Financial Planning for Everyone

Everyone knows the importance of putting a financial plan in place in order to achieve their goals. But should middle income earners hire a licensed financial adviser to help them in this quest? Or is this professional service only reserved for the wealthy few? *By Ariel Chew*

You probably have heard of the saying 'If you fail to plan, you plan to fail'. The question is, do you need to engage a professional to help plan your finances? Or should you wait until you have acquired at least US$1 million of investable assets excluding primary residence, which makes you a high net worth individual (HNWI)? Yes to the first question and no to the second, according to Bryan Zeng, CFP, a Senior Manager in Wealth Management & Operations with FA Advisory Sdn. Bhd. "I couldn't think of any situation where financial planning services would not benefit a person who earns an income or deals with money, regardless of their age or how much they are worth," said Zeng.

"For a middle income earner with savings, proper planning can put the

Chart 1: 10 Questions to Ask Before Engaging a Financial Planner

10 QUESTIONS TO ASK BEFORE ENGAGING A FINANCIAL PLANNER

1. Are you or/and your firm licensed in Financial Planning by the Securities Commission?
2. How long have you been providing financial planning services?
3. How many clients do you have? What is your client base like?
4. What professional qualifications and financial planning designations do you possess?
5. Do you work alone or with an associate on my financial plan?
6. How are you paid for your services? Is it fee or commission based?
7. What do you typically charge for your services?
8. Are you affiliated with any other companies whose products or services you may recommend?
9. Do you provide written client engagement letters?
10. Do you provide ongoing monitoring of a client's plan? How do you track changes in a client's financial situation?

Source: FPAM

Chart 2: Licensed vs. Certified - What's the Difference?

SELECTING A LICENSED FINANCIAL PLANNER

LICENSED VS CERTIFIED: WHAT'S THE DIFFERENCE?

Licensed Financial Planner	Certified Financial Planner ®
Has a Financial Planning License from Securities Commission (SC)	Have knowledge & competency, choose not to practise financial planning
Can provide training or write articles on financial planning	Can provide training or write articles on financial planning (non planning or advisory related activities)
Can draw up financial plans & advise clients and companies	Skilled in consultative selling of financial products

Source: FPAM

savings into good use to achieve the financial objectives of that person. For someone without savings, a comprehensive analysis can be done to identify the reason for no savings, and then a plan can be developed to create or increase savings and improve the financial well¬being of the individual. And if the individual is debt-¬ridden, a debt management plan can be drawn up to give a strategic step by step blue print to reduce and eventually eliminate the burden of the debts," Zeng explained. "Of course, the examples above only focuses on the cash management part of financial planning."

Zeng defines financial planning as managing and optimising one's current (financial) resources to achieve the desired (financial) goals. It is a roadmap that steers you towards your goals and deals with a much broader spectrum, namely, the accumulation, protection and preservation, and distribution of assets.

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Ten Important Questions

Once you've decided to engage a financial planner, you need to ask a few crucial questions to determine if they are the right fit for you (Chart 1). The most important question is asking if they are licensed as a Capital Markets Services Representation Licence (CMSRL) holder by the Securities Commission. It's not sufficient to be certified by FPAM as the Capital Markets and Services Act 2007 mandates that only CMSRL holders can practise financial planning (Chart 2).

What can you expect from your financial adviser?

"A lot!" exclaimed Zeng.

For a start, he said, financial advisers have a fiduciary duty to act in the client's best interest. Any conflict of interest must be eliminated or minimised and highlighted. Financial Advisers need to have integrity, professionalism, competency, as well as carry out their work diligently in an objective and transparent manner. "Basically you should need to be at the level where you can trust your adviser with your life. Stay far, far away from advisers who are only interested in your money," Zeng cautioned.

Brayman commented that financial planning has come a long way indeed. "When financial planning started over 40 years ago, it was perceived as a cross-sell opportunity. People from any related industry thought that they could sell insurance, funds and a plethora of things, and being a financial adviser gives them an excuse to be in front of those clients and batch it all up," he said "Thankfully, more and more financial planners have risen above that and are putting the clients' best interest first."

Fees and Charges

Financial Planning services can be fee-based or commission-based on financial products implemented, said Zeng. Professional financial planners should fully disclose the remuneration or compensation they receive for services rendered, including any kickback and non-monetary benefits, as well as explain the scope of work in detail. This is to ensure that the client is able to make an informed decision and give assurance that the client's interest comes first.

So, what should an investor allocate for this service? "This largely depends on the complexity and quality of the advice. Each individual's circumstances is different. Most cases that are simple and straightforward would only cost 1 to 2% of a person's wealth. Very often they are much lower," said Zeng.

The Sooner the Better

When should one get started? The earlier the better, according to experts, as there are opportunity costs involved when financial decisions to save and invest are delayed.

Although saving is an important aspect when it comes to financial planning, a professional financial planner will also look at all aspects of your life, including financial management, asset management, tax planning, retirement planning and estate planning. This is an important benefit of engaging a licensed certified financial planner.

"The fact is that people desperately need advice when it comes to financial planning and personal finance. But they have been going to friends, family, and even strangers for financial advice, only to end up being victimised. With the wealth of information available online, people are becoming smarter, and they are now realising that professional advice from independent financial advisers (IFAs) are more reliable and customised for them compared to the alternative," opined Kevin K.M. Neoh, a Licensed Financial Planner with VKA Wealth Planners.

A Profession of the Highest Standards

Financial planning is not an easy vocation, according to Shawn Brayman, President and founder of PlanPlus. The entry standards are high and one has to commit a lot towards continuing education. "That's what builds a profession and organisations such as FPAM continues to uphold and raise the standards of the industry," said Brayman. As such, clients of certified financial planners who are in good standing with FPAM and similar financial planning professional bodies can have confidence in their adviser's professional expertise, quality of advice and code of ethics.

As of December 2014, the Financial Planning Association of Malaysia (FPAM) has over 2,400 CFP certified members. The majority of these CFPs are from the unit trust and financial advisory industries. A mini survey conducted by FPAM during InvestSmart Fest 2014 among 225 respondents indicated that 71% of them wish they had someone to help them manage their finances better, and 76% of them were willing to pay for this professional service. The findings indicate that there is a need for good financial planners and that the current number of CFPs are not adequate to meet the country's demands.

Are Robo Advisers a Threat to Financial Planners… or not?

For those who prefer to DIY their financial planning, a robo advisers is an alternative they can consider until such a time when they are ready to engage a licensed certified financial planner. A robo adviser is basically an automated system that collects data via a questionnaire, figures out your risk profile based on your answers to the questionnaire and suggests a list of investments that may suit you. Two experts share their thoughts on this technology.

SI: Are financial planners at risk of being replaced by a Robo Adviser?

Bryan Zeng (BZ): Robo adviser is a new disruptive technology that would impact the industry but I don't see it as replacing the role of financial planners. This is because the current solutions provided by the robo advisers are focused on the cash management and investment aspect of financial planning. Financial Planning entails so much more than this.

You still need a human to go through the complex financial needs of a person especially in insurance planning and estate planning matters. Robo advisers run on algorithms and a set of given scenarios, the output are largely homogenous and may not be customisable to individual needs.

Furthermore there is the intangible value of being able to be in touch with a living person rather than through a flat screen. Your robo adviser would not be able to celebrate with you when you get married, when you have your first child, when you get a promotion neither can the robo adviser mourn with you when you lose a loved one.

Shawn Brayman (SB): For a low cost, robo advisers can provide consistent advice to customers. However, they are capable of handling complicated scenarios such as cross border planning, life planning, divorce or offer advice for life's unexpected events, and such.

At the end of the day, financial planners must bring value to the client and not approach planning the way a robo adviser would. Financial planners must dig down deeper and understand the real important things for the client and help them resolve these issues.

SI: Why are Robo Advisers popular in countries like the US but not in Malaysia?

BZ: The US is the world's financial centre and they have been in the forefront of technological innovation. It is not surprising then to see innovations such as the robo advisers coming out of US and other developed countries. It will be very interesting to find out what is the actual impact or percentage of market share that these robo advisers have gained so far. It may or may not be as widely adopted yet. Additionally the technology itself has not been proven in the middle- to long-term.

Financial Planners should welcome these innovations that can improve efficiency and reach out to a large number of people. In fact, robo advisers can be one of the tools used by financial planners in executing their advice.

SB: Every part of what we do in life is being automated and it is happening globally. Technology is changing the world around us and the pace of change is accelerating phenomenally. It is only a matter of time, most probably sooner rather than later, before robo advisers make a bigger impact in Malaysia. As the systems are evolving at a rapid pace, financial advisers must also evolve to remain relevant.