Start WELL

By **David Choo**

Selecting the right financial planner or advisor is crucial from the start. It can be the difference between a great head start in life and utter heartache. Promiseland's managing director **MR DAVID CHOO** tells us why.

THERE IS A saying "start well and you will end well". We all know not all who start well finish strong, but starting well does give a head start. How true this is for financial planning.

The first step in the financial planning process is to appoint a financial planner/adviser and to work out the client-planner relationship to your advantage, not the planner's.

If surveys are to be trusted, the majority of clients do not take the "trouble" to appoint the "right" financial planner/adviser but just go for the ones they know. Relationship is certainly important, but clients should note that financial planning and advice is complex and both an art and a science, and there is a world of difference between a good qualified planner and a self-styled one.

Choose Wisely

In my first article, I revealed the first shocker – anyone can call himself a financial planner. It pays to choose your financial planner carefully and work out the details of the client-planner relationship before going further.

The second shocker is that, even if you have a very good financial plan done by a good financial planner, you still need good solutions and products, and not all financial planners do this. The moment a financial planner goes into advice, he is required to be a "Financial Adviser" (FA), a term which use is regulated by the Monetary Authority of Singapore (MAS) through the Financial Advisers Act (2002) and the related

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guidelines and notices. This should mean that there is some "protection" if you deal with a financial adviser. But the third shocker is that so many classes of people can call themselves financial advisers and you must be able to differentiate. Let me explain.

The Financial Advisers Act (FAA) allows for two types of financial adviser firms - licensed and exempt. Licensed FAs and their individual representatives have to be licensed by the MAS. Exempt FAs are companies that are licensed to do other business (e.g. life insurers, banks, stockbrokers, general insurance brokers) and now they are permitted to do financial advisory business. The individual representatives of these firms are not licensed individually by the MAS.

Most of the exempt FAs represent only one or a small group of product providers because FA business is not their main business but they are taking advantage of their clientele list and selling a few more products.

The second thing to note is that the FAA allows for two types of advisers – independent and non-independent. Licensed FAs can choose to be independent and have to comply with stricter requirements as to objectivity of advice and multiple product representation, or non-independent and not have to worry about the higher standards. In principle, a licensed FA, or exempt FA, need to distribute the product of only one life insurer and its own unit trust.

A further complication is that not all FA firms use the title "independent" in their company name, and still can claim to be independent. Worse, non-independent FAs need not call themselves independent or non-independent, and often clients will have to guess or ask specifically whether they are independent.

Exempt FAs are generally non-independent (e.g. life insurers, banks, stockbrokers). But who knows if they do not mention it. It is generally not stated in their name cards or literature.

A third cause of confusion is that the terms "agent" and "broker" are not used anymore, but the generic term "financial adviser". Legally, the agent represents the principal (e.g. a life insurance agent represents the insurance company), whereas, a broker represents the client (e.g. a licensed FA distributing life and general insurance for several companies).

The financial adviser is accountable to give advice on a reasonable basis, whereas, the independent FA is responsible to give advice on a "fair and objective" basis. But a life insurance agent still basically remains an agent because of the agency agreement he signs with the insurer. Do clients know this?

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Prior to the FAA, it was quite clear whether you are dealing with an agent or a broker because the name cards and titles display the terms. Today, everyone in the open financial services field wears the jersey "financial adviser" and the true identity is a secret that has to be unravelled. A client does well to ask direct questions of the financial planner/adviser whether he is an agent or broker and which company he represents or can distribute for. (By the way, writers and columnists should also disclose whether they are agents or brokers, independent or non-independent, so that readers can understand their perspectives and biases, if any).

The "term versus whole life" and "investment-linked products versus unit trust" proponents and opponents can often be divided into camps because of their business models and representations.

Ask the Important Questions

So, who is your financial adviser? Is he a tied life insurance agent representing one of the life insurance companies? Is he a broker with a licensed FA, and how many firm is he able to distribute for life insurance, for general insurance, for unit trusts, etc.?

Is he a representative of an exempt FA and how many firms is he able to distribute for life insurance, etc.? Is he independent or non-independent? And how many firms is he able to distribute for?

So, clients should note that they need both good advice and good (effective) solutions and products. If they go to financial planners who charge fees for their planning, would the financial planner be able to provide the wide range of solutions and products? Giving good advice depends on the competence of the financial planner and adviser. Giving good solutions and products depends on how many product providers and fund managers the planner and adviser can distribute for.

How can you assess the competence of the FP/FA? The following factors are worth examining:

- Qualifications – academic and professional

- Experience – general experience and industry and business specific
- Success and reputation – track record and type of work done
- Support and service provided by his company
- General suitability and fit – personality, chemistry, etc.

It helps if you know the FP/FA, or he is referred by a trusted friend who has benefited from his service. But relationship should not be the only or primary factor.

Having ascertained who the FP/FA really is, the client should discuss the nature of the relationship between him and the FP/FA.

Firstly, the FP/FA is a consultant who gives professional advice and he owes a duty of care to provide sound advice.

Secondly, if he is a financial adviser, he is to abide by the FAA and clients should acquaint themselves of the duties of a FA. For example, FAs are to disclose a number of things including the companies they represent, whether they are independent or non-independent, etc.

Thirdly, the FP/FA also plays the role of a counsellor and is expected to give guidance and advice to clients who may not be in the know, or who may not have the means. This is more an ethical rather than a legal issue, and you have an opportunity to assess the character and values of the FP/FA.

Representing Different Interests

There are different hats that the agent or broker wears. In the area of sales, an agent represents the interests of his insurance company, but as an adviser, he is expected to take care of the interests of the client and he can be sued for not acting in the client's interest. Arguably, if an agent does not disclose that he is a tied agent, the client can have a case against the agent if the client finds this out and seek damages for any losses suffered because of inferior products.

A broker represents the client but must disclose what he is able to do or not to do, as not all product providers distribute their products through brokers and licensed FAs.

Clients should discuss at length with the FP/FA regarding their expectations. It is advisable to have a document to record the points of agreement and the fees that will be charged, if any. Not all FPs charge for their planning. If the promise is full rebate of commissions, the commission schedule of the products should form part of the agreement so that you can verify what is rebated. Generally speaking, there is no free lunch and the fees are substantially higher if these are the only income for the FP/FA. It is better to be deliberate and careful at the first stage rather than plunge quickly into the fact-find and analysis.

Start Well

Start well by selecting the right FP/FA. This will save you a lot of headaches and heartaches later. It is lamentable that FPs/FAs who want to do the right process of financial planning and financial need analysis are often being overlooked by clients who just go with any adviser whom they know, or who comes their way. Even so, for those who have not selected their FPs/FAs diligently, it is not too late to start again by looking

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