of training, with most of it being conducted by the firm's directors and senior managers. "We don't just want to meet the minimum industry requirements. This is what makes us different from the rest," explains Mr Choo.

Another of PromiseLand's interesting facets is the availability of a share-option scheme for deserving members of staff and those loyal employees who have been with the company for more than 10 years.

"I am pro-growth and like people who work hard," says Mr Choo. "They should be stakeholders as well, as they help grow the company."

Talking of growth, having become established in Singapore over the past 15 or 16 years, PromiseLand's next move is to become a regional presence, and the firm is keeping an eye on developments in Indonesia and Malaysia. "We want to grow beyond our current strength of around 50 to around 200 to 300 over the next few years. We can be the early birds in these countries," says Mr Choo. The problem with the current crop of independent financial planning outfits is the relatively small size of the individual firms and its one-man-manager type of business. These pose limitations to growth and throw up the question of continuity.

"In 1998, there were 27,000 insurance agents. Today, there are only 13,000. Where has the continuity of service come from?" asks Mr Choo. By building on its foundations – be it IT systems, an integrated IFA network, professional service through thorough training and development, or a strong corporate culture – PromiseLand has established a corporate structure and system of support to enable the firm to get bigger. "Anyone without a strong corporate background will find it hard to lead and grow," notes Mr Choo.

As for independent financial advice, PromiseLand's track record of taking care of its clients' overall interests will place it in good stead, but time is still required to build a brand name and a solid reputation. "We are here primarily not to make money but to be around when needed by our clients. We have come in for the right reasons," believes Patrick Lim, a manager at PromiseLand. "Most of us here have made a lot of personal sacrifices. We have no vested interests in the products recommended and it will be a long-drawn process before more customers appreciate us."



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~ Patrick Lim

waiting to be tapped. "It is a matter of them adding on another product range to sell," Mr Choo quips. Banks also have much more financial muscle, which means that smaller independent financial advisers will inevitably find it difficult to compete when it comes to advertising and promotions, not to mention offering attractive goodies.

Consumers should never be blindsided by goodie bags and other 'irresistible' perks. Instead, shop around and consider the various alternatives. "Independent financial planners do not have vested interests in the products they recommend. People from other channels will feel threatened by independent financial planners," predicts Patrick Lim.

"The day will come when we have a real service that compares the different products from the different companies to allow the average consumer to make an objective choice," Mr Choo figures. "It is already available for unit trusts and consumer consciousness will increase over time. For insurance products, the climate is not yet right, but it is a matter of time before tied agencies open up."

The right choice

Some questions to consider when choosing an independent financial planner:

- How established is the independent financial planner? What is the background of the company and its advisers?
- What are the services provided? Are they specialists in equities, funds, insurance, or all three? Do they provide advice on other issues such as taxation?
- What are their professional qualifications? Do they have the proper qualifications and is training for their staff provided?