

# MAS mystery shoppers expose shoddy financial advisers

One-third of product recommendations were assessed as “unsuitable”, survey finds

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A RECENT mystery shopping survey by the Monetary Authority of Singapore (MAS) has confirmed some misgivings about the financial industry: When it comes to providing customers with quality advice and information, there is “significant room for improvement”.

The survey found that almost one-third of the product recommendations by financial advisers were assessed as “unsuitable”, while adequate product disclosures were found to be lacking, according to results released yesterday. The advisers also did not do enough fact-finding on customers.

Conducted from October to December last year, the survey involved 126 mystery shoppers who made 500 visits to 11 licensed banks and four registered insurance companies seeking financial advice from their representatives. It aimed to find out how well the financial industry has been doing in terms of providing customers with quality advice and appropriate recommendations, as well as relevant and timely information to make informed financial decisions.

Results show that the industry still has a long way to go. Indeed, 30 per cent of product recommendations were assessed by a panel of industry practitioners as unsuitable largely because the products recommended were not in line with the shoppers’ financial objectives or their stated investment horizons. The top three categories of products recommended were endowment insurance policies, unit trusts and investment-linked life policies.

Furthermore, the survey found that while most representatives disclosed basic information on recommended products and obtained basic information on clients, they failed to highlight relevant product information or collect in-depth client information.

For instance, though most representatives obtained basic information on the shoppers’ personal particulars (94 per cent) and

employment status (71 per cent), only 60 per cent and 53 per cent did so for investment experience and financial objectives respectively, while less than half collected other pertinent information such as the shoppers’ risk preferences and financial situation.

Similarly, while a large majority of representatives (93 per cent) disclosed basic information about the recommended products, such as their nature and objectives as well as the amount of investment required, a significantly smaller proportion discussed risk factors involved (60 per cent) and the amount and frequency of fees and charges (52 and 42 per cent respectively). Less than half provided warnings, exclusions and caveats, as well as a product’s free-look period.

The MAS said that a failure to conduct a comprehensive fact-find impedes advisers from making suitable recommendations, while inadequate disclosures may result in poor invest-

ment decisions by consumers due to a lack of understanding of the product’s features and risks.

David Gerald, CEO of the Securities Investors Association of Singapore (SIAS) agreed, noting that “the non-disclosure of important information . . . is disconcerting as such fees and charges impacts the net investment returns”, adding: “Without disclosing these important factors, an investment product could appear more attractive than it should be.”

In a speech at the Singapore Management University yesterday, MAS assistant managing director Lee Chuan Teck outlined two key roles of financial advisers: first, they should impart basic financial planning skills to clients; second, they should help clients understand the specific products that they invest in. The findings of the recent survey thus suggest that there is much room for improvement on both fronts.

Indeed, Mr Lee believed that “some of the representatives could be acting more as product distributors than as financial advisers”.

The MAS has thus taken measures to raise the standard for financial advice, such as by introducing the Customer Knowledge Assessment (CKA) framework, which requires financial advisers to assess their customers’ knowledge and experience before selling a complex product.

It also launched the Financial Advisory Industry Review (FAIR) in March to enhance the professional standing and competence of financial advisers.

Acknowledging the role that consumers themselves have to play, MAS has put in place Moneysense, a national financial education programme aimed at enhancing the basic financial literacy of consumers.

The Association of Banks in Singapore (ABS) said that the survey focused on the “initial discov-

ery of the sales” process which did not result in a sales outcome. It assured consumers that in the end-to-end sales process, banks have already put in place a rigorous and structured sales process under the Financial Advisers Act and the MAS Fair Dealing Guidelines, which will give customers protection through the inclusion of a free-look period for the sale of insurance and investment products.

Tan Hak Leh, president of the Life Insurance Association of Singapore (LIA), added that while the LIA believed that there was scope to enhance the effectiveness of the life insurance sales advisory process, it noted that a majority of Singaporeans and permanent residents perceive the Singapore industry well and trust the life insurance representatives who serve them, as 72 per cent are “very satisfied” and “satisfied” with the life insurance industry as a whole, according to a recent consumer survey by the LIA.



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