

Wrong ideas about financial planning

Stanchart survey reveals alarming lack of knowledge

By Talla Krishnakumar

ABOUT three in four professionals in Singapore think that life insurance is necessary for the whole of people's life. Half of the same pool believe people should use all their CPF funds when buying a home.

But life insurance protects dependants against loss of income resulting from death — at 65, it is health insurance that should be people's focus, said Standard Chartered Bank which recently surveyed 167 professionals.

And people should always leave some buffer in CPF funds to serve as an emergency lifeline to meet monthly instalments.

Misconceptions about basic financial principles

were uncovered by the bank's survey to assess how best to provide financial advisory services to its customers.

Of the 167 polled, 80 per cent were in business (management and related business positions) and the rest in non-business professions (eg lawyers and architects).

What the survey revealed was an alarming knowledge gap when it comes to savings and investments, home planning and insurance.

Home planning questions drew the most wrong answers. For instance, 80 per cent of the respondents believe that people should minimise their loan amount and pay off a loan as soon as possible.

Dennis Khoo, Stanchart head of marketing and business intelligence for consumer banking, said that, these days, new homeowners should borrow the maxi-

mum amount from the bank.

Questions about the basics of savings and investments also revealed a lack of fundamental knowledge of investing principles among some.

Should people trade off a little return for a large reduction in risk? Should they take more risk the less wealthy they are?

To the first question, 28 per cent said no, while 42 per cent believe the poorer people are, the greater their risk appetite should be.

Actually, it pays to do the first, by simply diversifying one's holdings to create a portfolio of cash, equities and bonds. But not the second, because the less money people have, the greater the impact of any loss on their financial well-being.

Interestingly, women fared better on home planning and insurance ques-

tions, while men came in stronger on the savings and investment questions.

"People have to be equipped to look at their financial decisions in a more holistic framework," said Wilson Chia, Stanchart head of consumer banking.

"This includes how decisions in home planning impact another aspect of financial planning, like investments, as well as the long-term impact of your decisions. I've seen too many people spend money based only on their current financial position — but you can lose your job tomorrow."

For instance, as people move into a later stage in life, they have to rebalance their insurance protection and they may need to maximise their cover, he said.

The majority of those surveyed said that what they want from a bank is good and consistent advice.

The results validated

Stanchart's new advisory services offering, which provides comprehensive financial advice to its customers. For those aged 25-55, the personal finance advice lays out a roadmap on how to approach basic financial endeavours.

"People should think of their personal finance decisions knowing that their emergency funds and family protection are taken care of. They can then assess their investments in a house, credit management and strategies to gain returns on investment products," said Mr Chia.

For example, what happens when people lose their job and don't have spare cash. They may end up losing their house because they can't keep up their monthly instalments. Having emergency funds would have given them leeway should the unthinkable happen, explained Mr Chia.