

## MONEY MOVERS

→ FINANCIAL WISDOM



# Bringing about a more perfect competition

By David Choo

**B**efore 1997, the fishermen in Kerala, a region in South India, were not necessarily happy when they had a good catch of sardines. When there was plenty of fish at the local beach market, prices fell and some fishermen might not be able to sell their catch, which had to be dumped into the sea. They could choose to venture down the coast in the hope of finding buyers, but they could not be sure.

If they made the wrong choice, they would have wasted fuel and time since fish markets were open for only a couple of hours

before dawn.

What changed the economic fortunes of the Kerala fishermen was the mobile phone, which was introduced in Kerala in 1997. With a mobile phone, a fisherman could call several nearby markets from their boats to establish where their catch will fetch the highest price.

#### FISHING IN FINANCIAL SERVICES MARKET

We have more than just the mobile phone to create a more perfect competition in our financial services market. Besides progressive regulations epitomised by the Financial Advisers Act,

Singapore has a sufficient number of licensed product providers here, more than sufficient intermediaries (tied agents, financial advisers, banks and so on), efficient transportation and telecommunications, and an increasingly educated consumer public. But are our consumers getting the best price and value for money? Are our product providers being motivated to keep on doing better by a more discerning and demanding consumer public?

For instance, how many consumers actually regard their investment money as something that they can “sell” to the interested

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product providers (the buyers in this case) for them to fight over, so that they (the sellers) can get the best deal?

From surveys and anecdotal evidence, the vast majority of those who “purchased” insurance and investment products see themselves as passive purchasers rather than sellers. They depend almost entirely on the advice of the person making the recommendation (tied agent, financial adviser, bank and so on) and often, without making any comparison or further checks, buy the product being promoted. There are several reasons involved:

- i) Force of habit – they are used to doing this for decades;
- ii) Complacency – they are not willing to make an effort to shop around;
- iii) Lack of knowledge – they do not know enough to make comparisons and to select product providers and products;
- iv) Putting their trust in the adviser to conduct all checks and to do what is best for them; and
- v) Convenience – they do not think that it is worth their time to source around

Based on my experience and that of my advisers, I can say that, because of their failure to take more care, many consumers have not been given the proper advice or the right products, and many have not received the best deals. Here is why:

- i) The agent or adviser is tied to one product provider (for example, an insurance company) and thus, promotes only the company’s products;
- ii) Some agents and advisers are motivated to push certain products because of higher commissions, or they have quotas to fulfill (some push only one or two products and are top in sales!);
- iii) Some agents or advisers are not well trained and have limited knowledge of their profession and products, and how to analyse and recommend the right products to clients. This is largely due to the high turnover of agents and advisers and the long duration needed to train new ones; and
- iv) Some advisers are knowledgeable, but it is their clients who do not wish to do a thorough analysis and they prefer to

purchase a product to meet a pressing single need. In such a case, out of convenience, these consumers just go for the first product offered.

#### HOW TO CREATE A MORE PERFECT MARKET

Firstly, consumers should consider themselves as sellers rather than buyers. They should let buyers of their services compete for their investment dollar.

Secondly, they can engage an adviser who is independent, well-informed and qualified to help them source for the best buyer or buyers. The key objective is to look at what best meets their financial objectives and what is most competitive. The adviser should legally be on the consumers’ side and not on the side of product providers. (On this point, consumers should remember that tied agents represent their companies, while independent brokers and advisers represent their clients.) Advisers should provide at least a few choices, and go through the advantages and disadvantages of each of them.

The investing public should get to know the competence of advisers and, if necessary, test them. If they are not able to do this, they can ask a friend who is knowledgeable to test an adviser. Only when they are sure of the adviser’s competence and integrity, should they regard him or her as a “regular” adviser.

Thirdly, the consuming public should have the numbers of at least two “regular” advisers on their mobile phones to check out “deals”. Never settle for a “regular” adviser, especially if he or she is a tied agent or a bank staff who can distribute for only one or two product providers. If you have an agent, or are a bank client, find an Independent Financial Adviser (IFA) who is able to distribute for many insurance companies and fund managers. Even if you are already using an IFA as a “regular” adviser, my advice is that you work towards appointing another “regular” IFA of another firm and let the two compete for your business. See who provides better advice and recommendations.

Not every FA firm or adviser distributes for all product providers and not every one is independent. Also, not all advisers are equally experienced and professional. Some firms are larger and have limited control over the quality of their advisers. Others may be too small to provide sufficient company support, while others may be new and are still learning the ropes.

Fourthly, after you have appointed two “regular” advisers, build a business relationship with them and have a preferred one, but keep him or her on his or her toes and keep him or her honest (that is, keep his or her attention on your business).

The Kerala fisherman who was willing to use a simple technological invention – the mobile phone – went ahead of his complacent competitors. The Singapore consumer will benefit likewise when he or she brings about a more perfect competition. There are already tangible benefits from more competition in medical products (especially the shield products) and term insurance. But differences in premiums and benefits among the offerings of different insurance companies linger and consumers must wise up and learn to use the new “inventions” of their mobile phones and email system to get financial advisers to work for their interest. **SI**



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