BY iGP TEAM

The Business of Managing Wealth in Singapore

Three CEOs of financial advisory firms share their views on the tumultuous year of 2011 and their outlook for the financial industry.

It has been a tumultuous 2011 with the Europe and US debt crisis and a chain of negative events plaguing the already fragile economic recovery in the aftermath of the recent Global Financial Crisis.

In this difficult environment, the optimist will see the window of opportunity to gain market share and strengthen his business. iGP INSIGHTS talks to three CEOs of financial advisory firms in Singapore to find out how they have been managing their business in this challenging environment and their outlook for the future. The CEOs are Alfred Chia, CEO, SingCapital Pte Ltd; David Bellingham, CEO, Professional Investment Advisory Services Pte Ltd; and David Choo, CEO, PromiseLand Independent Pte Ltd.

iGP INSIGHTS (iGP): How is business so far in 2011?

DAVID CHOO (DC): Our business has remained strong due to a strong increase in the number of Financial Advisers and greater emphasis on the high net worth investors. Investors have gone through a lot not just in 2011, but over the last decade and longer. Investors have to endure major market turmoil like the Asian Financial Crisis, Dot Com crash, 9/11, SARS and the recent Financial Crisis. The August upheaval has shaken investors' confidence once again.

DAVID BELLINGHAM (DB): We are very pleased with the progress of PIAS in 2011. We are growing strongly and in line with our targets in such a volatile environment for financial advisers to manage clients.

ALFRED CHIA (AC): Our business has enjoyed steady growth as more people become interested in holistic financial planning for themselves and for their business. We also see a large number of clients who come to us for specific advice, such as mortgage planning.

iGP: The markets have been very volatile in 2011 so far. How has the volatility impacted your business strategies?

DC: Such boom and bust cycles have reinforced our beliefs that, as advisers, we should strive to achieve what is best for the clients in order to achieve their objectives. We should not simply go after high returns as this may come with too high a risk for the clients. The volatility we have witnessed has once again proved to us that high risk does not mean clients will achieve high returns.

DB: Yes the volatility does make it harder for financial advisers to manage client expectations, both existing and new, especially so close after the Great Financial Crisis. However at a company level we take a longer term view and in that regard, core business strategy has not been altered due to increased market volatility. It reinforces though, that in such times, communication is more important than ever. Tactically we are working together to provide sound advice to our clients through our advisers, via multiple forums. The other issue it reinforces is choice. Not absolute breadth of choice but the right mix of options that allows advisers to meet all client needs with the appropriate tools of implementation, that is, the right product mix.

AC: The volatility of the market has stopped many investors from committing new funds into their portfolio as they now choose to stay on the sidelines. Though this has affected our new business, it is fine as we concentrate on serving our existing clients, shifting our focus to updating our clients on the current market trends to manage their portfolio better. This strategy works as most of our clients are long-term investors, and they understand that investment requires them to ride out the up and down cycles of the market. We also conduct seminars and workshops for new and existing clients to provide more information, empowering them to invest profitably.

iGP: What do you think are the key challenges to the financial advisory industry after the financial crisis?

DC: One of the key challenges is how the industry is going to cope with the heightened compliance requirements without adding cost and inconvenience to the clients. Greater compliance is ultimately designed to protect the consumers. However, we must be careful not to overdo it and put clients off proper planning. Clients can end up worse off if they see that the potential benefit is not worth the pain to meet compliance requirements. We do not want to end up in the scenario whereby the operation is successful but the patient is dead.

Convincing clients not to fear volatility but to embrace it would be another. As mentioned previously, there were numerous booms and busts over the last decade. Investors without any strategies would have made very little return, or worse, made big losses over the last decade if they have behaved like the typical investor. Accepting and leveraging on volatility would be crucial in the days ahead.

David Choo, CEO, PromiseLand Independent Pte Ltd

DB: It is, to an extent a new market and there are challenges but also a time limited window of opportunity for FA firms and their advisers. The Great Financial Crisis did result in clients, perhaps for the first time, questioning their sources of financial information and support. In many instances it was the banks that suffered reputation loss, and this is the window of opportunity.

The client's realisation that there is a value in non-aligned distribution, or at least in having product choice, has meant more people are willing to seek financial advice from the FA channel. The key challenge with this opportunity is expectation management and reputation. The performance and quality of advice delivered will ultimately determine the penetration success of FA firms and their advisers against the banks.

AC: There are 2 key challenges:

1. With the crisis in confidence that many investors are facing due to the volatile markets, the challenge for financial advisers is to be on the alert and on our toes to walk with our clients in this "roller coaster" investment climate.
2. The industry also has to ensure that their knowledge on the wide range of investment instruments is up-to-date, especially when new industry regulations require for all potential new clients to pass the "Customer Knowledge Assessment". Do they understand the process of analysis fully? Have there been any recent changes? To give an example, property is a major asset class that can both be the largest asset and liability for many investors; and investors know that. But how to specifically manage this debt successfully in order to achieve their other financial goals is not a straightforward answer.

David Bellingham, CEO, Professional Investment Advisory Services Pte Ltd

iGP: How can the financial advisers move up the value chain and compete with the private bankers?

DC: The alignment of interest with the clients provides financial advisers with a huge advantage over private bankers. Generally, financial advisers are remunerated based on how well the portfolio does – the better the performance, the better the remuneration. The opposite is also true. Financial advisers like us do not have to meet sales targets. This is in contrast to the transaction-based model that bankers have – the more the transactions, the higher the commissions. The performance of the portfolio plays no part in the remuneration process. Sales targets put pressures on the private bankers to ramp up transactions.

To build on the favourable structure that financial advisers already have, one area that we can improve on is the breadth and depth of the product range. This would enable financial advisers to address more complex needs. The enhancement, however, should come with the integration of independent parties. For example, the execution platform should be separated from the advisory process so as to preserve independence. This would help avoid the problems that bankers face and complement the objectivity that financial advisers offer.

DB: It depends on how one defines 'competes'; by quality of advice or demographic targeting. If it refers to competing in terms of quality of advice, I believe at our industry best we are there now, because we can offer comparable service, ongoing relationships, a broad choice of product solutions from multiple suppliers and credible advice. There are certain product offerings that most FA's cannot match such as direct bonds, stocks or internal cash management, but that is also a point of differentiation and reinforcement of service proposition. If it is referring to demographic targeting, the response is more strategic and relative to each organisation's goals. Clearly, an FA firm can compete in this demographic space, if it wants to.

AC: Financial advisers will have to value add. Beyond wealth management, estate and succession planning, and mortgage planning should be part of the range of services that financial advisers provide such that their clients' overall financial health is taken care of. This is especially relevant to high net worth individuals with multiple properties, as the management of their loans has a direct effect on status of their overall wealth.

iGP: Where do you see the financial advisory industry in five years' time?

DC: The future of the financial advisory is bright with the tremendous growth of the wealth management industry in Singapore. Coupled with the shift of the wealth and centre of power from the West to Asia, the future cannot be more promising.

There remains a lot of work to be done in terms of boosting clients' familiarity with the advisory model. But as clients realise our value proposition, the business can only grow. We would be able to give the private banks a run for their money with the continuous development of capabilities and competency.

Alfred Chia, CEO, SingCapital Pte Ltd

DB: There are great opportunities for the financial advisory industry in the next 5 years and even longer, but the realisation of those opportunities comes down to delivering quality advice now to build the FA industry reputation.

Clients are increasingly educated, sophisticated and questioning. This will drive them away from tied channels where advice is more product centric and limited to the company's own product line. This is relevant at both the tied agency and bank ends of the market matrix. These clients will naturally seek less bias and more advice centricity when they meet a financial professional. If that advice is delivered well and product solutions are constructed that are clearly in the best interests of the client, then the industry will continue to grow and thrive.

This will be supported by the regulatory development which continues to not only shape, but more clearly define the industry, the requirements and expectations of those that participate and provides confidence for the consumers.

The potential is for the financial advisory channel to become the dominant channel in the next decade and to being well on the way to that in five years' time. Whether it succeeds or not depends on all the participants in the FA industry. That is to say it becomes a self-fulfilling prophecy: if the industry collaborates more, acts professionally and delivers high quality financial advice to the public, then more people will come to FA firms for advice until we reach that tipping point leading to dominance. Bad advice or reputational damaging activities will ensure the industry won't. Therefore success is all down to acting in the best interest of the client and giving good advice.

AC: I see great potential for the industry. With the rising level of professionalism, consumers will have greater confidence in engaging professional financial advisers. And with Singapore gaining greater prominence as a financial hub among foreigners, Singapore is certainly well-poised to be the Switzerland of Asia, and the financial advisory industry will be able to prosper if we are able to keep up with the challenges. **iGP**