

An advisory service or a sales business?

Financial advisory firms won't change unless commissions are dropped, says **CHRISTOPHER TAN**

WHEN the much-hyped Financial Advisers Act came into being over a year ago, the media here reported that a new breed of financial advisers was born. It gave much hope to Singapore's financial planning industry which was then dominated by insurance advisers and banks. The advantages were clear: financial advisers are independent, offer more product choices, and are able to distribute collective investment schemes like unit trusts. What followed was an exodus of insurance advisers to these newly licensed financial advisory companies.

But one year on, has it changed Singaporeans' impression of financial advisers? Not too long ago, an acquaintance who didn't know my profession innocently observed that a good financial planner had to be good in sales talk! He's not the only one who thinks this way.

I believe that the only things that have changed are that we are now called financial advisers and we have more products in our stable. What has not changed is the way we conduct our business — which is sales. Just consider some of our practices.

Compensation: Who makes an income via commissions? The answer is — a sales person. Almost all financial advisers in Singapore are currently compensated by some form of commission for distributing insurance, unit trusts and mortgage products.

This is no different from the old regime. There is nothing wrong with commissions if you are a sales person. But when you claim to be giving professional financial advice, that is where the problem arises.

Firstly, when your source of income is from product sales, your focus will be on selling products, and not spending 30 to 40 hours meticulously preparing advice for clients.

Wrong impression: the way many so-called financial advisers go out canvassing for business on the streets leads many people to think of them as no more than sales people for financial products

Secondly, there will always be a potential conflict of interest. Lawyers and accountants do not earn a commission but take a fee for their work. They need to stay free from conflict of interest to act solely for their clients.

Over the years, as I moved from being a commission-based adviser to a fee-only adviser, I realised that the only way to be on the client's side is to stay free from commissions.

Many have argued that ultimately, it is the integrity of the adviser that is important. I agree. But the integrity of advisers is a given. If there is no integrity, they should not even be in this profession.

Let's take our government as an example; if a minister or an MP has a character defect, he will not even be in government. But our government will spare no effort in removing any conflict of interest in the system. The commission is that conflict of interest in the financial advisory profession. As long as financial advisers are not prepared to give up this lucrative compensation, our profession will always be a sales business.

Prospecting for business: Recently, while I was having coffee at Raffles Place Square, a stranger approached me, introducing himself as a financial planner from one of Singapore's biggest financial advisory companies. After I turned him down politely, he continued to go around canvassing passers-by. You cannot help but think of him as a salesman on the street hawking his wares.

There is nothing wrong in canvassing for business on the street if you're a salesman. But you would not expect a professional to do the same thing.

Recruitment: Recruitment has been a key growth strategy for many financial advisory companies. But the way some companies recruit, one can't help but wonder whether the industry is trying to attract sales people or professionals.



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I have a problem when I hear that an organisation aims to hire 100 advisers in a year. I cannot accept that a professional firm can recruit 100 well-trained and experienced financial planning professionals in that time.

To me, only a sales organisation would be able to recruit at this pace. Sales organisations hire *en masse* and if you do not meet the target, you go. As long as we continue to recruit in this way, we will continue to be seen as sales people and not professionals. And as long as we recruit in this manner, the industry will never have well-qualified advisers.

To make matters worse, financial advisers use financial planning processes and glamorous titles such as financial consultants for the sole purpose of selling financial products.

For Singapore's financial planning industry to move ahead, and for clients to really benefit from advice, financial advisory companies must be prepared to change the way they conduct business. But I suspect many are unwilling and unable to do so. Unwilling, because commissions are too lucrative to give up and unable, because their existing advisers cannot change from the old ways of conducting business.

But beyond business conduct, financial advisers must change their mindset. We must first realise that we have a fiduciary responsibility. It means that we are entrusted to manage assets in the best interests of the beneficiaries. If we understand that we have that obligation, we will do whatever it takes to remove obstacles in the way of our clients. When clients entrust us to plan their financial life, we have to realise that it is not just about how much we can make from them. The compensation we get may only last us for a while. But if we do not do a good job, we destroy the dreams they have for themselves and their families.

Eight months ago, my five-year-old son was admitted to Kandang Kerbau Children's Hospital for an operation. There was a playroom next to the operating theatre. There, a doctor played with my son for a while before taking him into the theatre.

Inside, I witnessed teamwork and professionalism. Nurses and doctors were checking the equipment; the surgeon briefed me again of the procedure, and nurses distracted my son with cartoon stickers while the anaesthetist did his work. The nurses and doctors made me feel safe leaving my son in their hands.

That has motivated me to do the same in my practice. We are all financial doctors to our clients. For them to feel safe leaving their assets in our hands, we must do everything possible to change financial advice from a sales business to an advisory service. Our clients deserve it.

The writer is executive chairman of financial advisory firm Provident