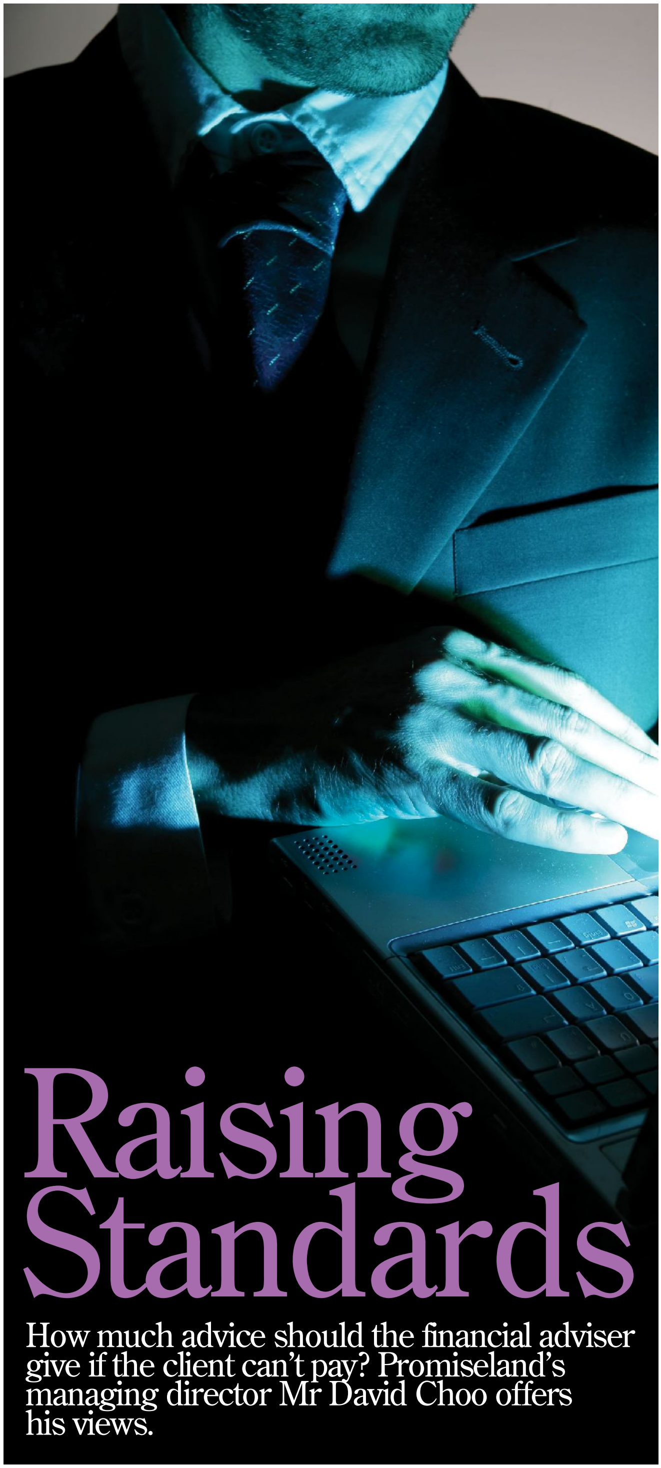

Raising Standards

How much advice should the financial adviser give if the client can't pay? Promiseland's managing director Mr David Choo offers his views.

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One of the moral conflicts an ethical Financial Planner or Adviser faces is how far he should go in giving information and advice, and whether he should provide financial counselling to clients who need it but cannot pay for it.

As an information provider, it is generally agreed that the Financial Adviser should provide all relevant and pertinent information for the client to make an informed and sound decision. However, the Know Your Client Form (KYC) is designed more for the client to inform the Financial Adviser than the other way round. The width and depth of information depends on whether the client wants to disclose full information, or partial information, or whether he wants product advice only, or no advice at all. On the part of the Financial Adviser, he is required to disclose his company, his status (licensed or exempt FA), relevant product information and his basis for recommending which product and how much for the client to buy or invest. However, the information currently required to be disclosed is considered the bare minimum. How much more should an ethical Financial Adviser inform the potential client?

And how much is he expected to know in the first place?

PRAGMATISM VERSUS IDEALISM

Obviously, there is a vast difference in knowledge between the rookie and the "lau cheow" (old bird). Even among the knowledgeable and experienced Financial Advisers, opinion differs as to how much they should inform. Some make the important distinction between being a "professor" (super information provider) and a salesperson (provide just enough to close), and, obviously, the salesman succeeds better in business than the professor. Some Financial Advisers gauge what is the level of information that the prospect can take in, and some Financial Advisers take into account how much time the prospect wants to spend and decide what is sufficient to close the sale. Usually, pragmatism triumphs over idealism.

My observation is that Financial Advisers are not providing sufficient information to clients, although I am not putting the blame on Financial Advisers alone, as customers are equally to blame. Many prospects do not want to give sufficient time and attention to details, thinking that financial products are simple and choosing the right ones is pretty straightforward. The reality is that financial products are complex and right product selection takes time and care, because not all Financial Advisers have the right or best products, and some may be motivated by higher commissions or fees for certain products. Choosing a Financial Adviser of integrity is one way of circumventing the problem, but customers must bear in mind that not all Financial Advisers have access to the wide range of products in the market. For example, Financial Advisers who are tied agents represent only one product provider and can only provide advice on their limited range no matter how ethical they are.

HOW MUCH ADVICE SHOULD THE FINANCIAL ADVISER GIVE?

The difficulty the customers will face, even if they want to spend more time to examine what their financial needs are and how best their needs are to be met, is how to go about it. Financial literacy is still low, although it is improving. The process being advocated by the Financial Advisers Act is laudable, but the MAS mystery shopping done recently showed that there are still lapses in disclosure of important information and fact finding is not as thorough as it should be (see summary table).

The mystery shopping did not cover analysis and recommendation of products. If it did, I will not be surprised if the findings are that Financial Advisers still have some way to go. There will probably be even more differences in standard among the practitioners. After all, fact finding is a rather much easier task.

> **"Choosing a financial adviser of integrity is one way of circumventing the problem, but not all financial advisers have access to the wide range of products."**

How far, then, should a Financial Adviser go in the giving of advice? Those who are using the fee only model are supposedly only rewarded for providing advice and presumably should be doing a more thorough job but there is no market study done so far. Financial Advisers who charge fees and earn commissions also (fee based) are also expected do a more thorough fact find, analysis and recommendation, and may rebate all or part of their fees if the client purchases products from them. Financial Advisers who do not charge fees are still expected to do a proper process and some are doing as much work as fee and fee-based Financial Advisers.

FINANCIAL COUNSELLING FOR THE NEEDY

Ethically speaking, the advice given should ideally not be dependent on the model of remuneration or the size of the business, but reality proves different. Financial Advisers have to make a living and are often pressed for time. Anecdotal evidence suggests that it takes much more time today to close a sale compared to ten years back. This is because of the longer process of fact finding and the increasing complexity of products. Faced with business pressure, Financial Advisers are also tempted to see only those who can give them good business. Paradoxically, those who need financial advice most – the financially illiterate and the lower income – are the ones who are not in the radar of Financial Advisers. My belief is that Financial Advisers should include financial counselling for those who need it as part of their business, whether these people have limited means or no means at all. This is very much like lawyers, doing pro bono work. In addition, financial counselling could be provided by community centres, family service centres and religious groups. Financial Advisers could offer their services to these bodies so that those in need can be helped. Many problems faced by families arise from poor money management. The recent newspapers reports of many people having to keep on working to service newly taken up housing loans highlight poor financial decisions. Many Singaporeans are pressed to solve cash flow problems and end up facing greater financial liabilities, e.g. selling a car and buying a new one, or selling a house and buying another.

MAS MYSTERY SHOPPING 2005/2006 QUALITY OF ADVISORY AND SALES PROGESS

Fact Finding
Generally not detailed enough and a few important questions not asked eg. Financial Situation, Current Investments, Retirement and Marriage Plans.

Disclosure
Generally done well but a few did not explain the warnings, exclusions, disclaimers and free-look provision.

Recommendation
The majority took into account the financial objectives and needs and gave reasons but about half do not do it in writing.

Overall Finding
Most representatives conduct a basic fact-find but there are gaps in the quality of disclosure and documentation. Financial Institutions had better processes for investments than for insurance sales.

Overall Recommendation
- Procedures to monitor extent of fact-find and training
- Systems and controls to ensure compliance eg. Checklist for Representatives and declaration by clients to ensure that requisite disclosures are made.
- Recommendations to be in writing and supervisor's vetting.
- Financial Institutions to focus on longer term needs of their clients.
- Consumers to better understand the products they are buying and the risks involved.

MAS Mystery Shopping 2005/2006

CONCLUSION

The Financial Adviser plays a very important role in providing advice and solutions to clients' financial needs. While they have to comply with the minimum standards set by the regulators, they should do more to raise the financial literacy of Singaporeans and help their clients to manage their finance and risks better and to invest wisely. **SI**

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