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9 things to ask your financial adviser

By Larry Haverkamp (Dr Money)

mail@AskDrMoney.com

WHAT should you ask your financial adviser before making an investment?

MoneySense, a national financial education programme (www.moneysense.gov.sg) [suggested asking nine](#).

But if your adviser successfully answers them, ask him to go one step further and answer mine.

My questions - I believe - are more hard-hitting.

QUESTIONS TO ASK

1 MoneySense (MS): Why is this product suitable for me?

Doctor Money's question (Doc): Does this product help me OR does it merely help the financial adviser meet his product quotas?

Many advisers face a conflict. They quickly exhaust their monthly quota for selling low-margin products like unit trusts and single-premium ILPs (investment-linked products).

After that, in order to earn a living, they need to sell expensive, high-margin products like whole-life, endowment and structured investments.

If this is what they want you to buy, ask about their product quotas.

2 MS: What type of product is it? Is it a life insurance policy, unit trust or structured product? Is it for savings, investment or insurance?

Doc: Financial products typically make it difficult to learn their costs.

For insurance, ask how many months of premiums are required for you to pay the distribution costs (commissions)?

How does this compare to charges by the other 10 life insurers?

3 MS: What benefit does it offer? Which are guaranteed and which are not?

Doc: Take whole-life and endowment including education policies (WLEE). These popular products look safe.

You will never see a loss on the policy statements your insurance company sends you.

But distribution costs are high and it can take up to 20 years to break even, so you'll lose money if you redeem before year 20. Isn't that high risk?

4 MS: What instruments does the product invest in?

Doc: WLEE policies invest in a 'par fund'. But insurers do not reveal which stocks, bonds or property they have purchased for your par fund. They also don't tell the par fund's returns. (Two exceptions are NTUC Income and AIA.)

All unit trusts and ILPs routinely reveal this information. Why can't insurers disclose it too?

Advanced question: Each of us has different risk preferences. So why are all policyholders required to own exactly the same investments in the par fund?

5 MS: How do the returns compare with the CPF ordinary account (2.5 per cent) and the CPF special account (4 per cent)?

Doc: CPF's risk-free returns set a very low benchmark. Why not compare returns to investments in the same risk class?

6 MS: What are the various fees and charges?

Doc: Unit trusts and ILPs reveal their management fees. But WLEE policies do not. How are policyholders to know if they are being over-charged?

Advanced question: How does the insurer split shared costs - like overheads - between the policyholders' and the shareholders' funds? How can a policyholder know if the split is fair?

7 MS: Is the financial adviser regulated by the Monetary Authority of Singapore?

Doc: Even regulated advisers have conflicts of interest. Ask yours to rank the products he sells according to commissions earned. Make sure he includes trailer fees. Ask him to reveal his product quotas too.

8 MS: If I were to buy the product, how can I monitor the performance of my investment?

Doc: Shares, unit trusts and ILPs tell (i) how much your investment cost is, (ii) the dividends paid and (iii) how much it is worth now.

WLEE policy statements do not reveal this basic information.

Doesn't this make it impossible to calculate whether your return on investment is high, low or negative?

9 MS: If I find the product is not suitable after I bought it, can I get my money back?

Doc: Here are three examples of UNSUITABLE products:

Example 1: Regular premium ILPs charge a lot for a simple regular-savings feature. But you can get the same thing for free by purchasing a unit trust which offers an automatic savings plan.

Example 2: Many regular premium ILPs contain health and term insurance. The premiums increase with age. If an elderly policyholder is unable to pay the high premiums, the money is automatically deducted from his ILP investment.

This continues until he dies OR the value of the investment declines to zero and the policy lapses.

Example 3: Many have purchased critical year policies, thinking they had to pay premiums for, say, 10 years.

For some, they hit year 10 and the insurer hits them with a surprise: The critical year was not guaranteed after all. He must pay premiums for a few more years.

Questions: A month after you buy, you find important points in the contract which your adviser never mentioned. Can you get your money back?

Why is the industry practice to show you the contract only after you have agreed to purchase? Can't you see it sooner?

DR MONEY'S QUICK QUOTE

'Life insurance may actually increase your risks if you are not on good terms with the beneficiary.'

-Glenn Westley