PROFILE

Where Talent Harnessing is Key

It was the seventh day of the Chinese Lunar New Year celebrations. While most of Kuala Lumpur's inhabitants are still away on leave in their various hometowns, Danny Wong is already back for work and the *4E Journal* managing editor **Steven K C Poh** took the opportunity to meet up with him in his office at Phileo Damansara to talk, among other things, about the business of financial planning.

Wong, who is the chief executive officer of Areca Capital Sdn Bhd, a fund management and investment advisory house, believes financial planning services are currently sold, not bought. "Customers have an unrealised or latent need for financial planning and wealth advisory," he told the *4E Journal*. "They may not be aware of or find the need for them until they see or experience the solutions first hand; solutions provided by their financial planner is the course of helping them put together a more organised financial life."

Many people generally practise some form of DIY (do-it-yourself) financial planning, Wong pointed out, and this includes diversifying their investments, be it among their equity investments in the stock exchange or among UTMCs (unit trust management companies).

"You may have the right idea to not put all your eggs in one basket, but you also need proper financial discipline to ride out the turbulent times," he said.

"Most people have a tendency to sell their stock holdings when markets are down and only come back when the financial headlines are rosy again," Wong added. "And most of these investors would inadvertently make losses in the process because they buy high and sell low. This is where the financial planner's advice would be invaluable. He/she would have done her homework and fully assessed the markets to give an objective view to the client, which would have saved him/her a great deal of money."

There is generally a misconception of what financial planning is in Malaysia. "People are skeptical due to their past experience of mis-selling or the prevalent misuse and in many cases, abuse of the word of 'financial planners' by tied agents," Wong said matter-of-factly. "This practice has got to stop. Financial planners and advisers should do need-based selling. They need to do their homework to properly assess their clients' life goals and then recommend the products that best suit them. And you build trust in the process, which is extremely important in the financial planning business."

Clearly, Wong knows what he is talking about. Areca Capital currently has more than RM800 million of assets under management and that base is swelling every day. Already Areca Capital has branches in Penang, Ipoh and Melaka and an office in the southern city of Johor Bahru is in the pipeline. Wong's client base is also growing. He and his team currently manage almost 300 clients.

To find out more about Wong's views on the financial planning industry, check out the following excerpts.

The financial services industry (in particular, investment products) is constantly evolving in line with various regulatory requirements and consumer demands. How do you view this against the backdrop of financial planning in Malaysia?

Consumer demands drive ideas and this is true in the financial services industry as well. With that in mind, products are designed to cater to the consumers' needs and as solutions to their problems. The end result: investment products are getting more and more complex and intricate as financial giants compete with each other for market share. As consumer demands evolve along with the financial environment, regulatory requirements then, will have to be stepped up to prevent mis-selling and establish best-selling practices to protect consumers. They are quite intertwined with each other in that sense.

The wind of change is sweeping across the financial landscape. The curtain is slowly coming down on product-pushing practices. Financial planning, as an industry, sits directly on the frontline. And there is a gap to be filled. Client needs have changed, they are more in-tuned with the financial environment and definitely more sophisticated having been exposed to their fair share of financial products. What they need though is help or more specifically advice, to separate the wheat from the chaff.

Does the product fit into their risk profile? Is the client portfolio optimised in such a way to achieve consistent risk-adjusted returns? All this calls for more skilled and competent talents, especially in the areas of distribution and advisory on personal wealth management.

As a profession, financial planning has been in Malaysia for 15 years now. What are your thoughts on how this emerging 'new' profession? Can it be considered a 'profession' at this stage of its development?

We are still at an early stage of development as far as financial planning is concerned. In other developed markets, financial planners play an integral role. In Singapore there are 3,000 advisers serving a population of 5 million plus people, (a ratio of 1 adviser to every 1,800) whereas in Malaysia's case, there are about 280 licensed financial planners serving a population of almost 30 million. Although Malaysia's structure is different (we are dominated by big banks, unit trust consultants (UTCs) and insurance agents), there is a lot of promise in the industry where financial planners can play a big role in investment planning and advisory.

Demographic trends are a key game changer in the financial services industry and certainly there are key themes where financial planners can tackle. A case in point, according to the Department of Statistics, Malaysia will become an aged nation by 2030 whereby 14 percent of our population will be above 60 years of age. This is but only one example of a gap that financial planners can play their role; in retirement planning. There are many more opportunities in this profession. True financial planning encompasses the full spectrum of saving, investments, insurance, taxes, retirement or estate writing and other financial and life goals.

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As Malaysia moves forward to being a more developed capital marketplace, this certainly entails a bright future for financial planners. There is enough pie for everyone.

What are some of your thoughts (from Areca Capital's perspective) to fast track the development of financial planning as a profession in Malaysia?

From an individual point of view, there are a few key factors that financial planners must address. As Areca Capital is a player in the fund management/ investment advisory space, we know that quality advice and excellent service standards are key differentiating factors; the same goes for financial planners. Seminars and education classes with the latest themes in financial planning should be held more often. This will be tremendously beneficial to advisers in keeping up with the current trends and developments.

Also, due to the lowering of entry requirements for licensing for financial planning, we expect an increase in the number of people entering the industry. We believe that it is crucial to guide and mentor them in the earlier part of their career. It is not enough to just increase the number of new advisers. We also need to work out a plan to retain these talents.

Finally, we are of the opinion that an area that is constantly overlooked is backroom operations. In the advisers' course of work, they need an efficient backroom staff to support them with a platform to track their clients' assets and investments, as well as to send regular statements to their clients. They need both the frontline and backroom to work seamlessly together as one integrated unit.

How would you, as the CEO of Areca Capital, contribute to the development and growth of the Malaysian financial planning industry?

There is a programme that we are working on – TalentHouse – which is a non-profit oriented programme designed to attract, develop and upgrade the skills and expertise of people interested to venture into the investment management, financial planning and wealth advisory professions. Though still on the drawing board, we believe the TalentHouse programme will address most of the challenges faced in the industry under one roof when it eventually gets off the ground. It will attempt to help ease the supply-related problems (talents) while attempting to raise the demand side of the equation (awareness of the public).

The analogy of the man and the fish summarises this – Fish for a man, and you will feed him for a day. Teach the man to fish and it will feed him a lifetime.'

TalentHouse will help participants with the necessary qualifications and licensing as well as offer a management trainee position in Areca Capital or its partners while studying. The programme's contents are from the CFP course syllabus. What we have in addition though is a programme for soft skills development such as presentation skill, marketing and sales closing skill, which is an integral part of a financial planner's career.

We have also developed an IT platform to act like a switchbox that matches the needs of the market and service providers and professional financial planners will use the platform to track clients' assets and investment activities besides utilising it as a client relationship management tool. To put it simply, TalentHouse attempts to address the issues of the financial planning industry from A to Z. It is a tall order as you can see.

What are you currently tasked to do as CEO of Areca Capital apart from being responsible for the company's bottomline? What are some of your strategic initiatives? How is Areca Capital different from other investment advisory firms? What is its unique selling proposition (USP)?

Our mission is to grow with stakeholders and to contribute positively to the opening up of the investment services industry for the benefit of the investing populace, which will make for a more active capital market ambience. With our TalentHouse programme, we hope to be able to help develop the advisory channel for the needs of the market as well as to contribute talent supply to the financial planning industry.

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We are sincere to grow the pie which we believe is big enough for everyone here. A well-informed and highly trained distribution base will play a huge role in raising and building awareness in the marketplace. In the long run, a more active and exciting capital market will lead to the creation of endless opportunities for the existing industry players. That said, we embrace healthy competition for better service standards, as we believe it drives performance and everyone will excel in the end.

Areca Capital is pro-advisory. That is our USP. We see qualified and well-trained financial planners as a complement to our philosophy and culture where we are committed to honesty, integrity and exceptional high service and ethical standards. Our framework is geared towards meeting clients' demands. It is not just our frontline people who must be responsive, we have an equally good and competent backroom staff.

What is Areca Capital's business approach? How are your products sold to your investors? *Via* the financial planning approach?

At Areca Capital, we are extremely people-focused as we believe in a win-win approach. As such, we build long-term partnerships through our personalised investor care and client-focused products. We employ a team of direct and professional sales staff to reach out to our premium client segment. They will seek to understand the investment needs of our clients before recommending them appropriate solutions.

To date, we have not utilised the financial planning method yet. We are now focusing more on investment planning due to our very niche and focused high net worth clientele. But highly-trained and qualified financial planners would be a good complement to our approach.

Some analysts are saying Malaysia is heading for a retirement shipwreck because a huge portion of its population is ill-prepared to face their golden years. What are your thoughts on this and how Malaysians can adequately prepare themselves to enjoy their retirement?

It all depends on which angle you are looking at. In my opinion, a vast majority of Malaysians have a lot of wealth tied up in their houses and this is in addition to their savings, the EPF as well as other investments. What is missing and critically needed is the professional advice towards organised planning.

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Many Malaysians do not realise the need of investment or wealth planning in order to keep up with high inflation and the rising cost of living. We all need to mobilise the traditional passive savings into active investment for wealth enhancement or in layman's term – how to let your money work for you.

Even so, what do you think are some of the key messages that can be used to promote to Malaysian young adults to get them to be serious about financial and retirement planning? Or is it too early to talk about retirement to this group of people?

It is never too early to start talking about or to start saving for retirement. Most people have in their life goals to retire early. But by the time most people start to be serious about retirement planning, there is a fear that it might already be too late.

One key message to share with Malaysian young adults would be educating them about the compounding effects of money and how to mobilise their savings to optimise returns. What most financial planners need to do is to simply reach out to them. And they will be clients for life if they are serviced well.

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Malaysian young adults are now more inclined to use the Internet for information gathering. However, the risk is that finance-related or financial management articles are never in their agenda. What industry stakeholders (in this case, bodies like FPAM) can do is to provide relevant financial planning and financial management information in 'bite-size' – easily "digestible" articles for them to read. The reason: for those who are not familiar with finance-related literature, reading them can be a daunting task!

Another vital point is that many do not realise they need aggressive strategy for their long-term plan. Keeping big sums of money in traditional low yield deposits do no help much in hedging inflation. And it carries the risk of mismatch for their long-term financial goals.

There are some schools of thought that the reason Malaysian young adults are not concerned about financial and retirement planning because they are too distracted by other more pressing issues like starting a career, getting married and owning a home and a car. As such, it is futile to even look at them as potential financial planning / investment planning customers. What are your thoughts on this?

We think it is true that we live in a faster-paced world; housing prices seem to ever-constantly get beyond the younger population's reach and everyone is clamouring to buy their first property before it is too late. In short, everything is growing except the salary. So isn't this an opportunity for financial planners and advisers to show their worth?

Financial literacy is of utmost importance. Without it, young adults are even more susceptible to product pushing practices. They might be sold the wrong products, which is a wrong fit for their risk profile.

A highly-qualified and professional financial planner will be the best person for the job on matters regarding financial and investment planning. In my opinion, when the industry players cultivate a relationship with younger clients, the chances are high that they will stay with you as they mature and their share of investible assets will grow as time passes.

Are Malaysian financial planners still pretty much in their product pushing mode as opposed to playing the advisory role?

If certain elements of product pushing exist, it would be because advisory/ management fees are not enough to sustain the advisers. This can be attributed to the lack of demand for financial planning services and the advisers would be furiously juggling between growth and sustainability. For any business to thrive, there is a need to maintain a sustainable growth. But the conundrum is that while you would like to see growth, without the huge incentives offered by product manufacturers for chasing and hitting targets, there is a risk that the new entrants would leave; often disillusioned by prospects in the industry.

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Current structures on entry fees may encourage the product-pushing practice which is not what we want in the financial planning industry. Existing remuneration rates should therefore be revised, but changes will not happen overnight. Ideally, there should be a switch to only fees for financial advisory work to keep interests aligned, but this too, hinges on the acceptance of the investing public.

But I always believe if you have your clients' best interests at heart, they will reciprocate. Client referrals will come, and it will be a win-win situation for all parties. At the end of the day, building a long-term relationship is what matters most, so never resort to product mis-selling for short-term gain. You will lose the most valuable commodity in this business – trust. Also, non-monetary rewards such as job satisfaction and creditability are worth more if you consider the long-term.

What do you think are some of the strategic initiatives that can be put in place [by the regulators and industry players (both institutional as well as individuals)] to accelerate transformation and growth in the industry?

We have put much thought into identifying the challenges that confront the industry and they include difficulty in acquiring the certification, licensing matters, job opportunities and prospects within the industry, training and coaching needs as well as concerns over the cost of business set-up.

With this in mind and as mentioned earlier, we came up with our very own TalentHouse programme, essentially a non-profit oriented programme seeking to contribute talent supply to the financial advisory industry. This programme has been designed to attract, develop and upgrade the skills and expertise of the talents for the investment management, financial planning and wealth advisory professions. Participants will obtain the CFP mark as members of FPAM, as well as be registered with the Securities Commission (SC) as financial advisers and with the FiMM as UTCs.

The Securities Commission has changed the entry requirements (from a certification point of view) to allow more people to join the financial planning industry. What are your thoughts on the matter?

As mentioned before, the ratio of advisers to the population is still small. We will definitely need more young blood to enter into the industry to increase customer touch-points as well as to achieve the scale that is needed to impact the public in a more meaningful way. However, quality must not be sacrificed.

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The industry's issue all these years stems from demand or rather the lack of it. It is, therefore, of paramount importance to create public awareness on financial planning. This will brighten up the industry prospects and once demand increases, it will lead to a subsequent growth in the number of financial planners.

When this happens, we hope to be able to work with the relevant parties such as the central bank, the SC, FPAM and FiMM to play our corporate social responsibility role *via* our TalentHouse programme to encourage more participants to join the financial planning industry.

Will changing the entry requirements serve the purpose of jump-starting the industry? If yes, how?

It does serve its purpose, but it is only one of the many factors involved. Increasing the number of financial planners will definitely help in distributing and raising awareness. But the public must first realise that there is a need or gap in their life that only financial planners can fill, especially in the area of distribution and advisory work on personal wealth where their quality advice would prove invaluable.

Nevertheless think of it this way: At present, there are about 85,600 agents in the life insurance industry as at December 31, 2013 while the number of UTCs is close to 50,000. If a sufficient number of them could be mobilised to join the industry as financial planners or convincingly swayed that the prospects of the financial planning industry is indeed bright, it would be a significant boost. A qualified and experienced head with good contacts as well as an existing asset under management (AUM) certainly bodes well to take the industry to next level.

What do you think the industry players, for instance, the banks, insurance

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companies, regulators, estate/wills/trusts, tax services, retirement planners, investment advisory firms (like Areca Capital) and the government should be undertaking to further promote the financial planning profession? After all, a better financially informed and savvy populace would eventually augur well for the economic well-being of the nation as a whole.

I think there is a general unwillingness on the part of the generally profit-driven private sector to really invest in financial planning because of the myth that the general public is not ready for financial planning and as such there is not much reward to be gained.

Industry players can definitely play a part in raising awareness though their many customer touch points – office branches, closed-door events organised with FPAM or other relevant bodies. It will also be a win-win situation for everybody if industry players send their staff for CFP certification.

The government may have the biggest role to play thus far. In order to encourage more industry player participation, it should allocate funds to support any initiative that promotes financial planning. Hopefully this will spur other creative ideas from other stakeholders to elevate the industry.

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Also, in line with the liberalisation of the fund management industry, we will see the entry of foreign players into the domestic marketplace. This will lead to a more competitive environment as well as a deluge of products. But instead of feeling threatened by them, we should welcome them as there are opportunities for everyone. New entrants to an unfamiliar environment will need local expertise to assist them, especially in the area of distribution. We strongly believe that well-trained and qualified financial planners not only fit well in providing professional service to the investing public, but more importantly they play a vital role in educating the public in financial market complexities. We hope our upcoming TalentHouse training programme will be able to set the precedence as a private sector-led initiative for the industry.