The big changes facing Singapore's advisory industry

Ian Black of AAM Advisory explains how wealth managers can and should ensure that they are providing the right type of advice to clients – in line with the increasing regulatory spotlight on ensuring quality and appropriateness of the advice given.

The problem of financial advisers (FAs) offering conflicted or misleading advice is a universal one. Increasingly, though, regulators across the world are getting serious about tackling this widespread issue to protect the interest of end-clients.

The UK, US and the UAE are all examples of markets where authorities are tightening the rules that govern the advisory industry. The objective, it seems, is to provide a baseline in terms of standard for relationship managers (RMs) and financial advisers alike to create uniformity in the industry.

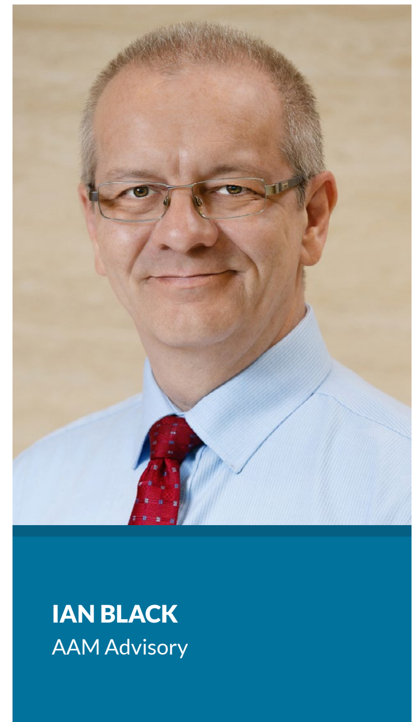
In Singapore, meanwhile, the Monetary Authority of Singapore (MAS) believes that anybody who is receiving advice should be getting that only from someone who is licensed to do so.

According to Ian Black, head of wealth solutions at Singapore-based IFA, AAM Advisory, this trend is fuelled by the move towards higher levels of investor protection and a desire to engender trust in the reliability of the advice on offer.

The authorities essentially want to ensure investors are not left 'high and dry' in case they have been led to invest inappropriately by rogue advisers, he explains.

In his view, regulators should further be making a strong case not only to prevent unlicensed practitioners from offering advice in their home jurisdiction. They should also keep them from acting in a similar manner anywhere around the world.

As a step in this direction, the MAS has decided to subject anyone who offers advice from any other jurisdiction online to residents in Singapore to the same licensing rules as it does for on-the-ground advisers.



IAN BLACK
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UPSKILLING THE INDUSTRY

Yet protecting investor interest is not just a matter of laying down stricter regulatory guidelines. It also involves

creating the right infrastructure to help practitioners attain a certain level of competence in line with standards globally.

"To provide the right outcomes for clients and the right focus in a business, and have that competence, there has to be an evolution like we have seen in Australia and the UK," says Black, "where the industry has moved to become more 'professionalised'."

At the same time, he believes it would be unfair to expect wealth managers in Asia to change overnight.

Since there are different challenges for the various types of businesses in terms of skills, talent and competencies, they cannot all be expected to climb the next rung in the ladder in terms of evolution at the same time.

For the industry to overcome the talent crunch, he says there is a need to put a sharper focus on building skills through retraining, as well as to implement stricter qualification rules while continuing to address the need of existing clients.

"The ability to become a financial planner very quickly with examinations which are below degree level has to go," urges Black.

A PROBLEMATIC LINK

The way that financial advisers are compensated and the quality of advice they offer is another dynamic that needs to be explored as part of the industry's development.

"The tools that advisers use to make their advice 'come to life' are products, but we don't sell products, we sell advice," says Black.

However, the lines between advice and products are blurred, he adds, as advisers are often motivated by considerations such as commission rather than the 'holistic' needs, ambitions and goals of clients.

The fee-for-advice model could be the way forward, believes Black. For it to succeed, though, an alignment between the value on offer and the fee charged is needed.

He suggests that instead of charging a fee upfront, which diminishes the investible assets, costs should be factored into the solution itself and delivered to the client at the outset, but secured over a period of time from returns, which usually is much more palatable.

Transparency will be the key for this model to succeed. "Fees doesn't mean a client should get their cheque book out. Fees mean it is going to cost and the adviser is going to charge something. Is the client happy with that? There needs to be a discussion about how that's going to be paid," says Black.

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He explains that there should be two components to the fee – one, for the initial work; the other, for portfolio maintenance.

"Advisers need to develop solutions for clients that will not only provide them with what they want to achieve for themselves, but also to have the flexibility to adapt as life evolves," he says.

From his perspective, dealing with expatriate clients, this involves talking to them about their pensions on a regular basis. "Two key pieces of information we ask them are: one, when are you going to retire? And two, where are you going to retire? The answers in most cases to both these questions are probably wrong."

Although Black makes the case for aligning the interest of advisers and clients, he is against performance-based fees.

"There has to be some linkage, but it would be unreasonable to expect that it should be performance-fee only," he says. "That's unreasonable because, it will lead to unnecessary risks being taken."

The only way to strike the right balance between fees paid and advice delivered, he believes, is to keep the interests of clients ahead of advisers.

"If an adviser is paid more for success, the client will not be concerned. If an adviser is paid less because things have not gone so well, then again there is an alignment. Where there isn't an alignment, is when an adviser gets paid regardless of the outcome", adds Black. ■