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THE BIRTH OF CORPORATE UNIT TRUST ADVISERS AS DISTRIBUTORS

Malaysian and Singaporean financial planners share their thoughts on the recent development of having financial planners as corporate unit trust advisers.

On 11 October 2007, the Federation of Malaysian Unit Trust Managers (FMUTM) announced that financial planners (FPs) are allowed to be registered as distributors for unit trust products of different unit trust companies. In short, financial planners can now extend their product advice to cover unit trust funds to their clients depending on their investment needs when previously they could not. These financial planners are known as Corporate Unit Trust Advisers (CUTA).

Financial Planners' Perception of CUTA

To some groups of financial planners, having the CUTA is a good move in the right direction as the profession's motto is to provide clients with holistic financial solutions to their investment requirements, even though there are some apprehensions.

"The Malaysian financial planning landscape is in its infancy and with the introduction of CUTA, it is only logical to expect some amount of confusion and fine-tuning to be done," Andy Lim shared his views.

"In any case, most financial planners welcome the move as they feel that the industry is moving towards the right direction in recognising that the distribution of unit trusts is a natural extension of providing financial planning services."

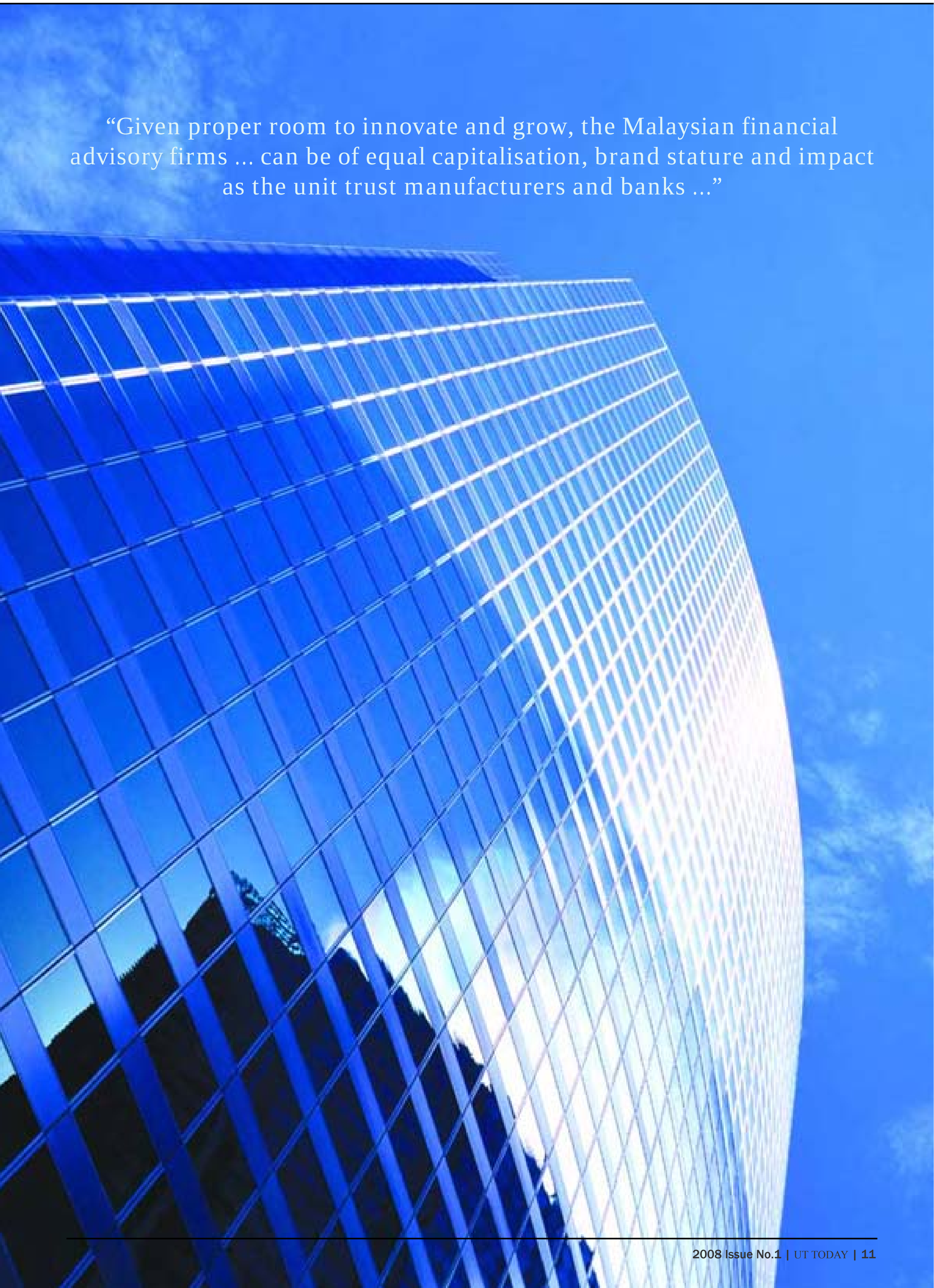
Similarly, Mike Lee also agreed that CUTA is a logical progression for financial planning companies who prepare a lot of investment plans using unit trusts as a viable investment instrument to help clients achieve their objectives.

However, CUTA seems to have some teething problems.

According to Alfred Sek, "The guidelines and regulations pertaining to the implementation are still unclear and will certainly be burdensome to many. Initial research shows that there are a number of larger unit trust managers who are resisting by not making available their funds for independent financial planners. This will make CUTA ineffective and stifle the growth of the unit trust industry towards professionalism."

He adds that the main issue for financial planners/advisers will be the increase in cost of doing business. The planners are already paying license fees to the regulators and their respective professional associations. An additional layer of fees and supervision is indeed burdensome.

"Given proper room to innovate and grow, the Malaysian financial advisory firms ... can be of equal capitalisation, brand stature and impact as the unit trust manufacturers and banks ..."



Mike Lee, Managing Director

Andy Lim, Managing Director

Robert Foo, shares similar sentiments, "I feel there is ambivalence among those who are eligible to apply for the CUTA license. Some may apply for the CUTA license but I believe the response will be mild at best. Reason is that the terms set by FMUTM for licensed financial advisers to become a CUTA are currently not very conducive for the target market."

Singapore - The Rise of The Financial Advisers Act

It is worth looking at the Singapore experience to see how things may develop for the Malaysian CUTA initiative. In Singapore, the Financial Advisers Act (FAA) was introduced in 2004 to allow approved financial planners to market unit trust products of different management companies.

According to Peter Siong, a financial planner in Singapore, the creation of the Financial Adviser Act (FAA) was a natural progression of the development or evolution of the industry. The United Kingdom (UK) and Australia have similar Acts that have been in place for about 15 - 20 years.

In Malaysia, there is the Securities Commission (SC) and Bank Negara Malaysia (BNM) which are two separate entities that regulates the industry independently. In the UK, Australia and in Singapore, both these entities have been merged into a single regime for greater efficiency, for better control and for better legislative convenience. Singapore used to have an Insurance Commissioner and a Security Commission. However, it has been collapsed into one following the Financial Adviser Act.

Essentially, the people involved in the industry have to obtain a license to be able to distribute unit trusts. It is called the Collective Investment Scheme which is an evolution from Life Insurance that is selling investment linked products.

People are required to take the Collective Investment Scheme examinations, which are called the Capital Market Financial Advisory Services (CMFAS) examination, before obtaining a license. So, licensing is part and parcel of the whole process which is similar to that in Malaysia.

Siong went on to say, "Life insurance agents now are allowed to distribute unit trusts if they have the licence. The market has been levelled so to speak, where everybody has the same licence to distribute; everybody has to get a particular licence to be able to advise on certain products. So, unit trusts are one of the common licences across the entire financial spectrum."

The legislators acknowledged the events that have taken place in the market, where life insurance companies need additional distribution channels; they need to move into bank assurance while banks need a new revenue line because of the disintermediation process. When these trends were apparent in

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the market, the legislators streamlined everything and that gave birth to the FAA.

Siong pointed out that the FAA makes it convenient for the client to walk into a financial institution be it an insurance company, a mutual fund company or a bank to be able to access financial products. When the playing field is being levelled out that way, then the natural progression must be the quality of the services and not the products that matters. He added that this is what the Act is all about. It is a catalyst pushing the industry towards higher professionalism.

Malaysian Financial Planners' Perception of the FAA

It does seem like the counterpart across the Causeway is working within a very straight forward framework for its planners, how does the Malaysian unit trust industry look at the FAA? And, how does the CUTA measure up to this?

"We are talking about two different things here. While the FAA in Singapore permits total financial planning (for example, investment planning, insurance planning and others), CUTA is meant for marketing unit trusts only. It is merely an avenue for financial planners to "un-tie" themselves so that they can market unit trusts independently whereas the FAA is the "financial planner, financial adviser and CUTA" all in one," Lee remarked.

"In this perspective, it is obvious that the FAA in Singapore has that distinct advantage in the development of the financial services sector for the benefit of investors or consumers."

Foo thinks that the main stakeholders in the Malaysian unit trust industry, comprising unit trust companies, intermediaries, advisers, regulators and also the investing public, would welcome an Act similar to Singapore's FAA. Such an Act would bring a better sense of order and transparency to the industry which in the long run would lead to a healthier and more robust industry.

He is of the opinion that the investing public, who would be able to get better quality information and better choices would be able to make better informed decisions to protect their own interests when it comes to investing their hard earned money.

"There is more clarity and understanding in Singapore with the FAA. Financial advisers are licensed under one Act and are allowed to represent more than two unit trust management companies by virtue of the Act. Advisers also have access to platforms that cover the whole gamut of unit trust company funds available in Singapore," Sek said.

The "One Act" in Malaysia - Implementation, Implications & Benefits

If an Act similar to the FAA was established in Malaysia, how receptive would financial planners be to it and what are the foreseeable benefits to the profession and the unit trust industry?

"Such an Act would surely address the confusion that exists with two licences that seem to talk about financial planning; the SC based licence and the BNM based licence. The Malaysian licences are based on the Insurance Act and the former Securities Industry Act (now under CMSA)," Sek offers his point of view.

"The "One Act" situation is more desirable. There would be less confusion to the public and there would be clarity as to

Alfred Sek, Chief Executive Officer

Peter Siong, Chief Executive Officer

who can call himself/herself a financial adviser or planner. In moving forward, we hope to have one licence and one standard guideline for the financial planning business covering financial services."

Lee feels that the "One Act" is very relevant as licensed professionals do not have to comply with too many sets of regulations which are time consuming and costly such as obtaining the licensing from the SC for financial planning; licensing from BNM for insurance planning; and additional licence from FMUTM/SC for CUTA. In addition to all the costs incurred for collecting CE or CPE points for licence renewal and professional membership of different associations.

In this regard, he also pointed out that unit trust companies must try to work with financial planners for the benefit of investors instead of avoiding them with the belief that they are a threat to their agency force or business in general. He feels that in the long run, unit trust companies will still be the winners in that financial planners will give them plenty of business when they recommend unit trusts as part of their clients' financial plans. Hence, unit trust companies have to position themselves now to work with financial planners besides their own agency force.

Lee quoted *The Star* on 6 December 2007 that ran an article, "EPF contributors may not have to pay more than 3% sales charge"; this was an early warning signal that ordinary consultants may not be able to generate high volumes of business for unit trust companies in the longer term.

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"The investing public is getting more educated day-by-day, and therefore, expects good value-added services for their investments. This is where financial planners or their consultants under the CUTA guidelines can provide that value-added service. In our company, we have always adopted the position that advisers should "market the plan, not the products," he said.

"I think any move that allows the investing public to have better choices, better and easier access to quality and relevant information about unit trust investing, whether sourced directly or offered through licensed and independent advisers would benefit the entire unit trust industry," said Foo.

Robert Foo, Managing Director & Principal Consultant

He added that at the moment, the unit trust industry seems to be smothered by too much marketing spin though various controlled channels and investors are sometimes unable to see through these marketing and sales campaigns to make good and intelligent choices for themselves.

Investors' Perception of Financial Planners

While financial planners appreciate the benefits from a unified Act, it is not as straight forward as it seems when dealing with the investing public. This is a result of the lack of education on the part of the investing public of what is a financial planner and their responsibilities.

Speaking from experience, Foo thinks that the public's initial perception of financial advisers is essentially as sales consultants out to push products to them and earn a commission. Most advisers need to do quite a bit of

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explaining and education before their potential clients and the public can understand the unique, distinct and valuable service provided by professional and independent financial advisers.

The negative perception is historical. To a large extent, independent financial advisers emerged from the sales consultants of unit trusts and insurance products who were tied to their sole principal. The entities and personalities who took on the mantle of promoting financial planning and personal financial advisory services were unfortunately those that the public identified with the imagery of high pitched sales oriented types and where the sole driver is to earn a commission from a product sale. So the idea of trusted, unbiased, well qualified and competent professionals (like accountants or lawyers) giving independent advice to the investors could not take hold when financial planning was promoted to the public by these entities and personalities.

Foo provides further explanation; banks initially had considerable trust from the public with regards to money matters. However, because of a pushy sales orientation by many banks and their personnel who needed to earn commissions and achieve sales targets, the public now regard banks as another high pitched sales organisation much like the tied sales consultants of the unit trust and insurance companies. The only difference perhaps is that they give better discounts and banks are a better one-stop financial services intermediary for the public.

However, there is now a slow but growing awareness by the public about independent financial advisers who provide more product choices, better and customised personal financial advice and product advice which is unbiased.

Lee is of a similar view, "Most people think that financial planning services are expensive and have instead resorted to "product pushers" who do not charge a fee. In time the perception will change in favour of financial planners or advisers as investors become more educated and knowledgeable about investment concepts and applicable products. A financial planner or adviser will help an investor attain his goals if he is prepared to work with him or her. The fee should be the last thing that they should worry about."

"Financial advisers are definitely able to educate the public about the need for financial advisory services. This is proven in various other countries where many large firms have emerged and the public there have greatly benefited from working with financial advisers," said Foo.

"The proviso in Malaysia is that financial advisers should be given the maximum leeway to innovate, evolve and develop their business models to provide professional and independent advice and services to their clients. There should not be any restrictive trade practices which create monopolistic trade structures and exclusivity in the industry which will directly or indirectly limit and constrain the growth and healthy development of financial advisory firms and correspondingly the overall unit trust industry. It would also help, like in Singapore that offshore and foreign funds are made available to the local retail investors directly through the licensed financial advisors. This would also push the envelope for the local players to raise their game to be at par with global players in serving Malaysian investors."

Unfortunately, there are still many investors who do not realise that if they work with financial planners or advisers, it will cost them no more than what they will pay the bank or unit trust consultants for their investments. In addition, they get at least a basic plan that charts their destiny. Therefore, in the short term, financial planners and advisers will have to work harder to face the challenges ahead.

"As CUTA has just been introduced, there is no useful index yet on the merits of FAs distributing unit trusts. There are about 200 practitioners on the scene to cover a population of 26 million. The law is very unclear and sends different messages. In the respective Acts, which introduced financial planning or advice, there was specific exclusion of consultants from needing to be licensed. This implies that consultants are still the force to reckon with in the distribution of insurance and unit trusts," explains Sek.

> "... if there is more liberalisation of the unit trust industry ... They will be able to play its rightful role in the capital market industry including the unit trust industry and contribute effectively to the healthy growth of the unit trust industry."

"Financial planning has not yet taken root in Malaysia. It has to jostle for a position alongside the current single solution tied consultants. Only when the public realise the benefit of financial planning will there be a marked response to the financial adviser."

Lim adds that most investors would not be able to differentiate between a financial adviser and unit trust consultant. However, for investors who had the privilege to experience the services of a financial planner, the client would likely agree that the FP's service tends to be more personal and holistic. These Malaysian investors are considered privileged, as there are only less than 300 FP representatives servicing the whole investing population of Malaysia.

How are Financial Planners Remunerated?

As the investing public are not very familiar with the roles and

> "Being a pioneer is always most challenging but it is often the most challenging path that is most rewarding."

responsibilities of what a financial planner can offer, it goes without saying that they will not be familiar with the way in which financial planners are remunerated.

"Most professions have a scale of fees to charge. Financial planning has not reached that level yet. Banks and others have complicated the scene by providing advice that precedes the sale of products in their stable," Sek explains.

"The commission compensates the adviser. However, a true financial planner who plots a path for the client to reach his or her many goals knows the time and effort involved. He or she would certainly want compensation for the ideas and efforts. But the market must become more sophisticated to value these professional services. The time has not come yet to introduce a professional scale of fees for financial planners."

Lee adds that there is no law to impose on the way financial planners are remunerated in Malaysia. Some of the methods used could be fee only, commissions only or a combination of both. He believes that it is a matter of understanding between the client and the financial planner on the best form of remuneration. Lee stresses that the method used may not be important as at the end of the day, it is the result that counts.

Foo did point out that it also depends on the business and value positioning of the individual financial advisers. Generally, the perception is that if one were compensated more by commission (meaning the compensation is derived only when a product is purchased by the client and rather than directly as a value of the advice given) then there is a greater possibility of conflict of interest and that the advice given may be biased not in the client's interest.

Financial Planning in the Future

In the next five years, Foo believes that if there is more liberalisation of the unit trust industry, particularly in the area of the capital market intermediaries like the consultants, financial advisers and internet platforms advisers having direct access to offshore funds, the independent financial advisers fraternity will grow from strength to strength. They will be able to play its rightful role in the capital market industry including the unit trust industry and contribute effectively to the healthy growth of the unit trust industry.

Not forgetting the role of regulators, Foo highlighted that the regulators also need to recognise that the financial advisers are a distinct class of professionals whose independence and operational flexibility should be developed and protected. Their interests and rights should not be treated as merely subordinate to the traditional larger capitalised product manufacturers who are, but only one of the many, stakeholders in the healthy development of the unit trust industry.

He said, "Given proper room to innovate and grow, the Malaysian financial advisory firms and their advisers can in due time become large and even global corporations and be of equal capitalisation, brand stature and impact as the unit trust manufacturers and banks in the healthy development of the Malaysian unit trust industry."

As Malaysians become better educated on personal finance, and as the principle of diversification and rebalancing of portfolios becomes commonplace jargon the need for financial advisers will broaden. Sek said, "The main concern right now should be to increase the number of financial planning practitioners in the country. Right now Malaysia is deficient in both supply and demand. But in five years time there would be enough pressure from the investing public for sound investment advice and the demand for independent and responsible advice will be widespread."

"There will be a paradigm shift and it will probably start with the introduction of CUTA. As more efforts are made to create awareness about the benefits of financial planning or simply investment planning, then the public will see the value in working with financial planners," Lee said.

"All investments have to start with a purpose or objective, be it retirement planning, child education planning, accumulating funds to buy a car or house or simply for better returns. So, it is always the plan first, then the products. As different people have different needs, the financial planner will face different challenges all the time. Developing solutions to different situations will keep him alert and up-to-date with current affairs. The role of the financial planner or adviser is therefore expected to grow rapidly with changing demands in the next five years."

Lim has a simple message to share with his peers in the industry, "Being a pioneer is always most challenging but it is often the most challenging path that is most rewarding."

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