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Get all the facts before investing

Your financial advisor must highlight all salient issues

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WHEN Mr Swarnendu Bhushan wanted to leave the country and sell his unit trust, he received a rude shock.

Mr Bhushan said that he was not told by his financial adviser (FA) who sold him the product that he would have to wait one to two weeks after the sale of the unit trust for the money to reach his account. He was also not told that the price of the units shown on the website was two days old.

"This puts the customer at a disadvantage because he is truly blind about what price he is buying and what price he is selling," he said in a letter to TODAY.

Mr Bhushan is unlikely to be alone in his experience. An industry-wide "mystery shopping" exercise conducted by the Monetary Authority of Singapore (MAS) between October last year and February this year found that only one in 12 FAs informed clients about exclusions and disclaimers in the financial products during the sales process.

Why do FAs seem to be reluctant to provide full disclosure? Advisors who spoke to Wealth said that the pressure to hit sales quotas was a major factor.

"The more you tell a customer about the warnings, and downsides of a product, the more the customer will get cold feet and back out of buying", said one financial consultant.

"We have high monthly sales targets to meet, so every sale counts".

Mr Christopher Tan, chief executive of-



BLOOMBERG

WELL-INFORMED ACTION: Clients should read each clause thoroughly and clarify every doubt with their financial advisor before signing investment documents.

ficer of independent financial advisory firm Provident said "the situation is made worse when financial products are being sold in a transaction manner like a commodity".

He suggested that clients bring back all the documents that they are supposed to sign, and read each clause thoroughly, clarifying every doubt before signing.

"All financial representatives must also be trained to explain these clauses well," he stressed.

He said that at Provident, financial products are transacted after three to four meetings.

"This helps us understand the needs of the clients before a product is recommended and the client has enough time to read any warnings, exclusions or disclaimers".

The problem stems from the training process of financial representatives, said vice-president M Salim of the Associ-

ation of Financial Advisers in Singapore (Afas).

"Training probably did not emphasise on compliance and disclosure, but probably more on the techniques of closing a sale", he said. "Representatives therefore do not focus on disclosure when selling, since they are not in the habit of doing this".

Following the release of the MAS survey results, local bank OCBC conducted a round of briefing sessions to remind its financial consultants of the requirements under the Financial Advisers Act, and to walk through the sales process with them again.

"At OCBC, our processes require PFCs to walk our customers through the disclaimers. Our customers, in turn, are required to endorse the documents to acknowledge awareness of the disclaimers," said OCBC Group Corporate Communications' head Koh Ching Ching.

Mr Salim also attributed the lack of disclosure to badly designed marketing materials. "They show the benefits in big, bright letters, but warnings and disclaimers usually come in small font size, right at the bottom or at the back of the brochure."

The Afas represents 23 firms and about 90 per cent of the business done in the FA market.

The dismal statistics regarding disclosure by FAs does not surprise the Consumers Association of Singapore (Case). The consumer watchdog received 38 complaints last year from consumers against FAs regarding disclosure of financial products. It has received seven cases so far this year.

"We expect the financial institutions to do something about the state of affairs, to put in place measures," said Case executive director Seah Seng Choon.

"We have called on the industry to include weightage of proper disclosure in the payment of commissions."

He warned customers to read the whole contract before agreeing to the terms, because "disclaimers and exclusions will affect the amount of coverage a customer is entitled to".

SOME THINGS TO ASK A FINANCIAL ADVISOR BEFORE MAKING AN INVESTMENT

MONEYSENSE, a national financial education programme, provides a list of questions that you should ask yourself and your financial advisor before purchasing a product. Some of these questions are:

1. Why is this product suitable for me?
2. What type of product is this? For example, is it a life insurance policy, unit trust or structured deposit? Is it primarily for savings, investments or insurance protection?
3. What benefits does this product offer? Which benefits are guaranteed and which are not?
4. What instruments does the product invest in? How risky are these underlying instruments?
5. If the representative recommends investing with CPF monies, ask: "How do the returns offered by the product compare with interest rates earned by monies in the different CPF accounts?" (Remember that monies in the CPF Ordinary Account and CPF Special Account earn a minimum interest of 2.5 per cent and 4 per cent per annum, respectively. This is both guaranteed and risk-free.)

6. What are the various fees and charges? Does the product provider have the discretion to change the fees and charges at any time or is there a cap?
7. Are the Financial Advisers that the representative represents and the product provider for the recommended product regulated by the Monetary Authority of Singapore (MAS)? (A list of financial institutions regulated by MAS is available in the Financial Institutions Directory at www.mas.gov.sg.)
8. If I were to buy the product, how can I monitor the performance of my investment? What reports and updates will I receive?
9. What if I find that the product is not suitable after I have bought it? Can I return the product and get my money back?

Note: The above information is of a general nature and should not be used as a substitute for seeking legal or professional advice.

You can go to www.moneysense.gov.sg for more information.