

DISCLOSING FINANCIAL DETAILS

When silence isn't always golden

3/21/04
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IT'S that time of the year again when those with bonuses or salary increments in the bag start thinking of investing their money or upping their insurance coverage.

Others may not have been so lucky, but could have resolved to draw up their financial plans once and for all.

This usually means boom-time for financial advisers and insurance agents.

In the rush to buy, however, most consumers are still hesitant to divulge their personal financial details.

Maybe they have not been disciplined about saving for emergencies, or they have over-committed to housing, motor and various other instalment plans.

Yet few realise that by being guarded or in some cases just plain lazy, they are doing themselves a great disservice.

That is a pity because recent regulatory changes in Singapore have meant that consumers are now better protected than ever before.

Since the Financial Advisers Act (FAA) came into full effect last year, financial advisers are required to have a "reasonable basis" for any recommendation made with

respect to any investment product.

The adviser "should give due consideration to the person's investment objectives, financial situation and particular needs". This

means that when a financial adviser makes recommendations to clients, he is expected to "know his client", conduct a needs analysis and ensure proper documentation and record keeping.

But the FAA goes further than that. It says that any information provided by the client becomes the basis on

which the recommendation is made. So if the information that you provide is inaccurate or incomplete, the FAA states that this "may affect the suitability of the recommendation".

What all this legal mumbo-jumbo means is this: Basically, if you decide not to provide the necessary information, you are in fact absolving the financial adviser of a lot of blame.

If you choose to keep mum on your financial health, you cannot come back later and say the adviser gave the wrong advice if the investments proved unsuitable.

Unfortunately, it seems that not many people realise this. Figures from the Life

Insurance Association show that in the first nine months of last year, even after changes to the FAA kicked in, only 13 per cent of the total applications submitted for insurance products were done with "full fact-find".

"Fact-find" forms — introduced in January 2001 — capture vital financial details of an investor such as their cash level, stockholdings, insurance portfolios, assets, liabilities and monthly expenses.

Clients are allowed to complete the form partially, and they can waive it if they wish to receive only product advice or no advice at all. In fact, most investors (83 per cent) go only for "partial

fact-find" or pure "product advice", and 4 per cent decline all advice.

Now, it may be all right if consumers are waiving their right to a fact-find as they find the process cumbersome or too intrusive. But it is not all right if they are doing it without being aware of the downside of their actions.

The recent experience with insurance giant AIA's "critical year" fiasco — which is a result of mis-selling by its agents — is a clear indication that when sales are not based on customers' needs, inevitably there are problems with claims of mis-selling by customers.

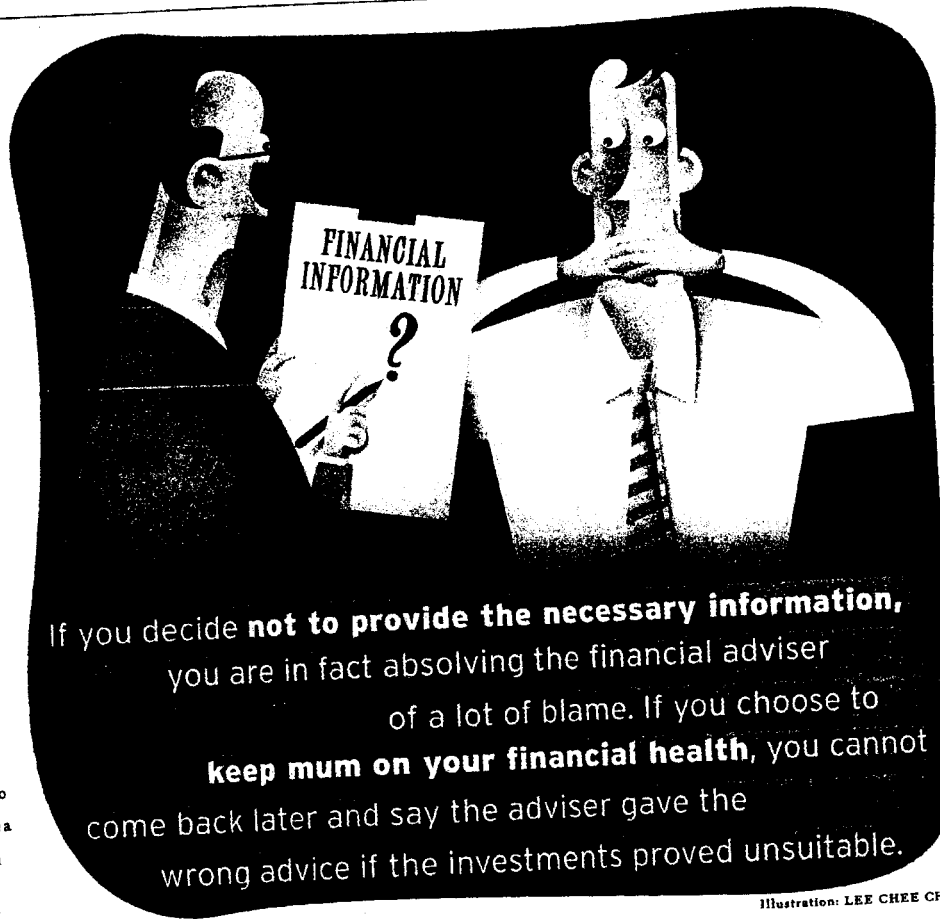
Some customers who were nearing retirement were also

sold high-risk technology funds during the dot.com boom and are still nursing their losses at a time when they should be enjoying the fruits of their savings.

Perhaps it should be made compulsory that "fact-find" and product application forms of all financial advisers should carry prominent health warnings just like those on cigarette packs.

They should state that if a customer fails to provide the necessary information, the financial adviser cannot be responsible if the recommendation made is not suitable for his or her financial needs.

Silence is not always golden.



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Illustration: LEE CHEE CHEW



COMMENT

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