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Building Singaporeans' trust in financial-sector representatives

Research indicates that trust in financial advisers can affect older Singaporeans' propensity to undertake financial transactions. **BY JOELLE H FONG AND BENEDICT KOH**

PUBLIC trust in financial institutions and well-functioning financial markets are fundamental pillars of a world-class financial centre. While macro factors such as stability of the overall financial system, sound governance and close supervision of financial sectors by regulators are key factors in building trust in financial institutions, individuals' trust in private financial agents is also integral in determining the overall trust levels in financial systems.

At the height of the 2007-2010 global financial crisis, for instance, the important role that life insurance played in it came to light when it was found that some investment banks and other financial agents in the global financial markets had acted unethically and imprudently. Such behaviour compounds distrust in the financial system, which in turn undermines savings and economic growth.

How much do Singaporeans trust financial agents? And how does such trust influence their financial decisions to participate in the insurance and stock markets?

These issues were the focus of a study, published in the *Journal of the Economics of Ageing* in 2021. A collaboration between Singapore Management University, National University of Singapore, and The Wharton School, the study featured a representative sample comprising close to 6,000 older Singapore residents aged 50 and above. These were mostly persons born in 1940s to 1960s, and about half of the respondents were still active in the labour force when interviewed. The survey was conducted in 2018-2019 through the Singapore Life Panel.

In our study, respondents were asked "how much trust" they had in insurance agents, bank financial advisers, and nonbank financial advisers (freelance advisers, securities brokers and mortgage brokers) using a five-point scale ranging from "do not trust at all (1)" to "trust completely (5)". In Singapore, financial advisors are professionals licensed and regulated by the Monetary Authority of Singapore (MAS) under the Financial Advisers Act. They offer a range of financial advisory services such as helping an individual invest, either by recommending specific investments or providing complete investment management.

Our research found that older Singaporeans were equally trusting of insurance agents and bank financial advisers, but slightly less trusting of nonbank financial advisers. Trust in insurance agents and bank financial advisers averaged 2.79 out of 5, while trust in nonbank financial advisers averaged 2.56. It is worth noting that these scores were substantially lower than trust scores reported for CPF officials (3.67) and civil servants (3.29).

Studies have found that older Singaporeans are equally trusting of insurance agents and bank financial advisers, but slightly less trusting of nonbank financial advisers.
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INCENTIVE TO SELL

While investors may be willing to delegate their hard-earned savings to financial advisers for investments, their trust in these advisers is quite low. One possible reason could be the compensation structure as well as the perceived product-bias of private financial representatives. Financial advisers have more incentive to sell products where commission income is high. A well-cited example in the financial market is the preference of insurance agents to sell investment-linked policies rather than term insurance for insurance protection.

A 2018 CFA Institute survey reported that only 10 per cent of Singapore retail investors believe their investment adviser always puts their interests first. There is also little general understanding of how financial advisers and planners are regulated. A poll conducted by the Financial Planning Association of Singapore in 2016 noted that 34 per cent of Singaporean respondents were unsure if financial planning is regulated, while 15 per cent believed that it is not.

Household financial management can help the surviving spouse (and other family members) cope with income needs when one spouse, especially the breadwinner, dies. In Singapore, individuals can purchase life insurance from a wide selection of insurance companies and intermediaries licensed by the MAS. About half of the older Singaporean residents sampled in our study had life insurance coverage.

Interestingly, our study showed that those who reported trust in insurance agents were 8.4 per cent more likely to have insurance coverage compared to those who do not trust insurance agents. This is after accounting for the potential effects of other factors that may influence insurance coverage such as age, education, employment, health, financial literacy, risk preferences and so on. By contrast, people trusting bank financial advisers are about 4.1 per cent less likely to have life insurance policies. One possible explanation is that these consumers were directed to invest in non-insurance financial products sold by banks.

Trust in insurance agents plays an important role in explaining both private health insurance and long-term care insurance coverage as well. Private health insurance includes policies provided by employers or self-purchased, as well as add-on plans to MediShield Life sold by commercial insurers. More than 90 per cent of those sampled in the study had private health insurance coverage, which is not surprising since most large firms in Singapore provide medical insurance as staff benefit. A smaller but still sizeable proportion (53 per cent) reported having private long-term care insurance or ElderShield coverage. The research shows that those respondents who trusted insurance agents were 2.5 per cent and 4.6 per cent more likely to have private health insurance and long-term care insurance, respectively.

Singapore is a well-established financial hub in the Asia-Pacific region with deep and liquid capital markets for debt, equity, and foreign exchange. The Singapore Exchange is the preferred listing location for almost 800 foreign and domestic companies in diverse sectors such as real estate, shipping, offshore marine, and infrastructure. Aside from direct stock holdings, Singaporeans can also participate in stock markets by investing in a variety of unit trusts available from banks and other financial institutions. Given that equity investment is risky, would greater trust in financial representatives increase the likelihood of stock market participation?

Our research suggests that this depended on the financial-sector agent being assessed. We found that stock market participation was higher for those who trusted insurance agents, but lower for those who trusted bank financial advisers. Specifically, respondents trusting insurance agents were 3.9 per cent more likely to invest in stocks either directly or through investment-linked policies or unit trusts. Older adults trusting bank financial advisers were 4.8 per cent less likely to do so. This is possibly because individuals who trusted bank representatives preferred leaving their assets in bank accounts, which are perceived to be safer than stocks. Trust in nonbank financial advisers did not influence stock market participation.

BUILDING TRUST IN FINANCIAL ADVISERS

In summary, our research indicates that trust in financial advisers can affect older Singaporeans' propensity to undertake financial transactions. While it may not be desirable to encourage elderly Singaporeans to take risk and invest in the stock market during their golden years, it is essential for all Singaporeans to buy adequate insurance cover to protect themselves and their family members.

A 2016 survey by Prudential indicates that seven out of 10 Singaporeans do not have sufficient insurance coverage while a 2018 *Life Insurance Association Report* states that working adults have insurance policies that covered only 20 per cent of their critical illness needs, leaving a 80 per cent insurance gap. Besides increasing financial literacy, enhancing trust in financial advisers may be a step towards addressing the insurance inadequacy problem.

How can we build Singaporeans' trust in financial-sector representatives? For a start, improve the professional standing of financial advisers by requiring a higher entry level in terms of academic qualification. Most technical vocations in Singapore requires a tertiary degree, and it is not unreasonable to expect financial advisers who advise on large sums of hard-earned savings to have relevant tertiary qualification in finance and investment.

Secondly, rigorous licensing examinations for capital markets and financial advisory services should be developed for financial advisers. Financial advisers must pass these examinations (such as CMFAS and Product Knowledge Modules) before they are allowed to practise. Financial advisers need to take examinations on products which they will be selling. This piece-meal approach is not ideal since in practice, Singaporeans need comprehensive financial advice instead of specific product knowledge. The Institute of Banking and Finance Singapore (IBF) has recently developed revamped certification courses for private bankers, and such rigorous certification is urgently needed for financial advisers operating in the mass retail market. In addition, all financial advisers must clock minimum hours annually to upgrade themselves and fulfil the continuing professional development (CPD) requirements. These are good practices that need to be maintained.

Thirdly, ethics and professionalism can be promoted if all financial advisers are required to join an umbrella Financial Advisory Association that develops codes of conduct and imposes penalties against errant members. To have teeth, these associations must be able to impose punitive penalties that are commensurate with financial misdemeanours and bar financial advisers from practising.

In the long run, it will be ideal for the financial advisory industry to adopt a compensation structure that is fee-based and not commission-based. This structural change will remove the incentive for financial advisers to hawk high-commission products that are detrimental to clients. In other words, take active steps to move towards a financial landscape where financial advisers prescribe professional advice instead of peddling financial products.

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