AFA(S) CONFERENCE 2019
SOUVENIR MAGAZINE

PRESIDENT'S MESSAGE

On behalf of the AFA(S) Executive Committee and Conference Committee, let me wish all of you a very warm welcome to this year's conference.

This year, we have a record participation in terms of number of conferees and also the largest support from our member companies and business partners.

We would like to thank all who have contributed to the continued growth of the Association which now has 36 member firms and representative membership of 1485 as at 30.06.2019

Our special thanks go to the members of the Conference Committee, headed by Mr Raymond Ng, who have once again delivered a value-packed conference with the theme of "Back To The Future", which aptly builds on last year's theme of "Excel In A Digitalized World".

This year, we are delighted that our member firms and business partners have partnered with our Association to raise funds for the Straits Times School Pocket Money Fund. As we have been blessed and have benefited much from the economic progress in Singapore, we want to remember those who are less fortunate.

While other presenters will address the challenges of technology, and digital technology in particular, I like to mention a few other issues which financial advisers (FAs) and representatives are faced with today. Instead of focusing on the macro, political, economic and societal changes and challenges, I just like to ask what the future holds for distributors in Singapore and, in particular, what the future holds for FAs.

Dan Sullivan's main point in his influential book "The 21st Century Agent" published in 1995, and his other books, is that the future belongs to distributors in the financial services industry. This is because distributors hold the power over clients, and not the product manufacturers. Dan Sullivan predicted that insurers and other financial institutions will become product manufacturers and distributors will provide advice and deliver the products and services to the end customers. Interestingly, the 21st Century Agent referred to by Dan Sullivan is not the tied agent in the insurance companies but the independent financial adviser (IFA). Many of the tied agents in Singapore left their companies in the 1990s and early 2000 to become insurance brokers, and later became IFAs, when the Financial Advisers Act was launched in 2002.

In the 1970s, bancassurance and on-line channels were non-existent and tied agents had one hundred per cent of the market. In the 1980s, there was only one composite broker marketing general insurance and life insurance, and in 1986, another firm was set up as composite broker.

By 2018, the distribution pie chart had changed appreciably:

Tied Agents	38%
Financial Advisers	22%
Banks	35%
Direct	5%

The million-dollar question is: "What will the distribution pie chart look like 10 years hence?"

The downward trend of tied agents' share of the distribution market will likely continue as more life insurers set up their own FAs and likely will not mind seeing some of their tied agents moving over to their own FA firm. But it is not likely that tied agents will disappear totally as life insurers will do all they can to keep their tied agents which is the channel which gives them full control of sales.

So-called tied FAs would afford the life insurers a great measure of control and would likely increase in market share.

Independently-owned FAs would likely continue to grow but consolidation can be expected as business costs and competition keep on increasing.

Bancassurance which saw the most rapid growth in the earlier years seems to have met a ceiling after reaping most of the low lying fruits through cross-selling their bank clients.

As for the channel which poses the greatest interest, i.e. direct channel, the "wild" guess is that it will grow but peak below 10 per cent, or the low tens.

Information and digital technology, artificial intelligence and data analytics will boost productivity of the financial services industry. In addition, website and app development, social media, cloud computing, big data, automation and e-commerce will benefit adopters but pose challenges to those who cannot or will not keep up.

On-line platforms, straight-through electronic submission, robo-advisers, etc. would impact distributors. Digital natives who are also financially savvy would be attracted to use on-line platforms if they perceive that the savings of price (premiums or fees) and convenience are worth it, compared to the loss of not being able to consult an adviser.

The reasons for retaining the use of a human intermediary include comfort with and trust of the adviser, experience and expertise of the adviser and currency of his knowledge (saves client the time and hassle to keep on learning and being updated), access to wider choice of products through independent financial adviser, recourse to professional indemnity claims and not least, the benefit of motivating the clients to act by overcoming inertia and objections.

There are already a few companies in Singapore selling directly to customers products like motor insurance, travel insurance, medical insurance, personal accident policies, term life and other simple life products.

As a business model, on-line companies seek to cut off the intermediaries but have to contend with exorbitant advertising cost and offering inducements. Building a clientele from scratch for products which are more sold than bought can be costly, especially when consumers have been habituated to getting personalised service from their financial advisers, and this for free.

The media headline which caught my attention in 2018 was "Left to themselves, people will not save enough for retirement". It is not because people do not know the importance of saving for their retirement. Every Sunday, the newspapers feature articles on financial subjects and retirement is a hot topic. For some, perhaps who are still young, there are many other urgent and pressing matters to worry about like their family, their home, their career. But why then don't people save for retirement?

The key reason has to do with human nature. The simple fact is that all of us need a nudging to do things.

Professor Richard Thaler, awarded the Nobel Prize in Economics a few years ago, together with other fellow behavioural scientists, have provided valuable insights into human economic behaviour. One of Professor Thaler's best-selling books is entitled "Nudge".

Besides providing sound financial advice and personal service to clients, the financial adviser provides a very important role – that of nudging.

A few years ago, I attended a seminar and one fund manager was asked whether advisers could be driven out of business by robo-advisers. His answer was perceptive: No, because most people need to be motivated to take action and robots cannot influence and impact and motivate – only advisers can.

Come to think of it – why do we need regulators, CPD, balanced scorecard, quotas, etc. if we are all self-motivated, and do not need "nudging"?

There is still a good future for the financial adviser who fears not a hopeless end but who nurtures an endless hope. It is well said that robots cannot create and innovate better than the human brain that created them in the first place.

Enjoy this conference and be future-ready.

David Choo
President