

Financial Advice in South East Asia: The Next Great Opportunity

by Adj. Professor Wes McMaster

I have been visiting South East Asia (SEA) since 1971 and in the last two years I have spent a good deal of time training private bankers and financial advisers from Singapore, Taiwan, Hong Kong, China, Korea, Thailand, Malaysia, the Philippines and Indonesia. Through all of these contacts I have been able to develop a good intelligence network to keep in touch with trends in financial advice in the region. It is important for the financial advice community in Australia to follow developments to our north because it opens opportunities to share knowledge, services and to co-operate commercially. Because of this, I have been asked to share my observations of financial advice in the region.

Context

Look at the parallels with the Australian experience. Generally, each country in the region operates a tied agency model for financial advice. Financial Advisers are mostly tied agents of insurance companies, tied agents of fund managers or bank employees. In 2001 I published an article in the Asian Financial Planning Journal and gave some lectures in Singapore where I described the demise of the tied agency model and the rise of independent financial advisers (IFAs) in the region. This is now happening and it is interesting to examine the (predictable) dynamics.

In 2002 the Singapore Government enacted the Financial Advisers Act (FAA). This Act regulates financial advice and is similar to our own regulation. The previous regulation encouraged the tied agency model but the FAA creates an environment that encourages IFAs. So over the last four years we have seen IFA businesses established. The next step to change is the growing awareness of consumers that IFAs have access to the universe of tools to implement advice versus the tied agent with only a limited number of products (and often a blinkered view of strategy). IFAs will capture market share from the tied agents and the insurance and funds management companies will eventually embrace the open distribution or IFA model.

Everyone, both in Australia and overseas, complains to me about the impost of regulation. I say that regulation is good because it is about consumer protection and it therefore creates confidence in the integrity of advice. Look at Singapore, good regulation was introduced and financial advice is flourishing. Contrast this with Malaysia where there is poor consumer protection regulation and financial advice is going nowhere simply because they don't have an environment where consumers can have confidence in the integrity of advice. Although to be kind to Malaysia, they are upgrading their regulation in 2008. Other Governments in the region will eventually upgrade the consumer protection regulation of financial advice simply because the region is becoming overtly wealthy creating an increasing demand for advice and governments want their communities to use their financial resources efficiently.

Financial Advice or Financial Sales

I have found that many financial advisers and private bankers have transactional relationships with their clients. When they go to a client meeting, their objective is to sell the client a product. Clients have been conditioned to expect that when their adviser calls them, they will be asked to buy a product. This is why clients in the region are defensive in their relationships with their financial advisers. Naturally they are reluctant to give too much information to them.

My Singapore partner and I have been designing and delivering courses to address this issue. We are training financial advisers to move from sales based advice to advice based sales. We are teaching them to upgrade their skills in developing financial strategy for their clients and to reposition themselves as the personal CFO to families and not just the deliverers of product.

Beyond Financial Advice

We are now working with a small group of select advisers in Singapore and training them to be Financial Coaches. The difference between a financial coach and a financial adviser is that an

adviser tells a client what to do but a coach teaches a client how to evaluate their position and arrive at their own conclusion as to what strategy to adopt (with the help of the coach). The coach empowers the client by placing them in an informed position.

Opportunity

Financial advice in SEA is interesting because of the wealth that is being generated in the region and also because a typical wealthy family will have assets and income in different countries making financial and estate strategies critical to them. So far I have not found any advisers who are addressing these cross-jurisdictional issues however we have written these factors into our courses and case studies and this is developing a lot of interest.

We have found that financial advisers are keen to develop financial planning strategy skills and to become strategic advisers to their clients. One global bank we have been working with have used us to lead a change of culture within their organisation from transactional client relationships to advice based client relationships and this is indicative of where the competitive edge will be in the future. They recognise that an advice based relationship is influential and that they will reduce client turnover and increase product penetration per client.

Australian businesses have an opportunity to export their skills and experience to SEA and to establish good businesses. This is not an easy path and it requires patience, capital and good contacts.

Wes McMaster consults to advice businesses in Australia and South East Asia. He is generally consulted on business strategy and all matters related to financial advice.