

MAS

Monetary Authority of Singapore

# Dealing With A Financial Adviser:

## What To Look Out For?



An initiative of



**MoneySENSE**

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This Guide is produced by the Monetary Authority of Singapore (MAS) as part of the MoneySENSE national financial education programme. The MoneySENSE programme brings together industry and public sector initiatives to enhance the basic financial literacy of consumers. The information is of a general nature and may not apply to every situation or to your own personal circumstances. This Guide should not be regarded as a substitute for seeking legal advice on any specific issue. For tips and educational resources on personal financial matters, visit the MoneySENSE website at [www.mas.gov.sg/consumer](http://www.mas.gov.sg/consumer).

Formed in 1971, MAS is entrusted with the role of managing Singapore's exchange rate and monetary policies, supervision of the financial sector, development of Singapore as an international financial centre, and currency issuance.

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# Dealing With A Financial Adviser: What To Look Out For?

The Financial Advisers Act (FAA) regulates companies and individuals that provide advice on investment products to consumers. Administered by the Monetary Authority of Singapore (MAS), the FAA sets common standards for those who give investment advice by introducing some important initiatives to protect your interests as a consumer. This Guide explains how these changes affect you.

## Q: What activities are regulated under the FAA?

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**A:** The FAA regulates the following activities:

- Providing advice on investment products including securities (which includes unit trusts), futures contracts, foreign exchange and leveraged foreign exchange contracts, and life insurance policies (which includes investment-linked life insurance products);
- Issuing reports on investment products;
- Marketing collective investment schemes, i.e. unit trusts; and
- Arranging life insurance products.

The FAA does not regulate the following:

- General insurance – These are arranged by insurance intermediaries under the Insurance Act. They are consumption-based and are therefore not considered investment products.
- Bank deposits – These are offered by banks regulated under the Banking Act. They have lower risks and are generally well-understood by the public.



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- Loans and mortgages – These do not have any investment element.

MAS is proposing to issue guidelines on the sale of structured deposits under the FAA.

### Q: How does the FAA benefit me?

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**A:** The FAA sets minimum entry and examination requirements for all representatives intending to provide financial advisory services. Persons who provide financial advisory services must be fit and proper. In dealing with consumers, financial advisers (FAs) and their representatives must have a reasonable basis for the recommendations that they make. They have to take into account your investment objectives, financial situation and personal needs when recommending an investment product.

In addition, FAs and their representatives must disclose material information to you, including the risks of the product, the representative's status and the fees and charges to be paid by you.

### Q: Who can give advice on investment products to consumers?

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**A:** MAS regulates the following types of firms or persons who can give advice on investment products to consumers:

### **Licensed financial advisers (Licensed FAs)**

These companies are required to hold a financial adviser's (FA) licence under the FAA. Among other things, they must have a minimum paid-up capital of either \$150,000 or \$300,000 depending on the activities they conduct, and professional indemnity insurance.

### **Exempt financial advisers (Exempt FAs)**

These are banks, merchant banks, finance companies, insurance companies, insurance brokers and holders of a capital markets services licence. Exempt FAs are exempt from holding a FA licence because MAS already regulates them under separate legislation. They must meet similar business conduct rules under the FAA as licensed FAs.

### **Financial adviser's (FA) representatives**

These are employees or agents appointed to provide financial advice on investment products to consumers on behalf of the licensed FAs or exempt FAs. Individuals acting for a licensed FA must hold a representative's licence. Individuals acting on behalf of an exempt FA are exempt from holding a representative's licence. Representatives of licensed FAs and exempt FAs must meet the same minimum entry and examination requirements, and similar business conduct rules.

### **Q: Does MAS regulate all financial planners? What is the difference between a financial planner and a financial adviser?**

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**A:** MAS regulates firms and persons that give advice on investment products to consumers. MAS does not regulate tax and estate planning activities.



## Dealing With A Financial Adviser: What To Look Out For?

Under the FAA, only firms licensed as a FA and firms that are exempt FAs can use the term “financial adviser”. This helps you identify whether you are receiving financial advice from an entity regulated by MAS. MAS does not restrict the use of titles such as “financial planner”, “financial analyst” or “financial consultant”. You should be aware that persons who use such titles may or may not be regulated by MAS. You can get information on the list of FAs regulated by MAS by visiting the MAS website at [www.mas.gov.sg](http://www.mas.gov.sg) under “Financial Institutions Directory”.

### Q: How are independent FAs different from other FAs?

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**A:** Independent FAs are able to advise consumers on a wide range of investment products from various product providers. Only FAs who can clearly show that they do not have financial or commercial links with product providers that may influence their recommendations to consumers can use the term “independent”. Representatives of tied FAs, on the other hand, can only recommend products of selected product providers that the FAs are tied to.

### Q: Are licensed FAs allowed to handle clients’ money?

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**A:** Licensed FAs provide financial advice. They are not allowed to handle clients’ money in respect of unit trusts. When you buy a unit trust through a licensed FA, make sure that the cheque you use to pay for the product is made out to the name of the product provider. It should not be written

in favour of the licensed FA who sells you the product. If you do not have a cheque book or prefer to pay in cash, you should get a receipt from the product provider as proof of payment. This restriction does not apply to monies owing to your licensed FA for the services provided to you.

**Q: What can I expect a FA representative to do when he recommends an investment product to me?**

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**A:** A FA representative must take all reasonable steps to:

1. Determine your investment objectives, risk tolerance, financial situation and investment experience;
2. Ensure that the product he recommends is suitable for you, taking into account the information you gave; and
3. Explain to you why the product he is recommending is suitable for you.

You should provide complete and accurate information to ensure that the FA representative is able to recommend a suitable product for you.

**Q: What information is a FA representative required to disclose to me when recommending an investment product?**

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**A:** When recommending a unit trust or life insurance policy, a FA representative is required to disclose to you the key features of the product including the following:



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1. **Nature and aim of the product**  
Whether the product is a life insurance policy or a unit trust, and whether it is meant for protection, savings or investment.
2. **Benefits of the product**  
Information on the amount and timing for payment of benefits and whether the benefits are guaranteed or non-guaranteed.
3. **Risks of the product**  
Details of the risk factors that may result in the benefits payable being less than the illustrated values (for a life insurance policy), and the risks stated in the prospectus or profile statement (for a unit trust).
4. **Details of the product provider**  
The business address and permitted activities of the product provider, and the relationship between the product provider and the FA.
5. **Fees and charges to be borne by you**  
Details of the amount and nature of fees and charges to be paid by you, and the frequency of payment.
6. **Warnings, exclusions and disclaimers**  
Information on the procedures, charges and restrictions for withdrawal, surrender or claim of the product.
7. **Reports that you are entitled to receive**  
Details of how often you can expect to receive reports on your unit trust or life insurance policy and where you can get the reports.

**Q: What documents must a FA representative give me when recommending an investment product?**

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**A:** For a unit trust or life insurance policy:

1. A summary of the information obtained from you on your investment objectives, financial situation and personal needs;
2. The specific recommendations of the FA representative and the basis for the recommendation;
3. A copy of the prospectus or profile statement (for unit trusts only);
4. A copy of the product summary and benefit illustration (for life insurance policies only).

Get your FA representative to explain what is in these documents. Read the documents carefully, including the fine print, and ask your FA representative if there is anything you do not understand or are unsure about.

**Q: What happens if I change my mind after buying an investment product?**

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**A:** For **unit trusts**, you can change your mind about the purchase within 7 calendar days and get your money back, including the sales charge. The right to cancel is not available if you are making additional investments in a unit trust you already own. There will not be any penalty for cancelling your purchase but you may end up with a loss if the unit trust has fallen



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in market value after you bought it. If the market value of the unit trust has risen, you will get a full refund of what you paid for the unit trust but you will not be able to pocket the gain.

For **life insurance policies**, you have 14 calendar days from the day you receive your policy contract to review your policy. If you decide that the policy is not suitable for you, the insurance company will refund to you your premium less any medical and other expenses they have had to pay. For an **investment-linked life insurance policy**, besides the medical and other expenses borne by the insurance company, you will have to bear some loss if the units in the policy fall in value after you have bought the policy.

### Q: How are FAs paid?

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**A:** FAs are paid in several different ways. If a FA charges you a fee, the firm must disclose details of the charges at the outset. If a FA receives commissions or other benefits on investment products (other than life insurance policies) sold on behalf of the product provider, it must disclose to you the amount of commissions it receives. For life insurance policies, a FA must disclose the distribution cost (commissions and other cash payments paid to the FA by the insurance company) in the benefit illustration. All information about how a FA is paid must be disclosed to you in writing.

**Q: What is the difference between introducers and FA representatives?  
Are introducers allowed to market investment products?**

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**A:** Unlike FA representatives who can market and give advice on investment products, introducers can only record your particulars and forward the information to a FA with your consent. Introducers are allowed to provide factual information to you on investment products but they are not allowed to give advice on investment products, market unit trusts or arrange life insurance policies. They are also not allowed to deal with your money.

**Q: What should I do if I receive an unsolicited call to purchase an investment product?**

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**A:** You should find out where the person is calling from, the company he represents and their licensing status. You should not deal with FAs not licensed or authorized by MAS as you may not be able to take action against them should you lose money or come across other problems. You can check the MAS website at [www.mas.gov.sg](http://www.mas.gov.sg) under “Financial Institutions Directory” for the list of firms authorized to provide financial advisory activities in Singapore.

**Q: What should I do if I have purchased an investment product from an unlicensed FA?**

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**A:** If an unlicensed FA approaches you to purchase an investment product, you should report the matter to MAS immediately. If there has been a breach of the law, MAS will refer the case to the Commercial Affairs Department (CAD) for investigation.

# Quick Guide To Dealing With A Financial Adviser

## **1. Deal only with financial advisers (FAs) regulated by the Monetary Authority of Singapore (MAS).**

You should deal only with FAs regulated by MAS. These FAs are required to comply with business conduct rules under the Financial Advisers Act. A list of the FAs regulated by MAS, and the types of services they are authorized to provide, is available on the MAS website at [www.mas.gov.sg](http://www.mas.gov.sg). Consumers should be aware that MAS only regulates firms with a presence in Singapore. You should do your own checks when dealing with entities or individuals based overseas.

## **2. Engage a FA with proper qualifications and experience.**

Before you appoint a FA, find out as much as you can about the firm, such as its track record and the qualifications of your representative. Do not appoint a FA solely because of the wide range of products on offer or the company's independent status. A FA should be selected based on its merits.

## **3. Make sure you ask for documentation and keep all your documents safely.**

Before dealing with a FA representative, ask him to provide you with the following information in writing:

- The name of the FA firm that he represents; and
- The type of financial advisory service he is authorized to provide.

When in doubt, call the FA firm to confirm the information provided by the representative. Deal only with firms and representatives regulated by MAS. To protect your interests, keep all your paperwork and the documents provided by your FA or its representative. They will come in handy should you need to lodge a complaint or take legal action.

## **4. When in doubt, always seek clarification and ask for more information.**

You should not buy any investment product until you have fully understood what you are buying into. Ask for written materials on the product and read the documents and fine print carefully. Never sign on blank forms without understanding what you are signing. Do not release your identity card to someone you do not know or without first clarifying why it is needed.

## **5. Be careful of verbal promises and guarantees of high returns.**

Never rely on verbal promises from your FA or its representative. Anything that sounds too good to be true probably is. Make sure that you understand what is guaranteed and what is not, and insist on written confirmation from your FA on any guaranteed returns or benefits.

For tips and educational resources on personal financial matters, visit the MoneySENSE website at [www.mas.gov.sg/consumer](http://www.mas.gov.sg/consumer).