

Know Thy Client

The third important step for the financial planner to carry out his work effectively is gathering the client's data, and finding out his or her expectations.

By David Choo

THE OLD SAYING “Know thyself and to thyself be true” is equally important for financial planners. But how does a financial planner get to know his client and be true to his client? The answer lies in the important third step of financial planning, which is gathering client's data and determining his goals and expectations.

Firstly, why even bother to gather client's data? For many decades, salespeople did not have to worry about this step. They merely peddled their products or pushed some pre-selected products to their clients. Then, salespeople found that “one size does not fit all” and began to do “single-need selling” and then progressed to “total needs selling” using a “financial need analysis” approach. Only with the advent of the financial planner doing comprehensive financial planning did the thorough “fact-find” forms come to be used.

What is involved in gathering data and determining the client's goals and expectations?

The Financial Advisers Act (2002) advocated that an adviser first conducts a thorough fact-find of the client before making any recommendations of solutions. Any firm that dutifully goes through all the sections of the FAA will come up with a very detailed “Know Your Client” (KYC) or fact-find forms, going into tens of pages. However, the three broad main categories of data which have to be gathered are:

1. The client's background – financial, personal and employment details



2. The client's objectives
3. The client's risk profile

A list of the headings and sub-headings of the typical KYC are:

- * Personal information
- * Employment details
- * Dependants
- * Income and expenditure
- * CPF information
- * Assets and liabilities
- * Current savings
- * Potential liabilities
- * Existing insurance policies
- * Investment assets
- * Residential property
- * Investment risk profile

Besides the client's background and financial situation, the KYC also covers his objectives and expectations. It is not sufficient to know the client's general objectives, like to retire comfortably, but to go into specifics. For example, how much he needs for retirement, where he intends to live, etc? The typical goals and objectives of clients can be a few, or all of the following:

General Goals

- * Income protection
- * Children's education
- * Retirement funding
- * Estate and taxes
- * Others, e.g. wedding, own education, going into business

Investment Objectives

- * Liquidity
- * Diversification
- * Capital appreciation
- * Security
- * Ease of management
- * Provide income
- * Hedge against inflation
- * Speculative gains
- * Tax-free gains

It is important to quantify specifically each of these goals. For example:

- * Children's education – local or

overseas, amounts required, age of entering university


- * Retirement funding – annual sum required, age of retirement and for who (husband, wife, or both)
- * Income protection – salary amount and period of protection

Determining clients' goals and objectives is not as easy as it may seem. Clients generally find it hard to differentiate between their needs and wants. Goals are usually more wants than needs. Only those living in need, or at the subsistence level, would focus on just meeting their needs. The middle income and richer clients would set financial goals based more on their wants. But just coming up with figures for wealth protection, wealth accumulation, wealth conservation and wealth preservation is not enough. The financial planner's task is to make sure that these goals must be heartfelt, desirable and achievable.

Targets set may depend on many factors, not least the client's propensity to save or invest, the client's lifestyle, and the client's relationships with his spouse, children, parents and siblings. To ensure that these targets are "serious" and not just figures quickly derived by mathematical formulae, the adviser must gauge the client's relationships, motives, sentiments and values. These "soft" facts, as compared with the quantitative or hard facts like income and expenditure, are harder to obtain, but they are important because they determine whether the client will want to do something about his goals.

Sadly, only a minority are used to setting goals for their lives, including

financial goals. Persuading or convincing a person to set goals is one of the greatest challenges faced by the financial planner and adviser. Many do not want to do the full fact-find which is required for a thorough analysis before making recommendation. They are driven more by their specific and urgent needs like purchasing a mortgage insurance when they buy a property, or saving up for their children's education. Nevertheless, a good financial planner and adviser will bring the client through the process of full fact-finding in order to provide all pertinent information for his analysis and recommendation. Winning the trust and confidence of the client is a vital first step and a good start is to explain the need for a full fact-find.

One important reason for a full fact-find is because the financial planner must take not only the present but the likely future circumstances into account. It may take a full session of few hours, or even a few sessions, but it serves as a very good financial health check and record, and is useful for the client's own use. We are willing to go for various health checks to keep in good health, and should look at the full fact-find as the starting point for our quest for financial health. 

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