

# What Is Really Meant By “Professionalism”?

By Wilfred Ling

This article describes the professional financial planner in a wider context than its legal definition.

In my previous article, I wrote that many financial advisers mistakenly believe that the Financial Advisers Act is a comprehensive job description for them. In reality, the Financial Advisers Act narrowly focuses on the financial services related to advice and marketing of investment products like unit trusts and life insurance policies. What clients really need in practical terms are financial advisers who can provide a comprehensive service on all financial matters such as cash flow analysis, credit management, tax planning, estate planning, insurance planning, investment and retirement planning. (I'm sure that many financial advisers are already providing these services except that these services are done on the “by-the-way” basis rather than from a holistic and comprehensive approach.) I ended the previous article by saying that to put clients' interest first, the adviser must pursue Professionalism. The client should also ask the adviser whether he or she is pursuing professionalism. What is meant by being a “professional” financial adviser?

Burke A. Christensen, former general counsel and vice



president of the Society of Financial Service Professionals suggested four qualities that define a professional. These are:

1. One who possesses specialized knowledge not generally understood by the public;
2. One who has qualification which acts as a threshold entrance requirement;
3. One who has a sense of altruism; and
4. One who subscribes to code of ethics;

I'll elaborate what each of these qualities means in Singapore's context.

First, a professional is a person who possesses knowledge that is not generally understood by the public. Not only that, but such a knowledge must be specialized although not necessarily proprietary in nature. In fact, most of such knowledge resides in the public domain but the time spent in understanding them will be so significant that it will be better off for a client to engage the services of a professional. What are the examples of specialized knowledge generally not understood by the general public?

I will list three common forms of specialized knowledge. For tax planning and retirement matters, understanding of the complex Central Provident Fund (CPF) rules can be a daunting exercise for the client but having a good knowledge of such rules can save significant amount of tax expense. Moreover, CPF related schemes can be a powerful tool for a comfortable retirement. Another area not well understood is the treatment of risks covered by different insurance products. Some insurance products automatically exclude pre-existing illnesses while others provide a leeway to have pre-existing illness covered if certain terms and conditions are fulfilled. Insurance applications strategies differ for those with no known illness versus those who already possess known pre-ex-

isting illness. Such knowledge comes with experience. The third specialized knowledge is related to investments. How economic factors such as fiscal and monetary policy affect Gross Domestic Product (GDP) in terms of its effect on aggregate demand are commonly not well understood. Moreover, how the effects of increase in price changes of cost of production affect aggregate supply and the consequent of deflation remains a puzzle to most members of public. However, a professional adviser will be able to explain these factors so that a decision related to equity or bond investments can be made in a prudent fashion.

In the financial industry, many advisers do not possess such specialized knowledge. Many firms take great effort to train their advisers on selling skills but not much focus is placed in increasing specialized knowledge. At the same time, clients are not demanding their advisers to possess such specialized knowledge. For insurance matters, it is common that a person's first insurance policy is bought from a friend or a relative just to "support" them rather than because they provide good advice. For investments, the first product bought is often a high risk structured product or a "flavour of the month" unit trust from a bank after just listening to a 20-minute sales talk. As long as clients make their decisions based on sales talk rather than on the professional advice, the industry will continue to focus on selling skills rather than increasing specialized knowledge. As a client, you must demand your adviser to pursue specialized knowledge and you should not make decisions based on a sales talk.

The second factor that defines a professional is having a qualification which acts as a threshold entrance requirement. To enter into the professional field, the adviser must have sat for the relevant examinations,

passed them and earn the right to use the relevant designation. Not everyone will be able to take and pass these examinations because of the time and money required. These examinations must be relatively difficult so that only the most serious practitioners will be willing to spend the time and effort to study them. Under the current regulation, those advising on insurance and investments are required to sit for the Capital Market and Financial Advisory Services (CMFAS) examinations. Moreover, they must have at least an "O" level. It is an open secret that the CMFAS is so simple that it only takes a few weeks of study to pass these examinations. The fact that an "O" level is the minimum academic requirement shows that there is no "threshold" academic entrance requirement. What kind of qualification should an adviser possess? For financial planning matters, the Chartered Financial Consultant (ChFC) and the Certified Financial Planner (CFP) designations are those which clients should look out for. These designations are by no means easy to obtain and examinations are difficult enough to discourage most except those who are serious in pursuing professionalism. In other words, clients should ask whether their advisers are pursuing either the ChFC or the CFP designation. This being said, it does not mean that an adviser who already possesses one of these designations is competent. It is quite unfortunate in the industry that many clients do not wish to pay professional fees for advice. As a result, many practitioners have "reverted" back to the old way of product sales since commissions are earned from these. Other non-commission paying services such as investment portfolio construction, tax advice, estate planning, debt management and insurance advice (not sales) take a back seat. Ask your adviser whether he or she is mainly focusing on product sales or provide a holistic financial advice.

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Third, a professional is defined as one who has a sense of altruism. Altruism is the deliberate pursuit of the interests or welfare of others or the public interest. This is where most practitioners fail due to many factors. To be able to put the client's interest first, four factors must be present. One, the practitioners must be willing both in the mind and heart to put others' interest first. This is where one's value and upbringing comes in. If the practitioner is self centered and sees every client as a means to earn more money, there will be no sense of altruism. Two, the practitioner's company must have a culture of putting clients' interest first. With so many complaints about mis-selling in recent times, it is apparent that many financial institutions are more interested in maximizing shareholders' value than customers' wealth. If you see the practitioner's company regularly providing a "flavour" of the month for their advisers to push, you know that the company is only concerned in maximizing shareholders value and not their customers' interest. Third, even for companies that have a good culture of looking after the interest of their clients, the practitioners must not be restricted in their product recommendations. There is no such thing as one product manufacturer being able to solve all clients' problems. Moreover, last year's financial crisis has taught us that diversification is extremely important. It is not prudent to place all business with a single product manufacturer as you cannot be fully assured of safety. In addition, many good products pay no commission. The practitioner's company must not have a restrictive clause disallowing the adviser from recommending these non-commission paying products. Fourth, clients must be willing to pay for services and not expect "free advice."

It will not be possible for a practitioner to put clients' interest first if he or she goes out of business. So clients must be willing to pay for services rendered. Thus, as clients you must always ask your adviser how you are being charged – whether it is by commissions or separately through fees. Practitioners usually don't give free advice as they too need to make earn a living.

The final quality that defines a professional is his code of ethics. What is ethics? Ethics is closely related to moral values and moral standards. Some practitioners think that as long as a recommendation is legal, that is all that really matters. However, regulation only deals with the minimum standards. Ethics goes beyond what is legal. Take for example the sale of a capital protected note to a conservative person. Typically such a structured note packages a zero bond plus an option. The zero coupon bond provides the principle protection at maturity while the option provides the potentially higher return. But what many investors do not know is that they are subjected to the credit risk of the bond as well as the default risk of the option writer. I am sure these risks are disclosed in the difficult to understand prospectus. The onus is on the adviser to disclose and impress upon the investor the existence of these risks. However, the adviser would often just ask the investor to sign many forms rather than explain the risks involved. Since the investor has received the prospectus and signed on the disclaimer forms, legally speaking there is full disclosure. But by not highlighting the important risks involved, the adviser is not being ethical. Another example is that many practitioners sell products which they will never buy. If the product is so good, why aren't they buying? Of course

everyone's risk appetite and financial situation differ and so advisers are not expected to purchase products for themselves if these are not suitable. Yet, if advisers are placed in the exact situation as the clients, would they still recommend the same product to themselves? Usually the answer is no. There is a saying, "Do to others what you want others to do to you." Ethical advisers should always recommend products or strategies which they would buy if placed in the exact situation as their clients. This is what I always do whenever I make recommendations.

In conclusion, does your adviser possess specialized knowledge not generally understood by the public? Does he or she have qualification which acts as a threshold entrance requirement? Does your adviser have a sense of altruism? What about his code of ethics? ■

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