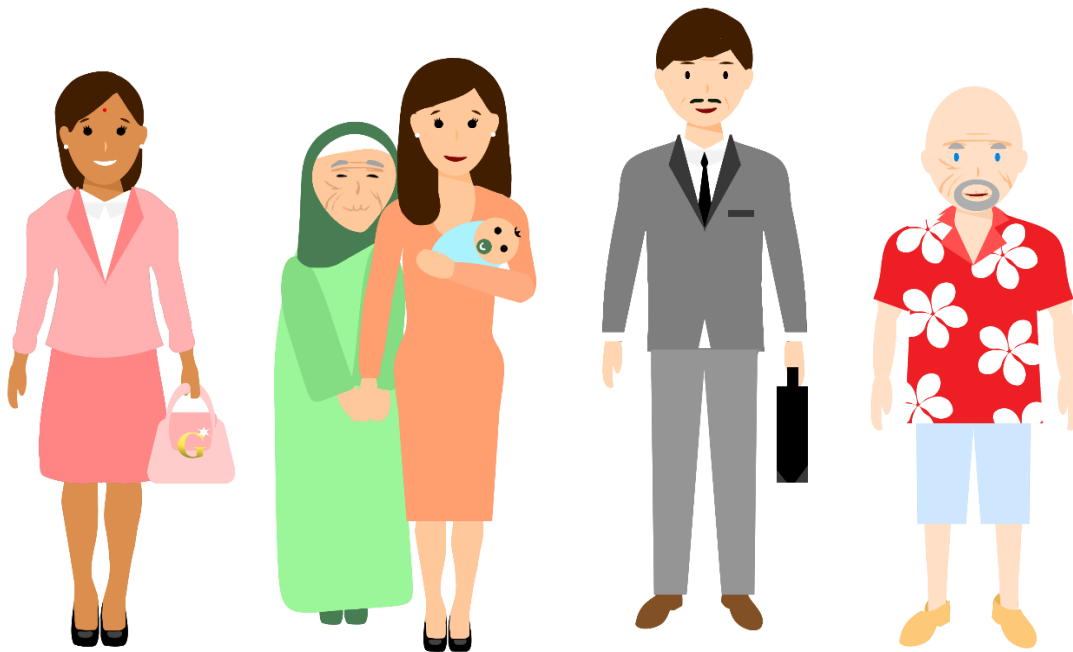




**CFA Society  
Singapore**

## **Trust in Singapore's Financial Services Industry – Are we at Rock Bottom yet? Where next?**



**Ms Meera  
The millennial**

**Madam Sofia  
The sandwiched class**

**Mr Wee  
The pre-retiree**

**Mr Sebastian  
The Merdeka Generation**

**Learn what they have to say about the financial services industry**

**Includes insights from financial professionals**

**2021 / 2022**

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## 1 Executive summary

Trust in Singapore's financial services industry dropped a significant 11 percentage points to 36% in 2020. The decline in trust levels was flagged out in CFA Institute's fourth global trust survey which surveyed 15 markets and 3,525 retail investors globally.

This research report aims to address and arrest the decline, which can have long lasting effect on investors' wealth aspirations, such as saving for children's education, as well as retirement adequacy. The knock-on effects of slower growth or lesser capital flow into the financial services sector can adversely impact future job opportunities and Singapore's hub status in the region.

The findings, analysis, conclusions and recommendations of this 2021 report draw from:

- CFA Institute's fourth edition of its global trust report: "Earning Investors' Trust: How the Desire for Information, Innovation, and Influence is Shaping Client Relationships"
- Focus group discussions and interviews in Singapore with retail investors and CFA Society Singapore members
- Presentation and dialogue with financial institutions, including regulators
- CFA Institute Asia Pacific's roundtable discussions and reports

We believe that financial institutions, as well as other stakeholders, such as aspiring undergraduates, will be able to draw insights from this report, and take remedial steps to improve trust levels amongst financial services providers.

### Key findings

#### Returns and fees

- Returns are tied to trust levels – trust in financial representatives is having faith in their competence, skills and knowledge to perform a job entrusted to them successfully. Investors in Singapore have said that trust levels will be lower if investments underperform.
- 'Blue chip' risk assets that lose significant value or go into default shake trust levels and confidence in the financial services sector. Continued mass media coverage of the loss and investors who were badly affected have amplifying effects and tend to further dampen trust levels.
- Investors felt that only a quarter of investment firms were 'very well prepared' or 'well prepared' to manage their portfolio during a financial crisis. Investors reaching retirement age have limited opportunities to recoup financial losses.
- Trust levels were likely to be lower for many as returns from risk assets were lower, or even negative. This is more evident in highly leveraged risk assets where value dropped significantly (or to '0'), and if there were margin calls. Some, however, saw the pandemic as a biological factor instead of an economic one, leading to no change in trust levels.

- Much of how trust levels will change is also dependent upon what advisers do in this volatile and uncertain environment. If financial professionals communicate and 'hand hold' investors (plausibly for emotional support), trust levels may be maintained, or even go up, especially with the older investors who are accustomed to the nature and level of relationships offered by their remisiers or brokers.
- Fees are also linked to underperformance. Many raised the issue of products not achieving the desired level of returns given the fees. While some clients complain about fees after poor performance, there are others who gripe about fees at the onset of the investment relationship.
- What is most worrying is that 13% of retail investors claimed fees were never discussed, not even at the onset of the relationship. This lack of transparency in disclosure and discussion in fees warrants attention. This claim also comes against a backdrop of a significant overhaul of practices after the 2008 global financial crisis. To comply with numerous rules and regulations, financial institutions have taken steps to outline fees and explain products thoroughly.

#### Fiduciary duties

- Retail investors felt that advisers were less likely to put their interest first in 2020 compared to 2018. Many continued to flag conflicts of interest when it came to recommending a product which best suited the needs of the investors, as opposed to one which earned the advisers the highest commission.
- Investors ranked 'trusted to act in their best interest' as more important than 'ability to achieve high returns' when it came to selecting a financial adviser in Singapore.
- Ethical behaviour is a must for not only front-line representatives, but also for product developers and originators. Products that are 'likely to implode' must not be brought into the capital market. 'Blue chip' risk assets that lose significant value or go into default shake trust levels and confidence in financial services sector.
- Despite numerous complaints, the Merdeka Generation investors, in a rare admission, also heaped praises on the continued improvement in the quality of advisers over the decades.

#### How to lose a client

- Underperformance of risky assets and perceived high fees lead to unmet expectations. Despite the constant complaints about fees, and investors searching for alternatives, many feel that the fee structure is fair. The pragmatic investor continues to derive value from his/her ongoing relationship with advisers and financial institutions.
- A lack of communication or responsiveness was also a major push factor behind leaving a financial adviser. Approximately half of the respondents noted that goals and fees were discussed in the last one year. Investors are also looking for performance reports that have more detail, customisation, better formatting and less jargon.

- Data / confidentiality breaches can compromise trust. Respondents mentioned cross selling of financial products within a particular group of companies as a possible reason for clients to feel uneasy about data security. They wonder how financial representatives from another business unit are able to obtain their contact details, how widely their personal data is circulated within the organisation, and if the transfer or movement of personal data is legitimate and secure.

#### Robo-advisors

- Most middle-aged and senior-aged are unlikely to have used robo-advisors compared to younger investors who may be more comfortable with technology, possibly due to exposure to artificial intelligence (AI) in institutions of higher learning.
- The track record of returns is important in convincing potential clients. If investors are comfortable with AI in selecting risk assets but are less convinced of return performance, they may invest a nominal sum to gauge the robo-advisory platform before committing more capital.
- Retail investors want to know how AI works, as well as other processes such as portfolio rebalancing. This is even more important when there are losses.
- Despite advances in AI, investors feel that human oversight remains necessary in many areas.

#### Environmental, Social and Governance (ESG)

- Millennials are the forerunners in the ESG space, and demand from this category of investors is expected to grow as the Pioneer and Merdeka generation pass their wealth on to them.
- Another group in Singapore who may pay more attention to ESG investing are the ultra-high net worth individuals (UHNWIs). An incremental increase in their wealth may not bring as much utility to them as contributing positively to society or the environment.
- Two-thirds of ESG subscribers are willing to give up returns for values-based objectives. However, when subscribing to ESG investing, investors prioritise returns above risk reduction.
- Retail investors now view 'E' and 'G' as most important compared to an earlier CFA Institute finding where 'G' was deemed more important amongst financial practitioners.
- Retail investors are supportive of diversity and inclusion in Singapore. 56% of investors prefer to engage a firm where the corporate culture is supportive of gender diversity. 54% said the same for firms that support racial/ethnic diversity.

## Investor protection

- There is no better person or organisation than investors themselves to protect their interests, and the best way to do so is through education on financial literacy. Being financially literate trumps other measures such as rules and regulations, or reliance on ethical behaviour of financial professionals. Investors should be able to distinguish between advisers who are governed by fiduciary duties and distributors who are mainly tasked to bring in sales.
- Only a few respondents could articulate measures taken by regulators in the last five years to protect investors' interest. Despite the uneasiness with distributors' commission-based remuneration across the board, where investors always seem to mull over if advisers are pushing a product that is best suited to the latter's needs, or one that earns the adviser the highest commission, respondents were generally unaware of the balanced scorecard approach already in place.
- Diversification remains key – putting all your eggs in one basket is not worth the risk. The market does not reward investors for undiversified unsystematic risk, which is a pillar concept in finance. Despite repeated reminders from financial practitioners, some investors still choose to allocate a significant amount of their investible wealth into a concentrated portfolio or one class of risk asset, especially those that yield consistent dividends in a low interest rate and volatile environment.
- In a June 2020 research report by CFA Institute, 56% of CFA charterholders who were surveyed in Singapore said that the risk of financial hardship in the financial industry will result in unethical behaviour on the part of the investment industry. This sentiment is higher in Singapore than in Hong Kong SAR, Asia Pacific and globally. Investors, firms and regulators need to take note of this possibility as the pandemic continues to ravage the global economy.

## The way out of rock bottom trust levels

- In 2018, CFA Institute introduced a trust equation, where trust and value are a function of both credibility and professionalism. We believe this trust equation can be used as a tool kit to not only arrest the decline, but to restore high trust levels.
- The confidence in the trust equation to move Singapore out of rock bottom trust levels is underpinned by what investors have communicated to CFA Institute in the 2020 global trust survey when selecting and retaining advisers.
- There is a need for ethical training amongst frontline representatives, as well as product originators and manufacturers. Only by addressing the entire value chain will there be improvement in trust levels. However, there are gaps with current ethics course offerings in Singapore, including the ethics offerings of the CFA® Program.
- We believe there is tremendous value in discussion-based ethics programmes. However, such programmes require a skilled trainer or facilitator to lead discussion on contentious dilemmas, which have no clear or prescribed conclusions. The cost is likely to be higher, and there has to be dedicated staff time allocated to these programmes.

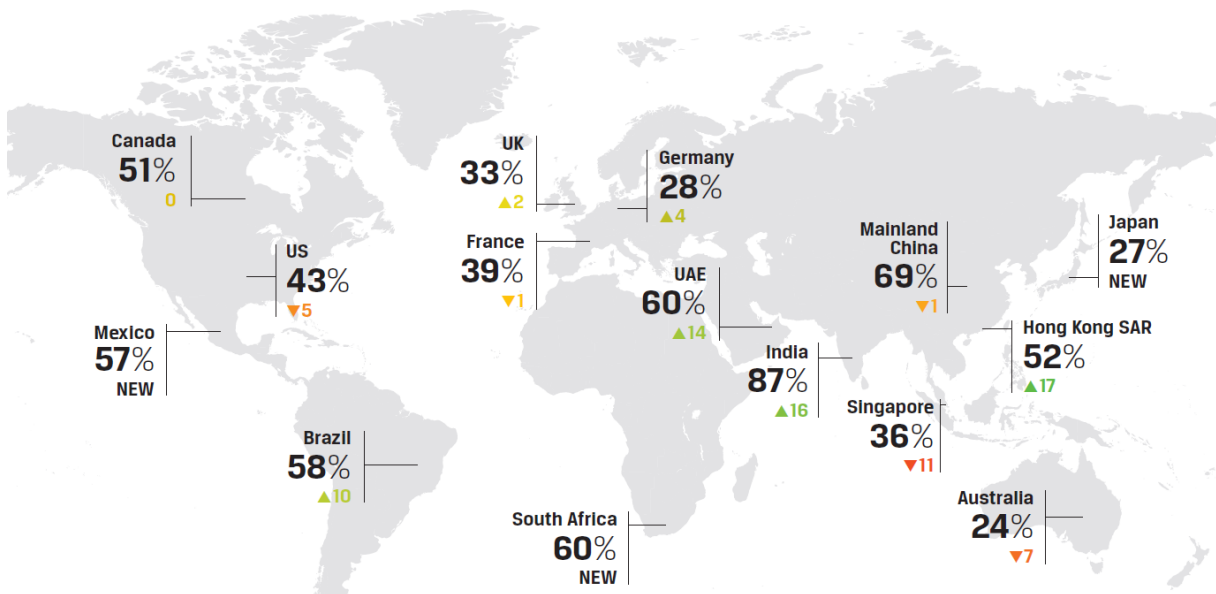
- We also note that most advisers know that certain practices borders on or are downright unethical. They know what should be done, but they are not sufficiently equipped to take action without the risk of losing their job or being penalised.
- Advisers must be equipped with muscle memory on how best to navigate the ethical dilemma with a lower probability of adverse repercussions on their careers and livelihoods. Otherwise, ethical discourse is just meant for what it is — an academic exercise with no real value in practice.

## 2 Introduction

In 2020, CFA Institute, the global association of investment management professionals, released the fourth edition<sup>1</sup> of its global trust report<sup>2</sup>, revealing that just 36% in Singapore trust the financial services industry. Trust levels were down from a reading of 63% and 47% in 2016 and 2018 respectively.

The 2020 report, “*Earning Investors’ Trust: How the Desire for Information, Innovation, and Influence is Shaping Client Relationships*” surveyed 3,525 retail investors — of which 100 were from Singapore — across 15 markets, in October and November 2019.

**Figure 1: Retail investor trust in financial services (by market)**



Source: CFA Institute Earning Investors’ Trust 2020

### What is trust?

Trust from an end investor is defined as the dependency on a service provider in a situation of risk over a prolonged period. Trust in investment firms is far more complex and tacit than trust for almost any other product providers. The importance of trust grows with risk and terms of engagement. In the investment industry, trust and value are interconnected.

For the end investor, value will relate to perceptions of outcome or the ability to get the job done relative to expectations, and is not solely about performance versus benchmarks. Trust is also about goodwill and ethical alignment of someone you have accorded trust to.

Most people would agree that trust is difficult to gain, easily broken and tough to rebuild once broken. Nowhere else is this more evident than in the world of finance and investment services, where trust is integral in keeping markets going.

<sup>1</sup> CFA Institute & Edelman Investor Trust Study 2013; CFA Institute Trust to Loyalty Survey 2016; and CFA Institute The Next Generation of Trust 2018

<sup>2</sup> The 2020 report, “*Earning Investors’ Trust: How the Desire for Information, Innovation, and Influence is Shaping Client Relationships*” - <https://www.cfainstitute.org/en/research/survey-reports/2020-earning-investors-trust>

### Why is the 11 percentage point fall in trust level in Singapore a problem?

If allowed to fester, there will be latent repercussions from the 11 percentage point fall in trust levels. Less surplus funds from savers would flow to productive enterprises through capital markets that are deemed less trustworthy. This slows down economic growth which would, in turn, affect the labour force's ability to save. Slower accumulation of funds results in a shortfall in funds for various aspirations, including building a desired retirement amount.

A long term impact is that a less than robust financial services sector in Singapore also diminishes the city state's financial hub status, and her ability to generate high income jobs for residents.



### Gaps in the trust survey

The 2020 CFA Institute global trust survey has only quantitative data, and does not address “why” each market reacts the way it does. The survey data for the research report was collected in October and November 2019, prior to the Covid-19 pandemic. As the pandemic is a black swan event on an unprecedented scale, it is prudent to determine if the data remains valid, or if investors' sentiments have shifted significantly.

In response to the above, we conducted six focus group discussions and numerous interviews in May to June 2020, comprising CFA Society Singapore Advocacy Committee Members, CFA Society Singapore members and retail investors, to:

- Gather qualitative findings to interpret the quantitative results
- Determine the impact and potential changes due to Covid-19

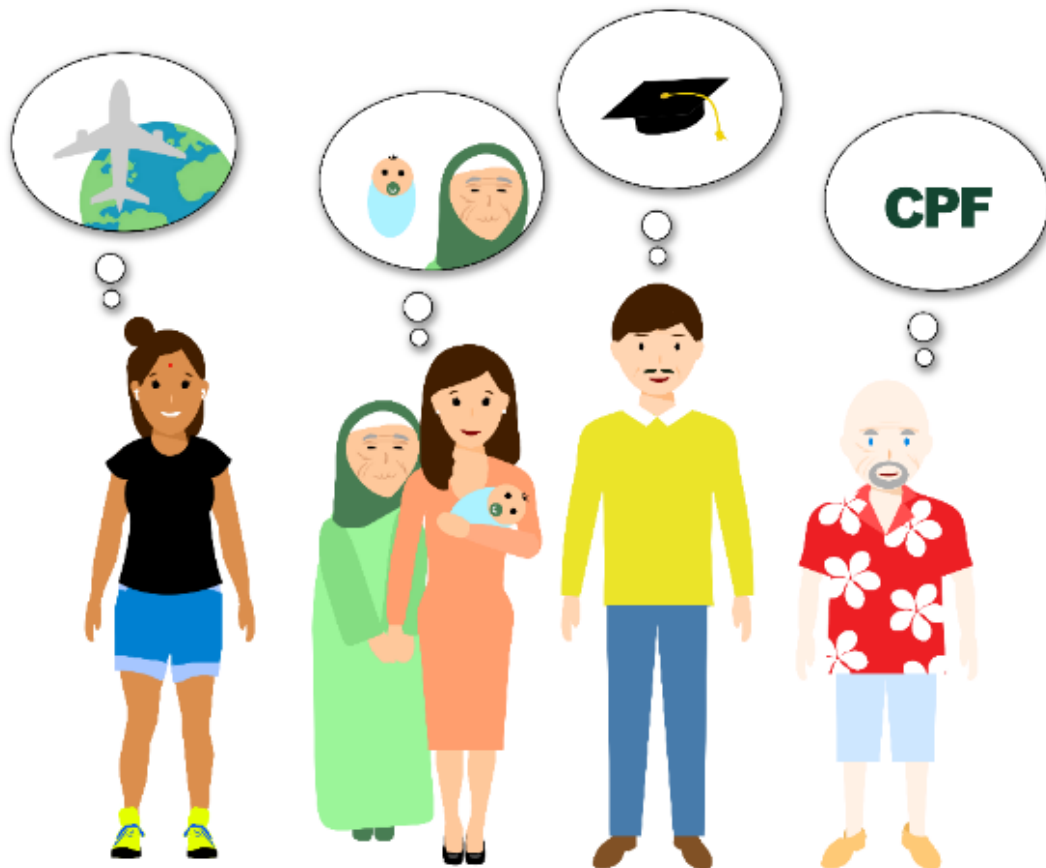
### Presentation and dialogue with financial institutions

The trust survey results, as well as the findings from the focus group discussions and interviews, represent the views of retail investors. To provide a holistic view of the trust situation, we presented the findings from focus group discussions and interviews to, and sought a dialogue with, financial institutions in Singapore to garner feedback from their end.

### 3 The Singapore retail investor

In 2019, the median age of Singapore residents was 41.1<sup>3</sup>, with 581,700 out of the total population of 5.7 million above the age of 65. This figure is projected to be even higher a decade later, with one out of four<sup>4</sup> being above 65.

Singapore is aging, and it is no surprise that retirement investment goals are a priority. In 2020, 66% of Singapore retail investors<sup>5</sup> ranked 'Retirement' as their most important goal, compared to 57% in 2018.



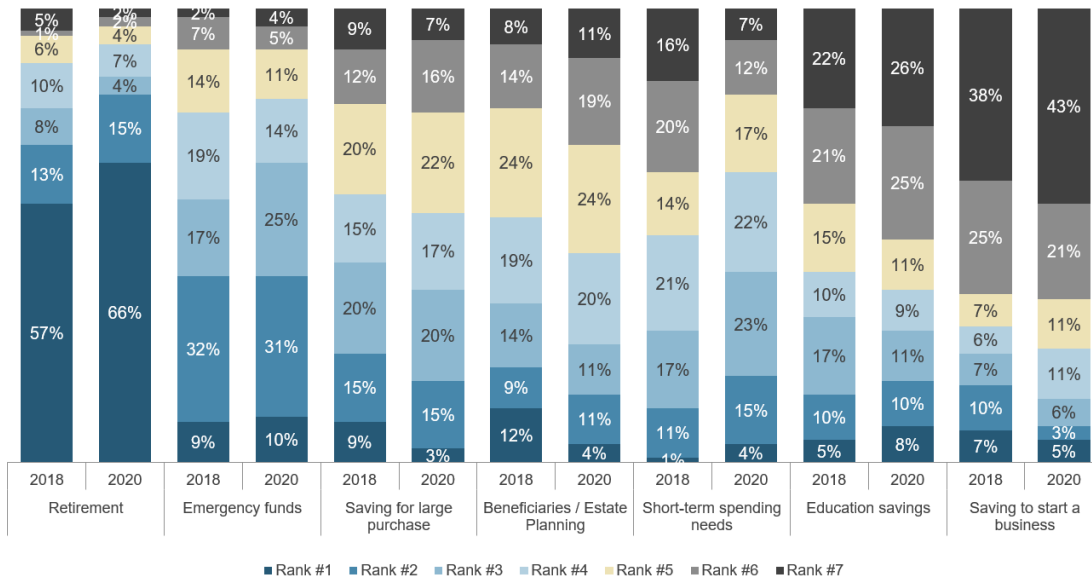
*Different investment goals but retirement goals rank #1*

<sup>3</sup> Source: Department of Statistics Singapore - <https://www.singstat.gov.sg/find-data/search-by-theme/population/population-and-population-structure/latest-data>

<sup>4</sup> CNA - "Commentary: It is high time for a Ministry on Ageing Issues" - <https://www.channelnewsasia.com/news/commentary/ageing-issues-ministry-singapore-policy-elderly-seniors-ageing-11782364>

<sup>5</sup> Retail investors were 25 years or older with investible assets of at least US\$100,000

**Figure 2: Investment goals in order of importance**



Base: Total Retail (3525), US (500), Canada (500), UK (500), France (200), Germany (250), Australia (250), China (200), Hong Kong SAR (100), Japan (100), Singapore (100), India (200), Brazil (325), Mexico (100), South Africa (100), UAE (100)  
Q5. Please rank your investment goals:

Source: CFA Institute Earning Investors' Trust 2020

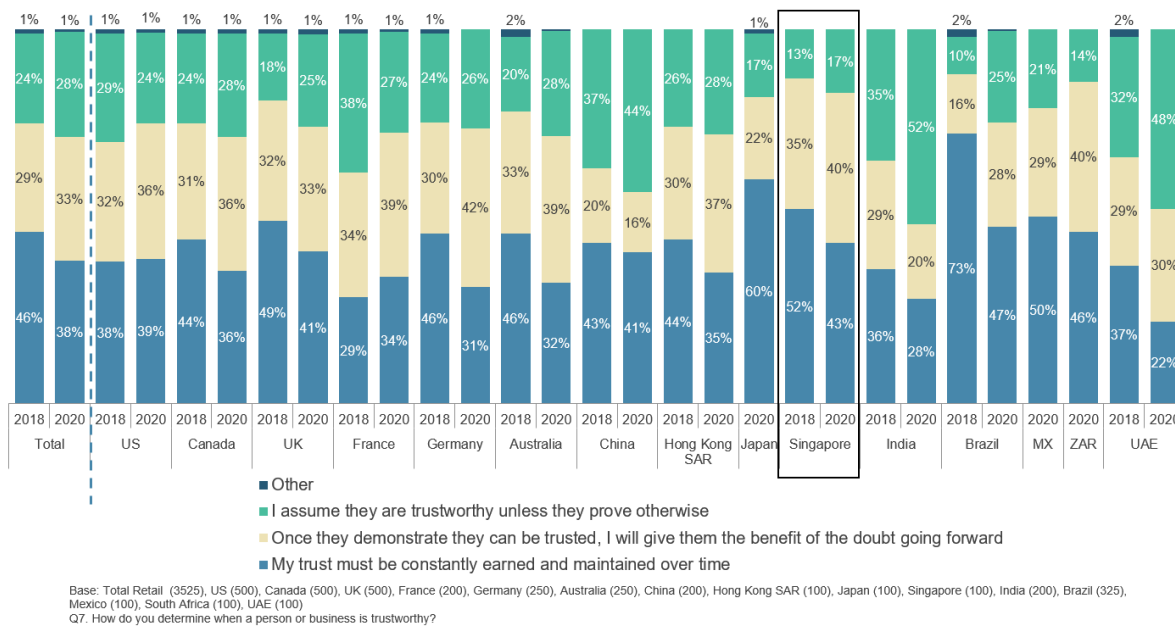
Singapore investors also ranked 'Emergency funds' as a distant second, and are astute in prioritising this investment goal. "The OCBC Financial Impact Survey for Covid-19"<sup>6</sup>, conducted in May 2020, showed that only 18% of resident working adults were able to sustain themselves for up to one month should they lose their jobs; and 28% and 23% for up to three months and six months respectively. This means that 70% of respondents do not have emergency funds beyond six months if they lose their jobs.

<sup>6</sup> The OCBC Financial Impact Survey for Covid-19 - <https://www.ocbc.com/group/covid19-support/assets/pdf/ocbc-financial-impact-survey.pdf>

**Trust must be constantly earned and maintained over time**

How well trust is maintained within a professional relationship may depend on whether trust is earned or given. In some markets, trust is commonly assumed, while in others it must be earned once, or continuously over time. Some retail investors tend to grant trust from the onset of the relationship; some need an initial demonstration of trustworthiness before giving the benefit of the doubt; while others say their trust must be constantly earned and maintained.

**Figure 3: Determining factors of trustworthiness**



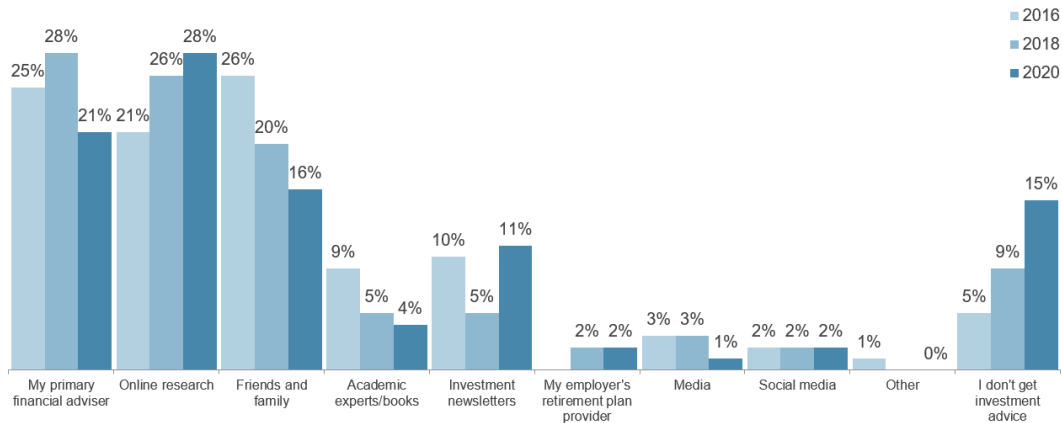
Source: CFA Institute Earning Investors' Trust 2020

43% of retail investors said that trust is not a given – it has to be earned and maintained over time, down from 52% who said the same in 2018. Financial representatives in Singapore should always work with clients as if it is their first interaction, where the need to gain trust is paramount.

**Tech-savvy investors are less confident than their global peers in making investment decisions**

According to data from 2016, 2018, and 2020, retail investors obtain investment advice from financial advisers, friends and family, and online research. Singapore retail investors differ from their global peers in the area of online research – tech-savvy respondents’ consumption of online research has been rising steadily from 21% in 2016 to 28% in 2020, significantly above the global average.

**Figure 4: Most trusted source for investment advice**



Base: Total Retail (3525), US (500), Canada (500), UK (500), France (200), Germany (250), Australia (250), China (200), Hong Kong SAR (100), Japan (100), Singapore (100), India (200), Brazil (325), Mexico (100), South Africa (100), UAE (100)  
Q16. Who do you trust most to give you investment advice?

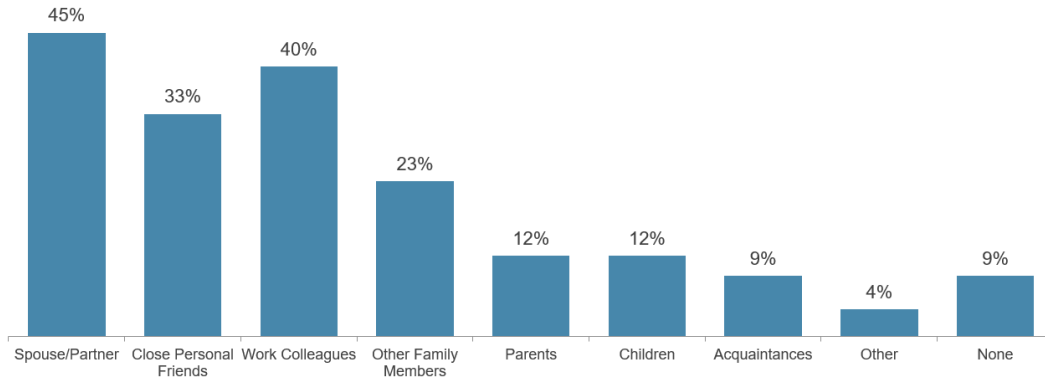
Source: CFA Institute Earning Investors’ Trust 2020



*There are plenty of blogs online. Some are pretty decent too. I tend to do some research before speaking to professionals*

The 2020 survey also gave us a glimpse of retail investors' centre of influence when it comes to money and investing.

**Figure 5: Who investors speak to about money / investing**

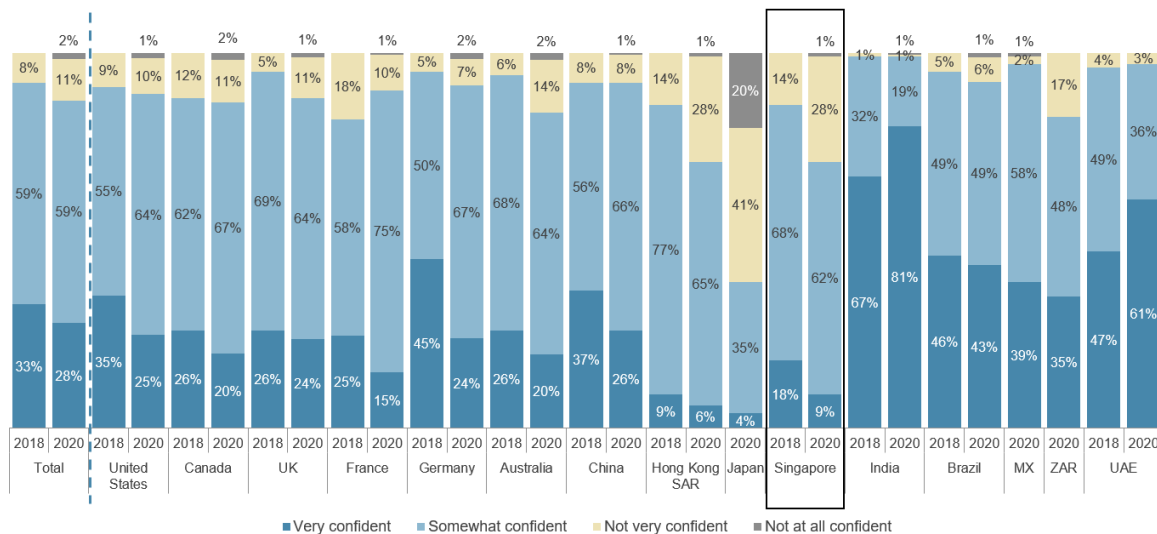


Base: Total Retail (3525), US (500), Canada (500), UK (500), France (200), Germany (250), Australia (250), China (200), Hong Kong SAR (100), Japan (100), Singapore (100), India (200), Brazil (325), Mexico (100), South Africa (100), UAE (100)  
Q17. Excluding any professional advisers, who do you regularly talk to about money and investing?

Source: CFA Institute Earning Investors' Trust 2020

Despite a high education level, availability of online reports and financial literacy materials in Singapore, retail investors are not as confident as their global peers in making investment decisions. This confidence has further eroded in 2020 as compared to 2018.

**Figure 6: Confidence in ability to make investment decisions**



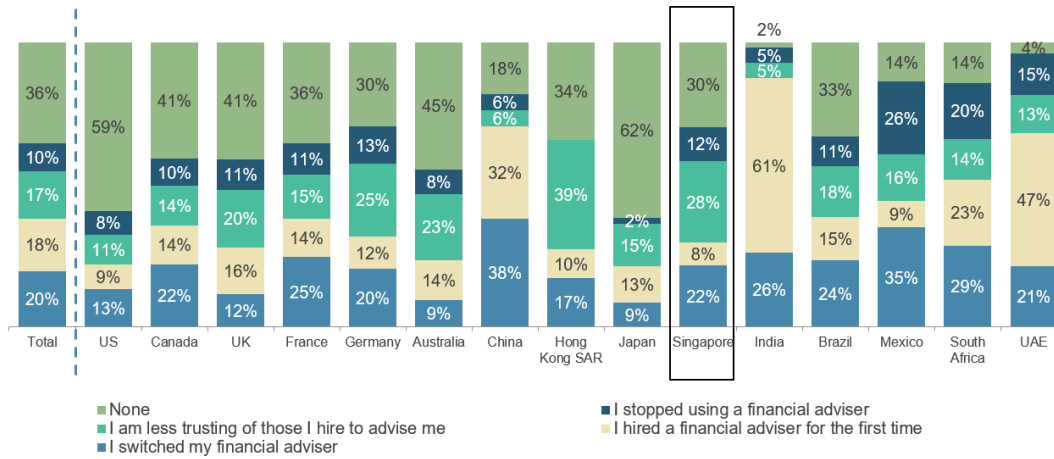
Base: Total Retail (3525), US (500), Canada (500), UK (500), France (200), Germany (250), Australia (250), China (200), Hong Kong SAR (100), Japan (100), Singapore (100), India (200), Brazil (325), Mexico (100), South Africa (100), UAE (100)  
Q19. How confident are you in your ability to make good investment decisions?

Source: CFA Institute Earning Investors' Trust 2020

### How do investors react when they lose money?

30% of respondents said it would be status quo.

**Figure 7: Reaction to poor investment decision**



Base: Retail Investors Regretting Investment Decision (2049), US (293), Canada (323), UK (284), France (118), Germany (138), Australia (107), China (71), Hong Kong SAR (70), Japan (47), Singapore (74), India (150), Brazil (200), Mexico (43), South Africa (56), UAE (75)  
Q22b. Which, if any, of the following describes your reaction?

Source: CFA Institute Earning Investors' Trust 2020

However, 28% said they have less trust in those they hired to advise them. This is in line with the ability component cited by Mayer et al., 1995; Colquitt et al., 2007, in which to trust someone is to expect that the other party has the competence, skills and knowledge to perform a job entrusted to them. Indeed, investment outcomes are intertwined with trust levels.

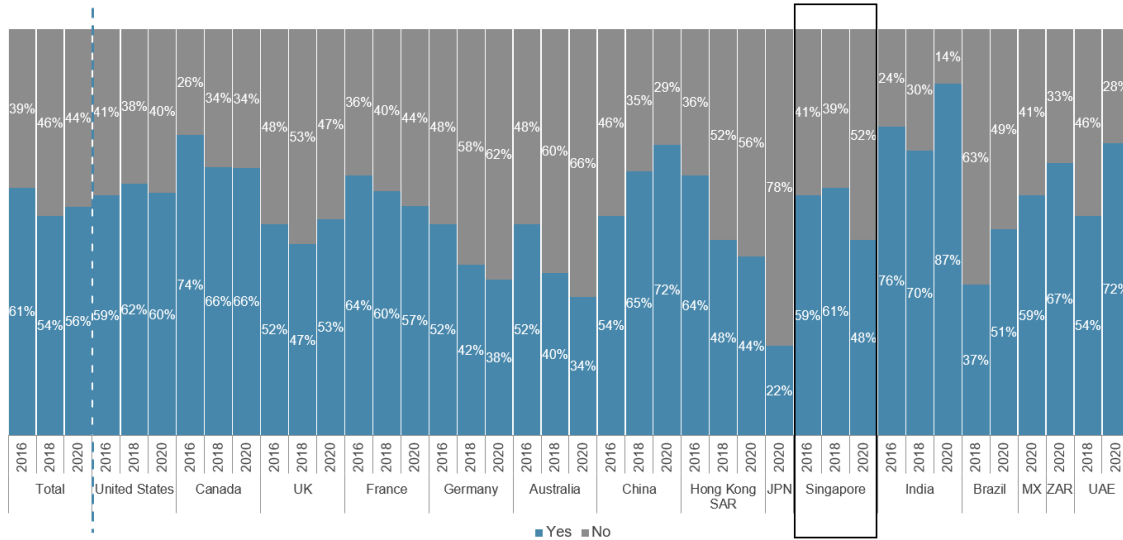
| What makes someone trustworthy (to me)?                     |  |   |
|---|--|---|
| Ability   | Benevolence  | Integrity   |
| Competence, skills, knowledge to perform a job successfully | Goodwill or good intentions this person/party holds towards me (apart from profit motives) | Extent to which this person/party observes ethical principles and morals that align with mine |

Source: Mayer et al., 1995; Colquitt et al., 2007

About one-fifth, or 22%, of retail investors said they would shop around for a new financial adviser, while 12% said they stopped using a financial adviser. 8% of investors said they would hire a financial adviser for the first time after poor investment decision was made.

## Is the glass half empty or half full?

**Figure 8: Do investors have a personal financial adviser?**



Base: Total Retail (3525), US (500), Canada (500), UK (500), France (200), Germany (250), Australia (250), China (200), Hong Kong SAR (100), Japan (100), Singapore (100), India (200), Brazil (325), Mexico (100), South Africa (100), UAE (100)  
Q15. Do you have a personal financial adviser?

Source: CFA Institute Earning Investors' Trust 2020

Only 48% of investors in Singapore have a personal financial adviser, down from 59% in 2016 and 61% in 2018. This is lower than the 2020 global average of 56%.

This can be an opportunity for advisers to serve more investors, as investors' confidence in making good investment decisions fell from 86% in 2018 to 71% in 2020. Moreover, 8% of investors said that they hired a financial adviser for the first time in reaction to a poor investment decision.

If we view the glass as half empty, the interpretation may be one where 12% of investors dropped their financial adviser in reaction to a poor investment decision. Despite being 'not very confident' and 'not confident at all' in making investment decisions, they abstained from hiring financial advisers, resulting in the percentage of investors having a personal financial adviser falling from 61% in 2018 to 48% in 2020.

## The universal aspects on investor trust in the financial sector

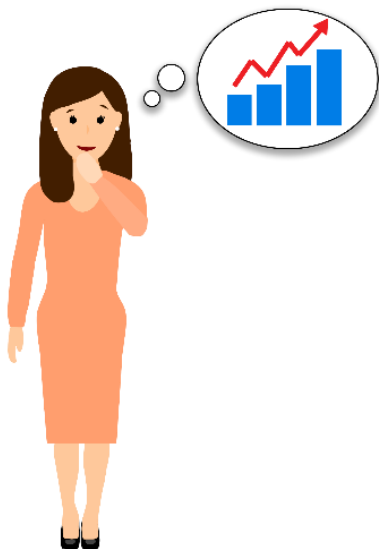
There are aspects of trust that apply to all investors, including Singapore, when it comes to trust in the financial sector:

### Trust and uncertainty

Uncertainty is a necessary ingredient to test trust, and with market uncertainty, those in financial services have plenty of opportunity to demonstrate trustworthiness. Investment professionals can proactively build trust by understanding the two primary motivations of clients: their goals and fears.

### Investment goals

Investment goals can vary significantly by age group or geography. Retail investors in more developed markets like Singapore are focused on reaching retirement, while in other markets, investors want to consume or to maintain financial security. It is important that the adviser defines investment success in the same way the client does.



*What do you think is my idea of investment success?*

### Investment fears

Retail investor fears are related to their goals. Many have concerns about retirement-related issues, such as a financial crisis that reduces the value of their retirement portfolio, and living past their wealth.

These fears are not decades away either – many retail investors globally fear another financial crisis is on the horizon. They thus expect their advisers or asset managers to be well positioned and prepared to meet the challenges a financial crisis may bring. Investment firms should be in the know of these important sentiments. With the global spread of Covid-19, investment managers should look even more closely at protecting clients' portfolios, especially after the stock market bloodbath on March 9, 2020, leaving a sea of red.

## 4 The plunge in trust levels in Singapore

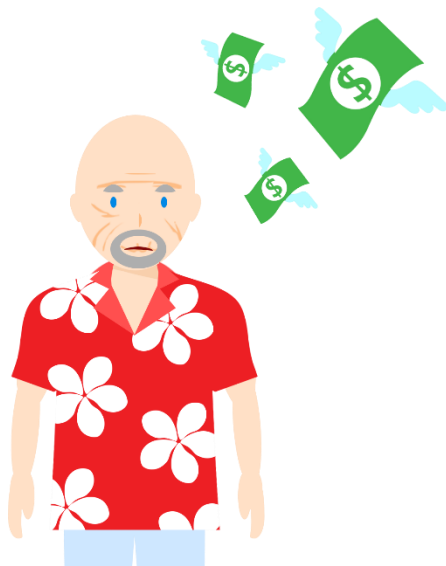
### 4.1 'Blue chip' risk assets tanking

'Blue chip' risk assets that lose significant value or go into default shake trust levels and confidence in the financial services sector.

When risk assets lose significant value, trust in the financial sector is likely to take a hit. This is implied by 'reaction to poor investment decision' in Figure 7, and key attributes flagged by investors in selecting investment advisers in Figure 10. Investors said one key factor in creating trust with advisers is the ability of the adviser to generate returns that are similar to, or better, than a target benchmark.

The presence of certain characteristics and/or circumstances tend to amplify the fall in trust levels when the value of risk assets is adversely affected:

- The risk assets concerned are deemed safe havens or 'blue chips'. This is especially true in Singapore, where some of them are perceived to be backed by institutional investors, the government and/or sovereign wealth funds.
- The asset class is a favourite amongst 'mom-and-pop' investors. In Singapore, REITs is an asset class that fits this description.
- Retirement funds decimated for investors who had a concentrated position in the risk assets and not many more years to recover the losses before retirement age.



*I lost a lot of my retirement savings. At my age, what can I do now?*

## 4.2 Amplifying effects of mass media

When a risk asset that exhibits 'blue chip' characteristics falls in value, there will definitely be a strong reaction from investors. As it is of interest to the general population, the story will be picked up by mass media.

Any mis-selling, suitability issues, misconduct, and failings, amongst others, will also fuel interest in media reporting. Controversy is often perpetuated by events such as legal challenges and dispute resolution, amongst others. This is further compounded by blog posts and social media posts and comments.

The emotional impact would be amplified when such content is laced with personal stories. It would then not be a stretch to imagine trust levels will inevitably dip amongst retail investors who invested in these risk assets, as well as those who were fortunate enough not to be burnt.

Here is an extract from 'More than 100 Hyflux investors protest at Hong Lim Park', The Straits Times, March 31, 2019, for illustration purposes:

*"For Madam B. Chua, 62, the \$6,000 loss from her investment in Hyflux perpetual securities was just "a forgone holiday". But she said she understood the pain felt by many retirees at the Hong Lim protest yesterday. Her husband, who was not at the rally, had lost under \$100,000 of his investment. "Many of us had kept quiet initially. But I felt I had to come to the protest. We must voice that we do care," Madam Chua said. "We invested in Hyflux because government support for the company was very strong. We invested because Temasek had invested. And Temasek must have done its due diligence."*

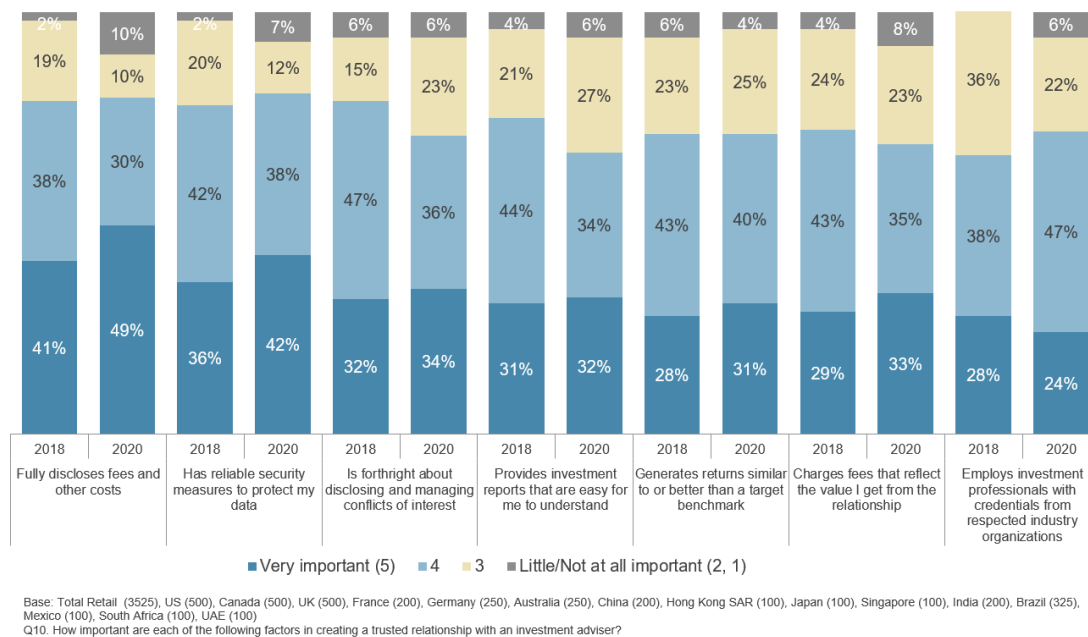
*Temasek is a national investment company. But she also acknowledged that Temasek had reduced its stake in Hyflux. By 2006, Temasek was no longer on the list of Hyflux's top 20 shareholders. "When banks sold the securities to us, they told us 'Temasek invested, so don't worry. And if you don't buy, somebody else will," Madam Chua said. "Investors went in because it was a national asset."*

### 4.3 Returns and fees

When asked about the importance of returns and fees, 31% of respondents in the 2020 survey mentioned the ability to ‘generate returns similar to or better than a target benchmark’ was very important. 33% wanted their advisers to ‘charge fees that reflect the value they got from the relationship’.

These sentiments were mirrored when investors were asked to key attributes when it came to financial adviser selection<sup>7</sup> – ability to achieve high returns ranked highly, with fees coming in after being ethical and trustworthy.

**Figure 9: Key factors in creating trust with investment advisers**



Source: CFA Institute Earning Investors’ Trust 2020

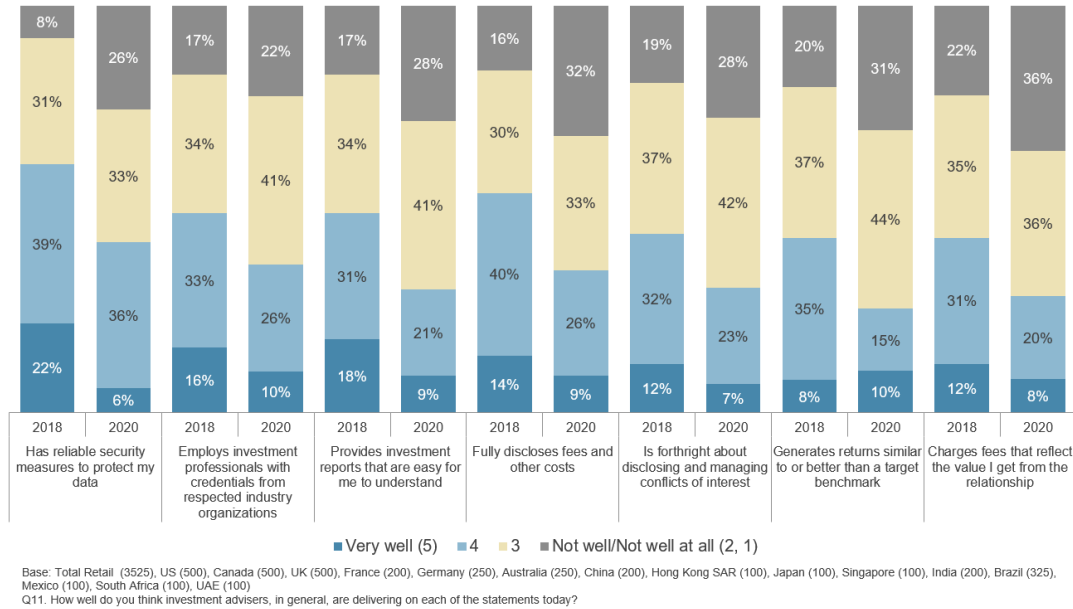
When asked to comment on returns and fees, some respondents in focus group discussions talked about the inability of products recommended by advisers to deliver desired returns. Some investors regard alpha or at least benchmark return as the minimum acceptable return for performance management. Others deemed total returns being at least positive and not wading into negative territory as acceptable performance. We thus reiterate that investors have different investment goals and varying ideas of investment success.

The findings in the global survey corroborate with the above observation. Although respondents gave a better reading on the ‘very well’ ability of investment advisers to generate ‘returns similar to or better than a target benchmark’, the converse was the case for those who thought otherwise – 31% in 2020, up from 20% in 2018, as represented by the grey bars in Figure 10.

<sup>7</sup> Appendix Figure 43: Key attributes in financial adviser selection

Similarly, when asked if advisers ‘charge fees that reflect the value they got from the relationship’, respondents were downbeat – 8% in 2020 ranked advisers as performing ‘very well’, down from 12% in 2018; and 36% in 2020 said advisers were performing ‘not well/not very well at all’, up from 22% in 2018.

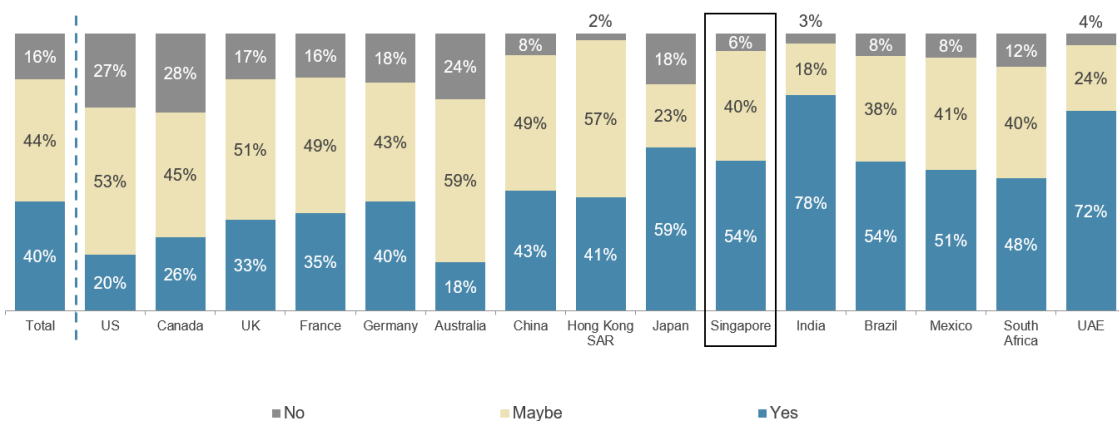
**Figure 10: Performance of investment advisers**



Source: CFA Institute Earning Investors’ Trust 2020

Does poorer performance affect trust levels? 54% of respondents said that poor performance impacts trust in advisers, compared to the global average of 40% in 2020.

**Figure 11: Poor performance impacts trust in advisers**



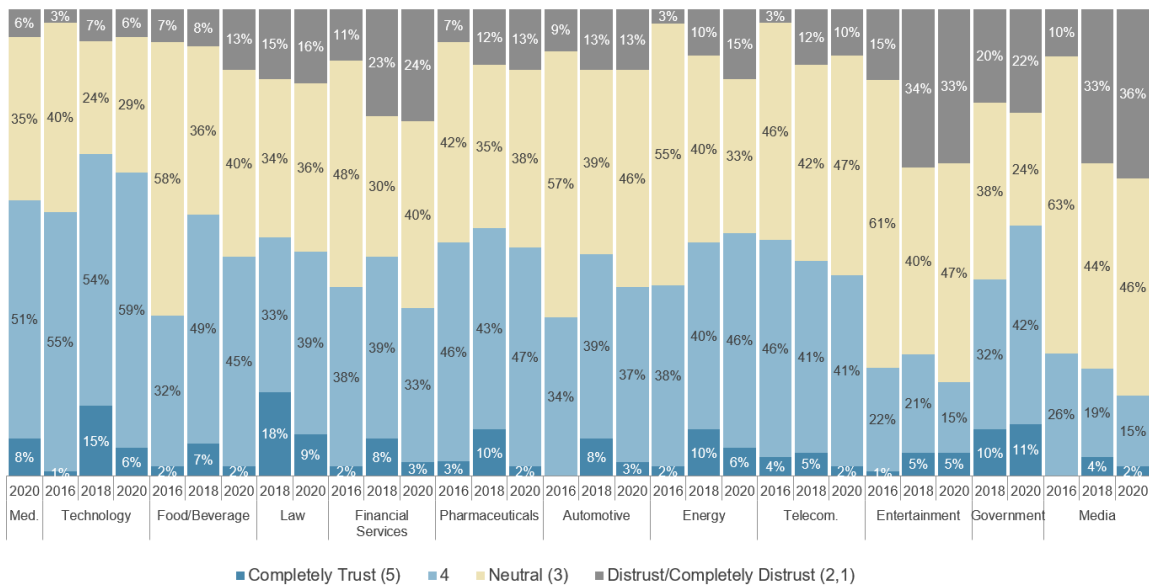
Base: Retail Investors With Financial Adviser (1980), US (298), Canada (329), UK (266), France (113), Germany (96), Australia (85), China (143), Hong Kong SAR (44), Japan (22), Singapore (48), India (173), Brazil (165), Mexico (59), South Africa (67), UAE (72)  
Q57. If you had poor investment performance for a year would that impact your trust in your financial adviser?

Source: CFA Institute Earning Investors’ Trust 2020

#### 4.4 Higher expectations

Singaporean investors have higher expectations. Compared to other markets, retail investors in Singapore had one of the lowest trust levels in the financial services sector. However, trust levels in the financial services sector were somewhat comparable when compared to a range of other industries in Singapore (food and beverage, automotive, energy, telecommunication, entertainment and media).

**Figure 12: Trustworthiness of industries**



Base: Total Retail (3525), US (500), Canada (500), UK (500), France (200), Germany (250), Australia (250), China (200), Hong Kong SAR (100), Japan (100), Singapore (100), India (200), Brazil (325), Mexico (100), South Africa (100), UAE (100)  
Q8A. What is your level of trust in the following industries?

Source: CFA Institute Earning Investors' Trust 2020

We acknowledge that expectations are difficult to measure conclusively, more so when we attempt to gauge changes in expectations. Nevertheless, the comparable levels of trust in various sectors do not mitigate the concerns we have from the 11 percentage point fall in trust levels compared to 2018, and the increase in respondents who had 'Distrust / Completely Distrust' in the sector from 23% in 2018 to 24% in 2020.

#### Improving financial literacy could plausibly contribute to higher expectations

With an increase in offline and online consumption of investment material, financial literacy should improve. Investors may start to have less dependence on the financial adviser, or on friends and family. Armed with more knowledge, retail investors' expectation of the quality of services rendered in the sector is likely to increase – what exceeded their expectations before may only be deemed as acceptable today, and what was acceptable then may be seen as sub-par today.

This higher expectation has manifested in many ways, but the starting point for deliberation is in the fees levied. Retail investors are increasingly mulling over the value they get from their relationship with financial institutions. They are also privy to developments in global markets, and what competing financial institutions in other countries have to offer the global investor.

In Singapore, blogs and dedicated websites that compare products, services and offerings have proliferated over the years. One can get a better sense of a rights issue offering or IPO through blogs where the authors have analysed and commented in layperson language. These blogs are sometimes the first port of call for retail investors attempting to understand complex instruments before approaching financial and investment advisers.

Retail investors increasingly come armed with some degree of knowledge, and higher financial literacy translates to higher expectations of advisers and representatives in the financial services sector.



*I visit a few investment blogs regularly. They're easy to understand. I also like candid opinions. If the bloggers don't think an investment is good, they say so*



*I feel I need historical returns of up to ..... say 20 years. The economy would likely have gone through a few cycles in 20 years. It's important to see if certain firms in a cyclical industry hold up*

## 5 How to lose a client

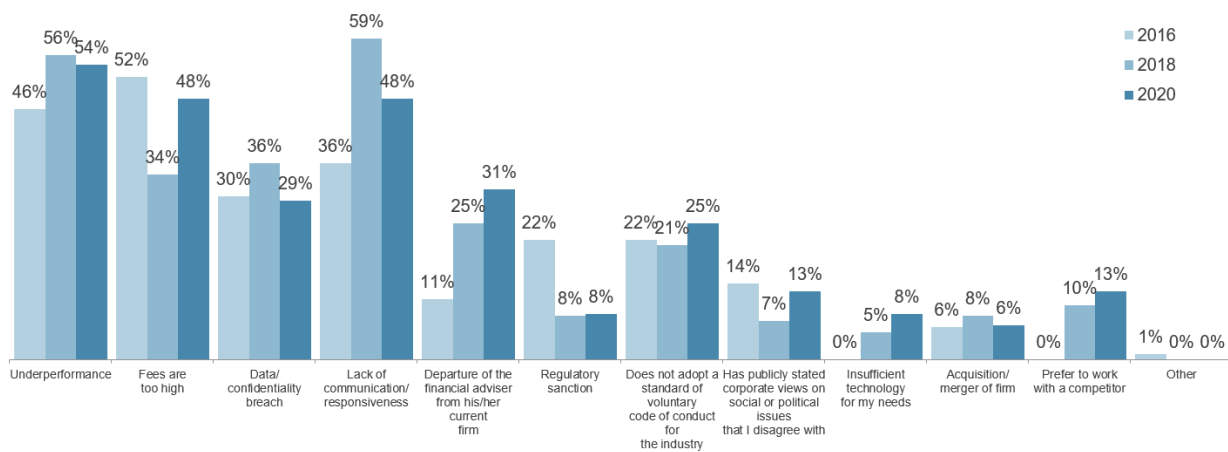
### 5.1 Underperformance and fees

Underperformance and fees are inextricably linked, and both are key reasons for leaving a financial adviser. In 2020, 54% of respondents said that underperformance was a consideration to leave a financial adviser, compared to 56% and 46% in 2018 and 2016 respectively. 48% also said high fees were a consideration to do the same in 2020.

Many raised the issue of products not achieving the desired level of returns, given the fees. Some investors regard alpha or at least benchmark return as the minimum acceptable return for performance management. Others deemed total returns wading into negative territory as underperformance.

We reiterate that the notion of investment success varies widely, and it is important that the adviser defines investment success in the same way the client does.

**Figure 13: Considerations to leave a financial adviser**



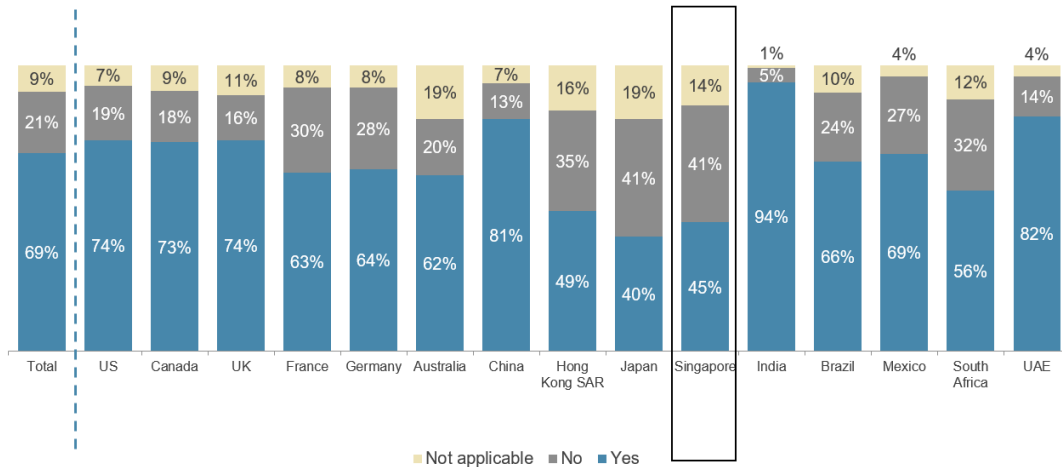
Base: Retail Investors With Financial Adviser (1980), US (298), Canada (329), UK (266), France (113), Germany (96), Australia (85), China (143), Hong Kong SAR (44), Japan (22), Singapore (48), India (173), Brazil (165), Mexico (59), South Africa (67), UAE (72)  
Q29. Would any of the following make you consider leaving your current financial adviser?

Source: CFA Institute Earning Investors' Trust 2020

**Returns and loss minimisation paramount amid pandemic**

When asked if their investments were likely to provide enough wealth that investors are able to not work past their desired retirement age, 41% were not confident that they would have accumulated enough to do so in Singapore.

**Figure 14: Confidence in wealth throughout retirement**



Base: Total Retail (3525), US (500), Canada (500), UK (500), France (200), Germany (250), Australia (250), China (200), Hong Kong SAR (100), Japan (100), Singapore (100), India (200), Brazil (325), Mexico (100), South Africa (100), UAE (100)  
Q21. Do you trust that your investments will provide enough wealth that you will not need to work past your desired retirement age?

Source: CFA Institute Earning Investors' Trust 2020

Given the economic downturn induced by the pandemic, all else being equal, the 'not confident percentage' is expected to increase. This will hit the most important goal for retail investors, which would be requirement adequacy.

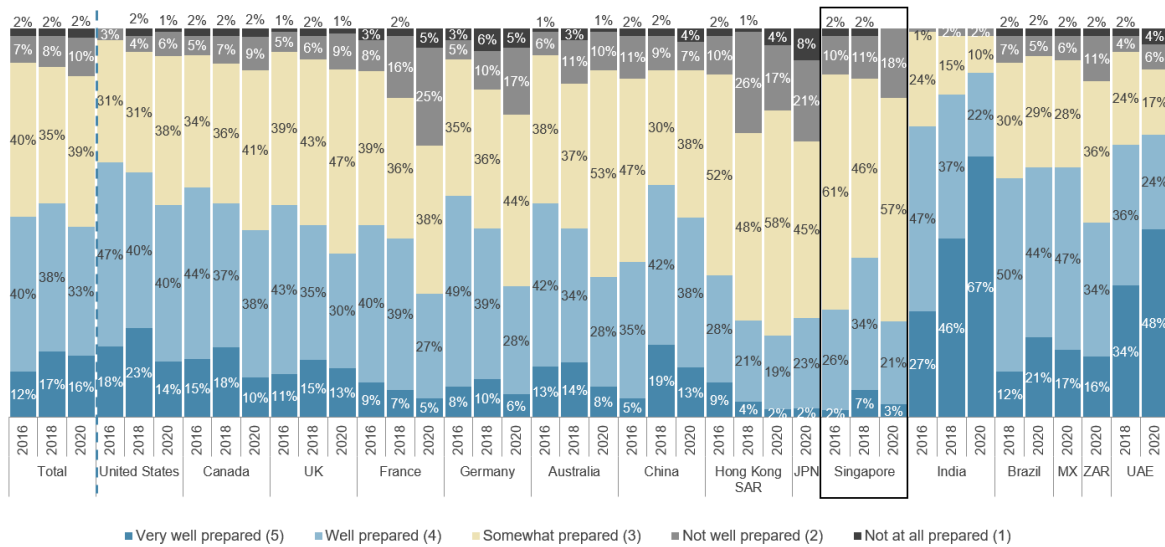


*I hope to not work past my desired retirement age. But if I do not have enough, I will have to continue working*

### Need to prepare for future shocks

We are also particularly concerned with only 24% of investors in Singapore saying that investment firms are either ‘very well prepared’ or ‘well prepared’ to manage clients’ portfolio during a financial crisis, down from 41% in 2018 and 28% in 2016. This perception of firms’ preparedness to manage portfolio has to be changed, as preparedness is likened to defensive-like properties in troubled and volatile times. Severe losses in portfolios will impact returns, as well as the value investors place on hiring advisers.

**Figure 15: Investment firm preparation in portfolio management during financial crisis**



Base: Total Retail (3525), US (500), Canada (500), UK (500), France (200), Germany (250), Australia (250), China (200), Hong Kong SAR (100), Japan (100), Singapore (100), India (200), Brazil (325), Mexico (100), South Africa (100), UAE (100)  
Q56. To what extent do you think the investment management firm(s) you have invested with will be prepared to manage your portfolio through a financial crisis?

Source: CFA Institute Earning Investors' Trust 2020

## 5.2 Data / confidentiality breaches

Another significant factor that could sever the client relationship is data / confidentiality breaches, with 29% percent of respondents in 2020 saying it was a key consideration, down from 36% and 30% in 2018 and 2016 respectively.

Financial institutions hold much more sensitive data such as earnings, wealth levels, dwelling types, and loans outstanding compared to other organisations. Investors feel that such data is private and sensitive, and must not be circulated widely within the financial institution.

The financial sector in Singapore has not suffered from a major data / confidentiality breach in recent years. Nevertheless, respondents flagged out cross selling of financial products within a particular group of companies as a possible reason to clients feeling less than easy about data security. They wonder how financial representatives from another business unit are able to obtain their contact details, how widely their personal data is circulated within the organisation, and if the transfer or movement of personal data is legitimate and secure.



*I get quite a few calls from advisers. They say they have new products that suit my needs. I am ok with calls. But I worry if my contact details and other private information are widely circulated*

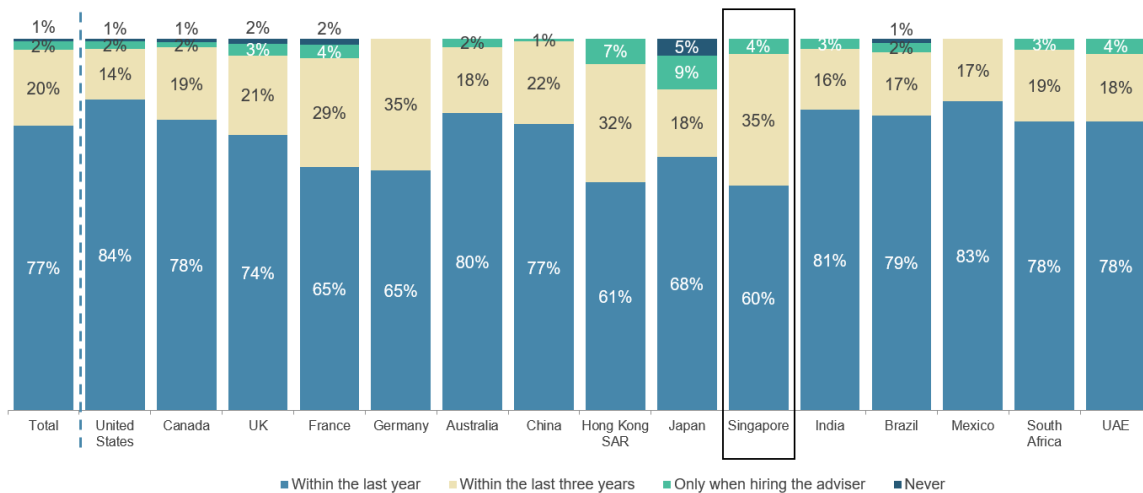
### 5.3 Lack of communication / responsiveness

In 2018, the lack of communication / responsiveness was flagged by 59% of respondents as a consideration to leave a financial adviser. This reading has dropped to 48% in 2020, but is on par with 'fees are too high' in 2020.

### Talk to and engage your clients

Out of the 15 markets surveyed in the global study, 60% of advisers in Singapore discussed investment goals with clients within the last year, the lowest percentage amongst the 15 markets surveyed. A third did so in the last three years, while 4% said the subject was brought up at the onset of the relationship, but not touched on in recent years.

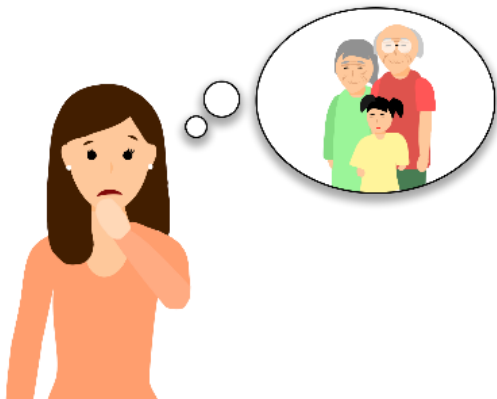
Figure 16: Last discussed goals with adviser



Base: Retail Investors With Financial Adviser (1990, US (298), Canada (329), UK (266), France (113), Germany (96), Australia (85), China (143), Hong Kong SAR (44), Japan (22), Singapore (48), India (173), Brazil (165), Mexico (59), South Africa (67), UAE (72))  
Q34. When, if ever, is the last time you discussed your investment goals with your financial adviser?

Source: CFA Institute Earning Investors' Trust 2020

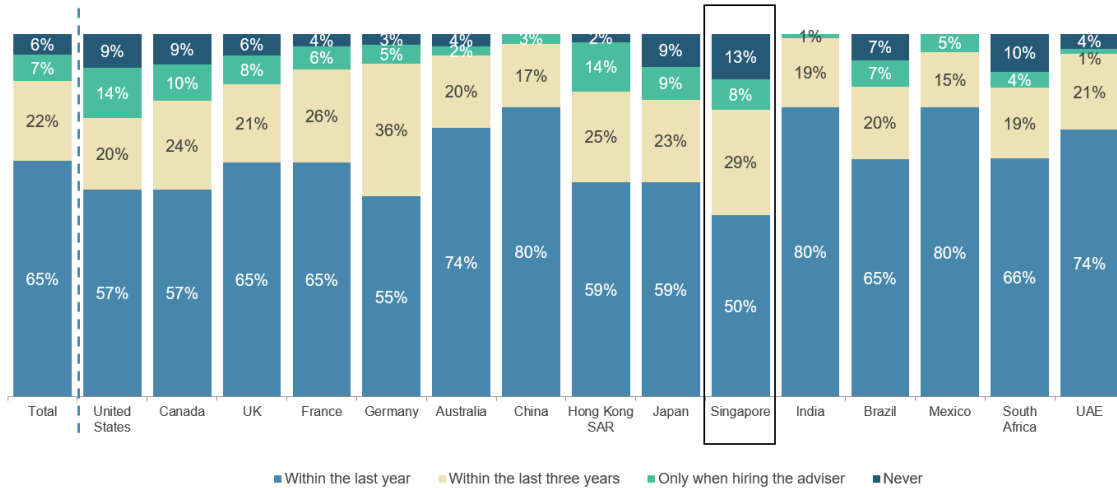
In view of the fluid Covid-19 pandemic situation, and changes in retirement portfolio values, clients are likely to revisit their retirement accumulation plans amid uncertain employment situations and a volatile investment climate.



*We have gone through several rounds of retrenchment. There may be another one if subsequent waves hits Singapore's key trading partners. I worry about money, about my family*

Singapore came in last amongst the 15 markets surveyed when retail investors were asked ‘when, if ever, is the last time you discussed the fees you pay on your account with your financial adviser?’. Discussion on returns will likely include discussion on fees. Only 50% said fees were discussed within the last year. What is most worrying is that 13% of retail investors claimed fees were never discussed, not even at the onset of the relationship. This lack of transparency in disclosure and discussion in fees warrants attention.

**Figure 17: Last discussed fees with adviser**



Base: Retail Investors With Financial Adviser (1980). US (298), Canada (329), UK (266), France (113), Germany (96), Australia (85), China (143), Hong Kong SAR (44), Japan (22), Singapore (48), India (173), Brazil (165), Mexico (59), South Africa (67), UAE (72). Q35. When, if ever, is the last time you discussed the fees you pay on your account with your financial adviser?

Source: CFA Institute Earning Investors' Trust 2020

### Assurance from financial institutions

When we asked for a response to the 13% who claimed fees were never discussed above, we were assured by financial institutions that after the global financial crisis in 2008, measures were put in place to rectify flaws in the investment process, including thoroughly explaining fees.

### Unintended consequences of more thorough disclosure of fees

Although financial institutions are more granular with disclosure of fees, trust levels may have decreased as clients balked at discovering fees they have had to pay for previously without knowingly doing so.

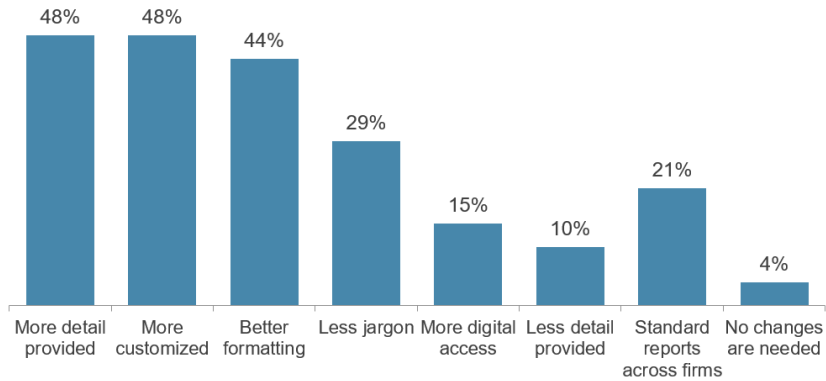
One such fee which is lesser known to the investing public is the trailer fee, which is embedded in the management fees. Fund managers typically levy 0.5% to 2% per annum on the fund's net asset value (NAV)<sup>8</sup> out of which 20% to 60% of the management fee<sup>9</sup>, known as trailer fee, is paid to the distributors for them to provide ongoing services to the client.

<sup>8</sup> Source: MoneySense website - <https://www.moneysense.gov.sg/articles/2018/10/unit-trusts-guide-to-pricing-and-fees>

<sup>9</sup> Source: MoneySense website - <https://www.moneysense.gov.sg/articles/2018/10/unit-trusts-guide-to-pricing-and-fees>

Areas to improve on when communicating via performance reports

Figure 18: Improvements to investment performance reports



Base: Total Retail (3525), US (500), Canada (500), UK (500), France (200), Germany (250), Australia (250), China (200), Hong Kong SAR (100), Japan (100), Singapore (100), India (200), Brazil (325), Mexico (100), South Africa (100), UAE (100)  
Q38. Which of the following would be useful improvements to the investment performance reports you receive?

Source: CFA Institute Earning Investors' Trust 2020

Following the above poll results, financial institutions may want to structure investment performance reports around providing more detail on returns and fees. Coupled with other factors, the report card should assure investors that they are deriving good value from the ongoing relationship.

When providing more details, investors, who are busy city dwellers, also prefer 'more customisation' and 'better formatting' for them to grasp pertinent information at a glance. For the layperson, this translates to 'less jargon' in order to read key information expeditiously.

This admittedly can be tricky as investors are diverse: many prefer visuals, but may not be comfortable with charts deemed too complex; some investors prefer prose; as well as those who advocate for 'less is more, preferring a one-page summary with details relegated to the annex pages.

The key to improving investment reports, however, is quite simple – seek the opinion of the end users. What we deem a good performance report may be of little use to other investors.



*I am new to investing. Less jargon works for me*

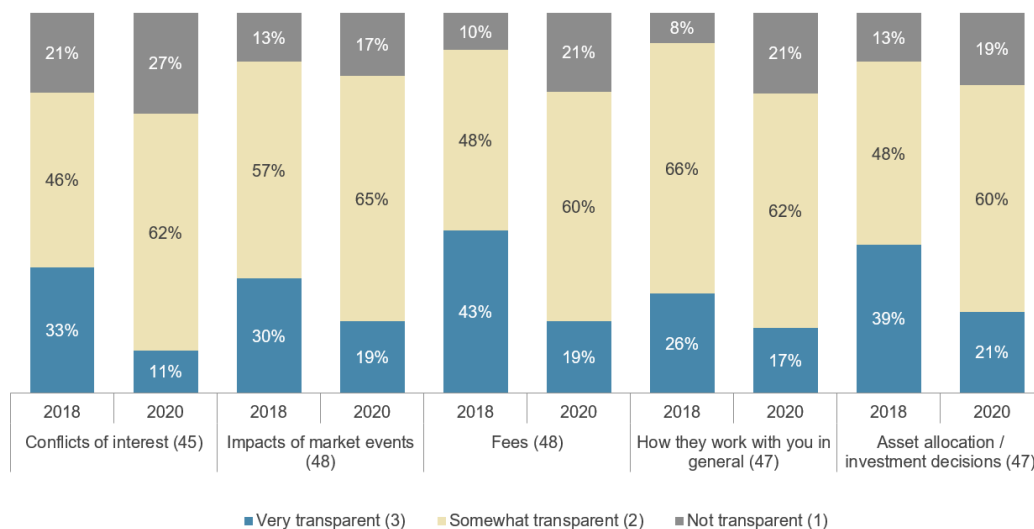


*I am a visual guy. But I struggle with charts and diagrams unlike my peers who major in natural science disciplines. To be honest I don't know what I prefer. But I quite like some reports I have come across recently*

**Clients also value transparency and communication in...**

When asked to rate transparency of financial advisers in the five aspects below in Figure 19, the percentage of respondents who chose 'very transparent' have decreased across all five aspects. Correspondingly, the 'not transparent' portion increased for all five aspects in 2020.

**Figure 19: Financial adviser transparency**



Base: Retail Investors With Financial Adviser (1980), US (298), Canada (329), UK (266), France (113), Germany (96), Australia (85), China (143), Hong Kong SAR (44), Japan (22), Singapore (48), India (173), Brazil (165), Mexico (59), South Africa (67), UAE (72)  
Q32. How transparent do you think that your financial adviser is with you regarding:

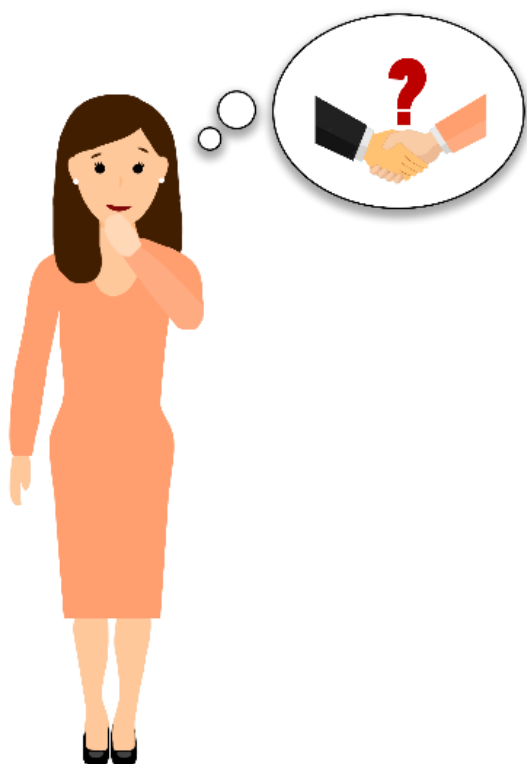
Source: CFA Institute Earning Investors' Trust 2020

### The prevailing commission-based remuneration model

Many sectors, including the financial sector, incentivise distributors of products and services through a remuneration model that is skewed towards commission earnings. The performance-based model rewards distributors who are able to close the sale – the higher the sales figure, the larger the pay packet. At the extreme end of the spectrum are independent contractors, who have no base pay, with all earnings derived from sales. Given the remuneration structure, many of these advisers tend to be more self-driven.

Clients are cognisant of commission earnings and often wonder if the adviser is suggesting a product or plan that is best suited for the client, or one that the adviser derives the highest commission from (this includes non-monetary inducements as well). This conflict of interest is perennial, and will likely come to the forefront when risk assets fall in value and allegations of mis-selling surface<sup>10</sup>.

In addition, participants of the focus group discussions revealed that less experienced relationship managers dive too quickly into pushing products when communicating with prospective clients, which tend to irk some of them.

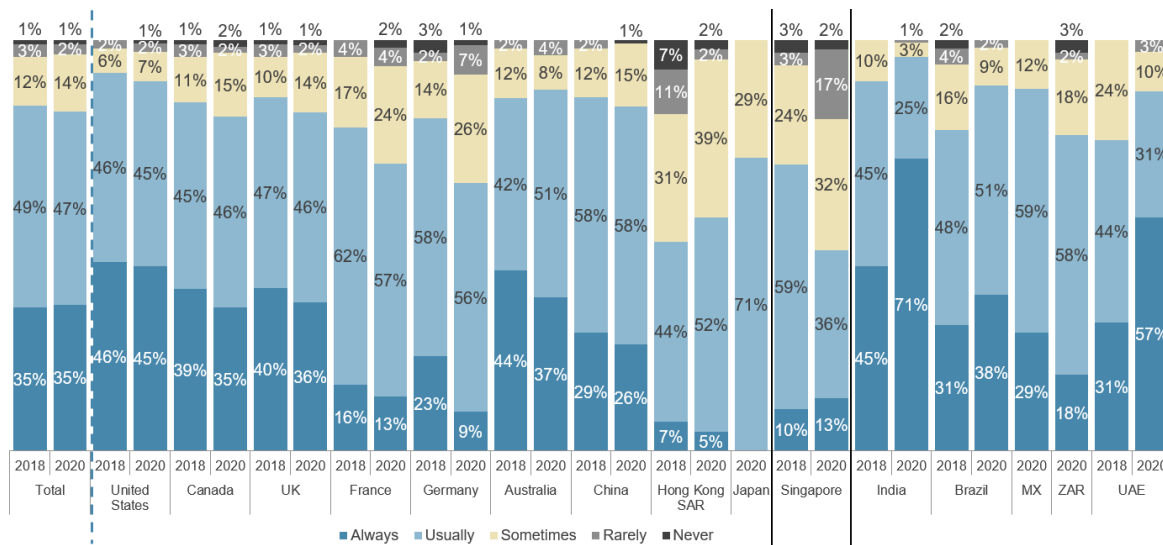


*How do I know if the adviser is putting my interest first? Do I trust him to do the best for me?*

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<sup>10</sup> CFA Institute position paper 'Sales Inducement in Asia Pacific' November 2019 - <https://www.cfainstitute.org/en/advocacy/policy-positions/sales-inducements-in-asia-pacific>

Figure 20: How often does the adviser put your interest first?



Base: Retail Investors With Financial Adviser (1980), US (298), Canada (329), UK (266), France (113), Germany (96), Australia (85), China (143), Hong Kong SAR (44), Japan (22), Singapore (48), India (173), Brazil (165), Mexico (59), South Africa (67), UAE (72)  
Q33. Do you believe your financial adviser puts your interests first?

Source: CFA Institute Earning Investors' Trust 2020

When asked if investors 'believe their financial adviser put their interests first', the percentage of retail investors in Singapore who answered 'always' and 'usually' fell from 69% in 2018 to 49% in 2020. The percentage change in those who replied 'never' and 'rarely' between those two years were equally dismal.

During presentations to companies on the trust survey, fund managers revealed that there were clients who queried them on the nature of their compensation during product briefing or explanation meetings. The motivation of such questions can possibly be traced to conflicts of interest, where the client is trying to determine if the adviser seated across from them has put their interest first in a commission-based setting.

In this respect, some have mooted a fee-based model in replacement of the current commission-based remuneration model. This aligns the interests of both parties as advisers are incentivised to maintain a long-term relationship with clients by continuously delivering value in terms of returns, suitability of investment products, and how they work with clients.

However, how receptive are we to fee-based models in Singapore? The CFA Institute position paper on 'Sales Inducement in Asia Pacific', published in November 2019<sup>11</sup>, stated the following:

*"The MAS conducted an online survey of consumers in Singapore about their receptiveness of a fee-based model and the results revealed that 80% of consumers were not prepared for a pay-for-advice regime. Concerns arose that a switch may result in segments of consumers being underserved. The Financial Advisory Industry Review (FAIR) panel considered, but ultimately rejected, a ban on commissions."*

<sup>11</sup> CFA Institute position paper 'Sales Inducement in Asia Pacific' November 2019 - <https://www.cfainstitute.org/en/advocacy/policy-positions/sales-inducements-in-asia-pacific>

## Measures to improve the situation

### Balanced scorecards

With the status quo commission-based model in Singapore, several measures were put in place to address conflict of interests and align incentives with consumer outcomes. A notable measure is the use of balanced scorecards. The CFA Institute report on ‘Sales Inducement in Asia Pacific’ states the following:

*“Recognising the impact of conflicted remuneration on investor outcomes, in 2016, a balanced scorecard framework was implemented as part of the FAIR initiatives to enhance the financial advisory industry’s standards and professionalism. MAS requires financial advisers to adopt a balanced scorecard approach that integrates non-sales KPIs when assessing and determining remuneration for their sales staff as well as the supervisors and managers of those sales staff.*

*Under the balanced scorecard framework, non-sales KPIs are assessed based on whether the adviser (i) understood the client’s needs, (ii) recommended suitable products, (iii) made adequate disclosures, and (iv) upheld standards of professionalism and ethical conduct in providing financial advisory services. These non-sales KPIs reflect the due diligence requirements captured in the various MAS conduct rules, guidelines, and notices to better align the interests of client-facing advisers and their supervisors with those of customers and to minimize conflicts of interest inherent in volume-based remuneration arrangements.*

*Some of the tools that financial advisory firms use to assess non-sales KPIs include compliance records, complaints, customer surveys, and diversification in product recommendations.*

*Many financial advisers noted that the balanced scorecard has generally been a positive influence in the way they approach clients. Some large institutions monitor sales behaviour closely (including suitability assessments and risk checks) and impose demerit points to penalise frontline advisers who do not follow policies and procedures. Some industry practitioners, however, also indicated to the CFA Institute that sales generation still is the most important component of a financial advisory business.*

*Moreover, not only are client-facing advisers and their supervisors graded on their balanced scorecards, these grades are also kept as part of their performance records. Such records include the employees’ scorecard grades, infractions, and remuneration and are submitted by their employers on an aggregated basis to the MAS. As stipulated by the MAS, prospective employers need to conduct reference checks on potential employees’ balanced scorecard grades.”*

## Ethical culture

In 2013, MAS revised its 'Guidelines on fair dealing – board and senior management responsibilities for fair dealing outcomes to customers'<sup>12</sup> by imposing management accountability on customer outcomes.

What is legal and comply with rules and regulation may not necessary be ethical. Hence, cultivating ethical culture is paramount. MAS' three-pronged approach towards culture and conduct can be found in their 'Response to feedback received on proposed guidelines on individual accountability and conduct' dated June 2019<sup>13</sup>.

MAS believes that the board and senior management of financial institutions need to be accountable in raising standards of conduct. They have important roles in establishing risk appetite and organisational culture of the organisation, as well as supervisory duties with respect to employee conduct and behaviour. The other responsibility of the board and senior management is to ensure appropriate, adequate and robust policies and processes are in place with respect to risk ownership at all levels of the institution. Ethical behaviour and conduct should be encouraged and should fall in line with the desired culture of the organisation. Persistent misconduct by employees at all levels will eventually result in lower trust levels of the public in Singapore's financial institutions.

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<sup>12</sup> Guidelines on fair dealing – board and senior management responsibilities for fair dealing outcomes to customers - <https://www.mas.gov.sg/-/media/MAS/Regulations-and-Financial-Stability/Regulations-Guidance-and-Licensing/Financial-Advisers/Guidelines/Fair-Dealing-Guidelines--20-Feb-2013.pdf>

<sup>13</sup> Response to feedback received on proposed guidelines on individual accountability and conduct - [https://www.mas.gov.sg/-/media/Response-to-Feedback-Received\\_Proposed-Guidelines-on-Individual-Accountability-and-Conduct.pdf](https://www.mas.gov.sg/-/media/Response-to-Feedback-Received_Proposed-Guidelines-on-Individual-Accountability-and-Conduct.pdf)

## 6 Opportunities amidst Covid-19

The global trust survey collected data from October to November 2019, a few months before the World Health Organisation (WHO) declared the Covid-19 pandemic. The virus' alarming spread prompted many governments to impose lockdown in some form or the other. Economies took a hit, and risk asset valuations went south.

CFA Society Singapore conducted several focus group discussions to ascertain sentiments amongst investors when the chips were down. The results were mixed: one group of investors saw the pandemic as a black swan event – an unexpected biological event instead of an economic factor, and hence there would be no change in trust levels.

Trust levels were likely to be lower for many as returns from risk assets were lower, or even negative. This is more evident in highly leveraged risk assets where value dropped significantly (or to '0'), and if there were margin calls. For those whose portfolio was affected, the likelihood of achieving retirement adequacy – the most important investment goal for Singapore investors – is likely to decrease.

Nevertheless, investors mentioned that there were notable opportunities in times of adversity to improve trust:

- Much of how trust levels will change is also dependent upon what advisers do in this volatile and uncertain environment. If financial professionals communicate and 'hand hold' investors (plausibly for emotional support), trust levels may be maintained, or even go up, especially with the older investors who are accustomed to the nature and level of relationships offered by their remisiers or brokers.
- Listed companies have had to cancel their in-person annual general meetings (AGMs) and opt for online meetings instead. The typical AGM starts with a presentation, followed by shareholders' queries, where questions are submitted and the company representatives respond. There is no opportunity for shareholders to make further comments or respond to company representatives beyond that. This lack of opportunity to have a dialogue with listed companies, especially on performance and prospects amidst Covid-19, is very important to shareholders. Listed companies can take the opportunity to engage shareholders through dialogue sessions, which improves transparency and can increase trust levels.

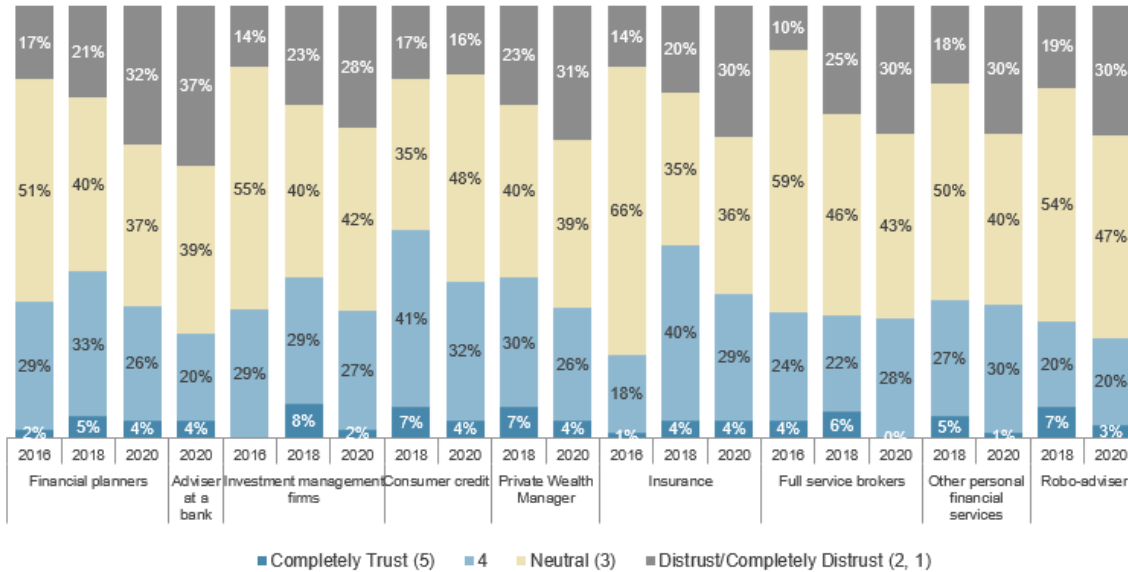


*We value talking to our adviser. Just feels more secured especially when the investment environment is like a roller coaster ride*

## 7 Are frontline advisers solely to be blamed for the fall in trust levels?

With trust levels in the financial services sector falling from 47% in 2018 to 36% in 2020, there was a focus on sub-industries of financial services. The global survey revealed that investors who ‘completely trust’ and ‘trust’ fell for most sub-industries in 2020 compared to 2018.

**Figure 21: Trustworthiness in sub-industries**

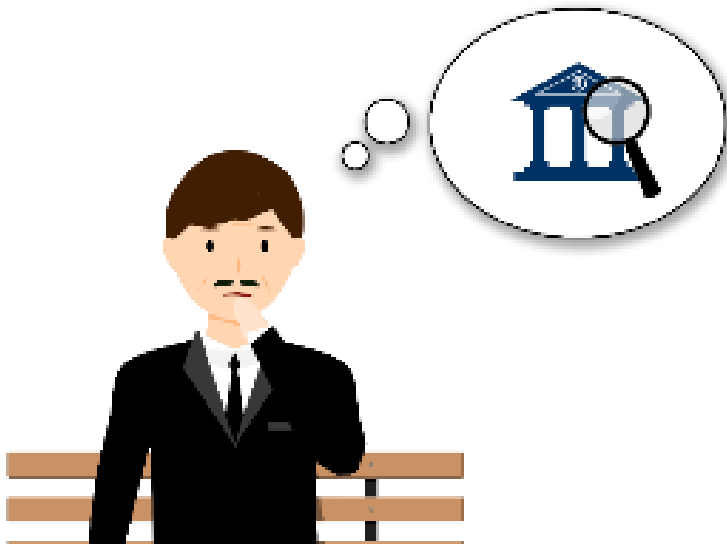


Source: CFA Institute Earning Investors' Trust 2020

The focus group discussion participants highlighted ethical dilemmas faced by frontline advisers involving conflict of interest in a remuneration-based incentive structure. They also mentioned various potential suitability issues that might arise, as well as shortfalls in communication and performance presentation. However, several astute investors brought to our attention manufacturers of investment products, and their role in originating investment products that had lost significant value.

This feedback deserves scrutiny. When an investment product tanks, investors may query the viability of the product. Investors sometimes have a nagging suspicion that investment products are packaged and sold to them as long as they made the financial institutions profits, with the viability of the product being secondary.

On a related note, questions were also raised on oversight of auditors and compliance personnel in financial institutions: specifically ‘who audits the auditors?’; if the current situation is adequate; and if not, what is the best way forward to ensure products take into the account the best interest of investors.

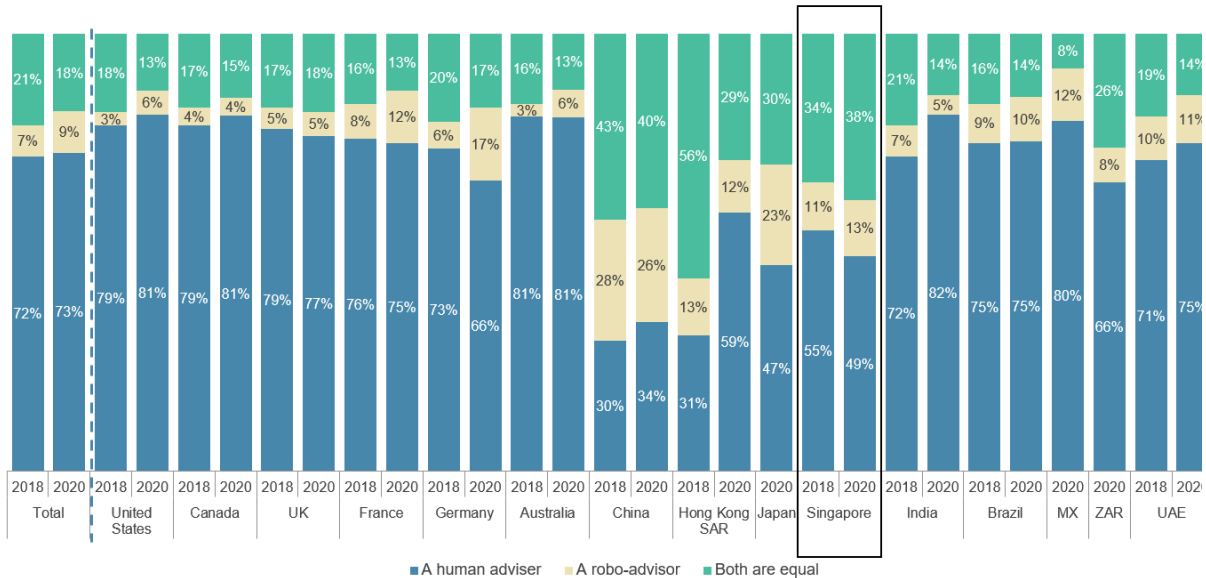


*I accept that investments carry risk. But I am not sure if certain products should be brought into the market. Did the financial institutions know from the onset that the products were likely to implode?*

## 8 Increasing trust in robo-advisors

Trust in recommendations from robo-advisors increased in 2020 compared to 2018. 13% of investors in 2020 said they trusted a robo-advisor more than humans, while 38% placed equal trust in both, bringing the combined total percentage to 51% in 2020 – an increase from 45% in 2018. The only two markets that have higher combined trust levels in robo-advisors in 2020 were China and Japan.

**Figure 22: Trust in human vs robo-advisor**



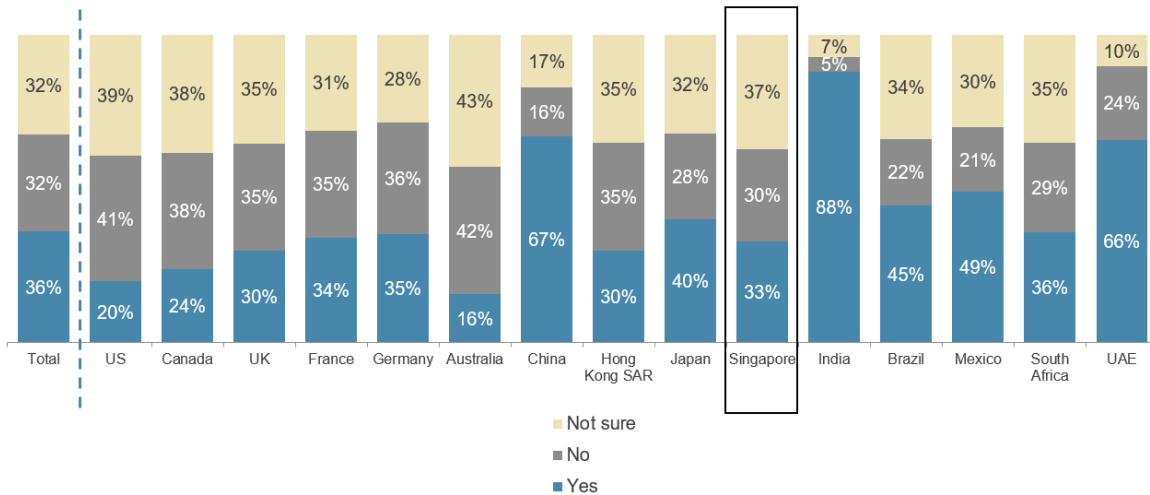
Base: Total Retail (3525), US (500), Canada (500), UK (500), France (200), Germany (250), Australia (250), China (200), Hong Kong SAR (100), Japan (100), Singapore (100), India (200), Brazil (325), Mexico (100), South Africa (100), UAE (100)  
Q40. Are you more likely to trust recommendations from:

Source: CFA Institute Earning Investors' Trust 2020

When asked if they had used robo-advisors, or are currently using robo-advisors, most middle-aged and senior-aged investors in the focus group discussions in Singapore have no experience with using robo-advisors. Millennials seem to form the bulk of investors that use robo-advisors, possibly due to the familiarity with artificial intelligence (AI) and information technology (IT) through courses being taught in institutions of higher learning. Familiarity and exposure to AI and IT contribute to confidence in robo-advisory platforms.

The global survey also revealed that 33% of investors in Singapore are willing to invest in a fund that uses AI for the selection process. This number is lower than the global average at 36%, but higher than that in most developed markets.

**Figure 23: Willing to invest in funds using AI for selection process**



Base: Total Retail (3525), US (500), Canada (500), UK (500), France (200), Germany (250), Australia (250), China (200), Hong Kong SAR (100), Japan (100), Singapore (100), India (200), Brazil (325), Mexico (100), South Africa (100), UAE (100)

Q41. Would you invest in a fund that primarily uses artificial intelligence to select investment holdings?

Source: CFA Institute Earning Investors' Trust 2020

37% of respondents are 'not sure' and need convincing. One factor that could tip the balance in favour of using AI is the presence of a track record. Many potential investors said they would be more assured if the robo-advisors could demonstrate a decent track record of returns. Other cautious investors would place a nominal sum with robo-advisors to test out the platform before committing more capital.

Investors also made clear that they want to know how AI works. This is more evident in cases where there were losses. Some investors claim that they did not receive a satisfactory explanation.

Respondents also highlighted that they want to understand certain processes such as how AI rebalances a portfolio although the same would not be asked of a traditional fund manager.

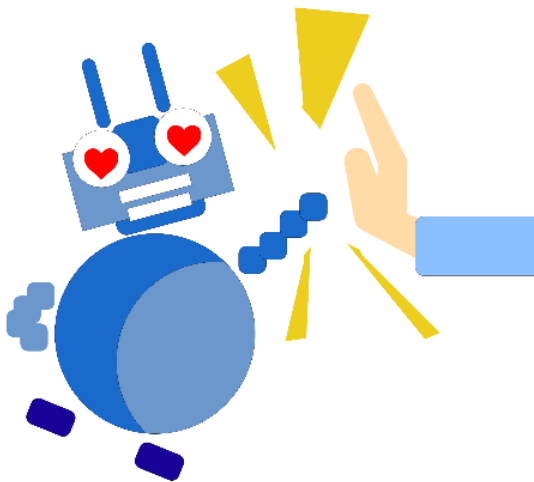
In summary, investors need more information on AI before they can be more comfortable with the relatively new platform.

### Human oversight

Would you fly in an airplane without a pilot?

Many would not in spite of available technology to do so and well-documented claims that AI is indeed safer than human pilots. Similar sentiments apply to AI investing:

- Human oversight is still needed to ensure the AI risk asset selection process is working as intended.
- Human judgement on certain matters such as governance is still firmly in the domain of humans.
- Some investors are comfortable with AI selecting risk assets but want a hotline number to call should they encounter issues.

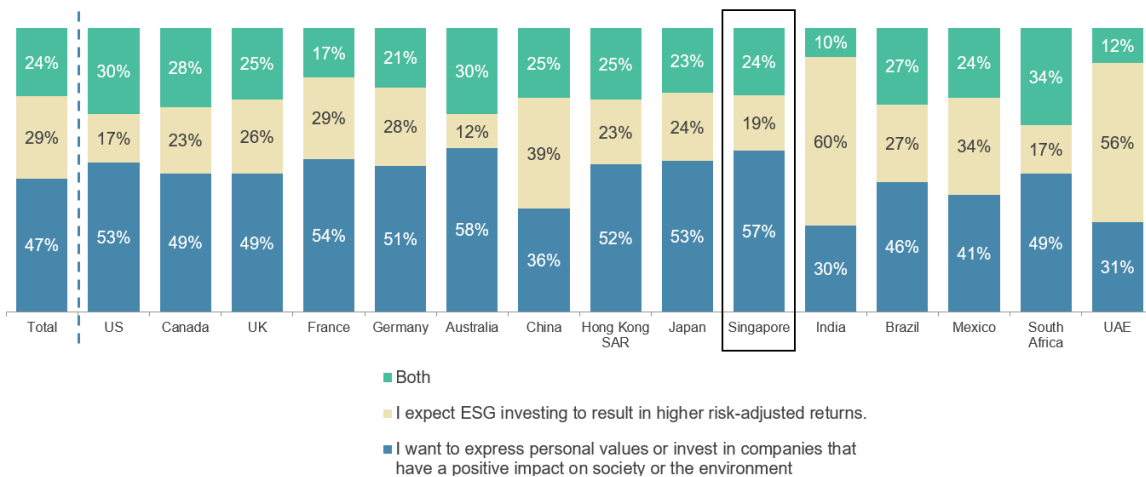


*We are comfortable with AI selecting risk assets. But we also want a human to ensure the algorithm is doing what it is supposed to do*

## 9 Is ESG gaining traction?

Singapore investors want more say over the use of their investment dollars. Of those who expressed interest in ESG investing, 57% wanted to do so to express personal values or invest in companies that have a positive impact on society or the environment. A fifth are motivated by the expectation that ESG investing will result in higher risk-adjusted returns, and 24% wanted to express their values and achieve a higher risk-adjusted return at the same time.

**Figure 24: ESG investing**



Base: Retail Investors Interested in ESG (2505), US (228), Canada (294), UK (348), France (167), Germany (190), Australia (135), China (195), Hong Kong SAR (79), Japan (80), Singapore (72), India (198), Brazil (264), Mexico (90), South Africa (76), UAE (89)  
Q50. Which choice below best describes your interest in ESG investing?

Source: CFA Institute Earning Investors' Trust 2020

Millennials are the forerunners in the ESG space, and demand from this category of investors is expected to grow as the Pioneer<sup>14</sup> and Merdeka<sup>15</sup> Generation pass their wealth on to them.

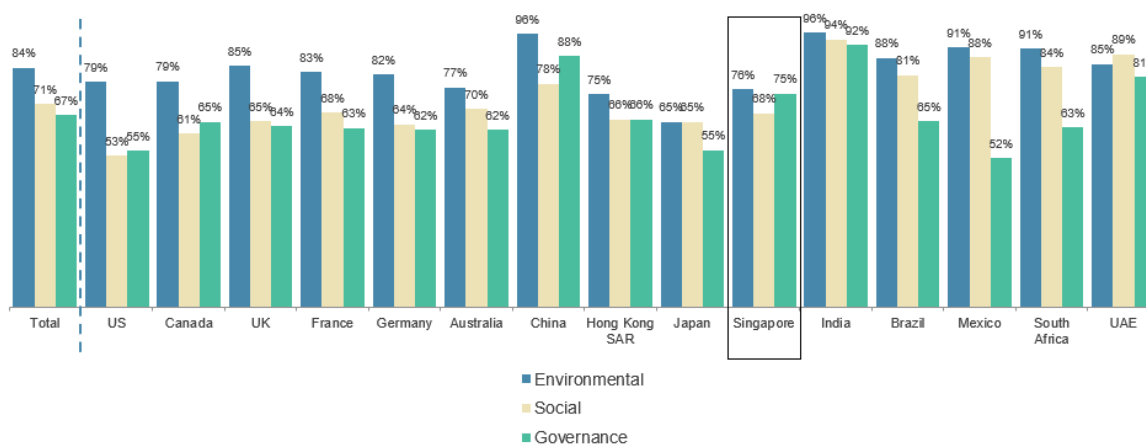
Another group in Singapore who may pay more attention to ESG investing are the ultra-high net worth individuals (UHNWIs). An incremental increase in their wealth may not bring as much utility to them as contributing positively to society or the environment.

<sup>14</sup> Residents in Singapore born before 31 December 1949

<sup>15</sup> Residents in Singapore born between 1 Jan 1950 to 31 Dec 1959

When asked which are the most important factors in ESG, 76% chose the environmental factor. This was followed by the governance and social factor at 75% and 68% respectively.

**Figure 25: Most important ESG factor**



Base: Retail Investors Interested in ESG (2505), US (228), Canada (294), UK (348), France (167), Germany (190), Australia (135), China (195), Hong Kong SAR (79), Japan (80), Singapore (72), India (198), Brazil (264), Mexico (90), South Africa (76), UAE (89)  
Q49. Which of the components of ESG are of interest to you?

Source: CFA Institute Earning Investors' Trust 2020

This contrasts with the results of the 2019 CFA Institute 'ESG Integration in Asia Pacific: Markets, Practices and Data', where Singapore investors placed the following aspects in descending order of importance: share prices, corporate bond yields/spreads; and sovereign debt yields on governance, environmental and social component.

**Figure 26: The Impact of ESG issues in 2017 and the expected impact in five years' time (2022) on share prices, corporate bond yields / spreads, and sovereign debt yields**

|   | AFFECTED IN 2017 | WILL AFFECT IN 2022 |
|---|------------------|---------------------|
| <b>ESG ISSUES IMPACT ON SHARE PRICES</b>                  |                  |                     |
| Governance  | 71%              | 78%                 |
| Environmental   | 22%              | 56%                 |
| Social  | 22%              | 47%                 |
| <b>ESG ISSUES IMPACT ON CORPORATE BOND YIELDS/SPREADS</b> |                  |                     |
| Governance  | 55%              | 62%                 |
| Environmental   | 3%               | 45%                 |
| Social  | 3%               | 31%                 |
| <b>ESG ISSUES IMPACT ON SOVEREIGN DEBT YIELDS</b>         |                  |                     |
| Governance  | 34%              | 55%                 |
| Environmental   | 3%               | 48%                 |
| Social  | 10%              | 41%                 |

Note: Percentages represent respondents who answered "often" or "always."

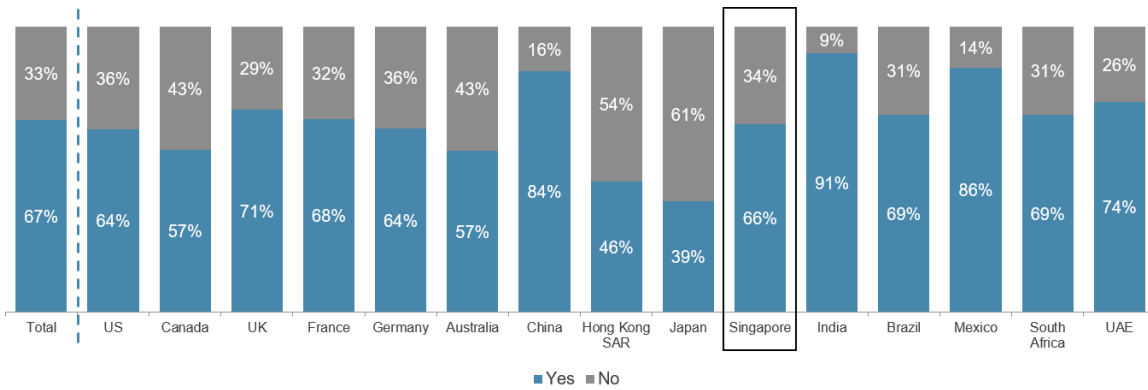
Source: CFA Institute ESG Integration in Asia Pacific: Markets, Practices and Data 2019

Environmental issues have come to the forefront in Singapore, where investors traditionally list governance issues as of paramount concern.

### Are investors willing to sacrifice returns for ESG?

Many posit a trade-off between returns and ESG investing instead of better risk-adjusted returns brought on by ESG. Retail investors were asked if they were willing to give up some returns for an investment strategy that meets their value-based objectives. While 66%<sup>16</sup> of respondents were willing to do so, uncertainty in the economic environment brought on by Covid-19 might cause this number to fall as the pandemic rages on.

**Figure 27: Willingness to give up returns for values-based objectives**



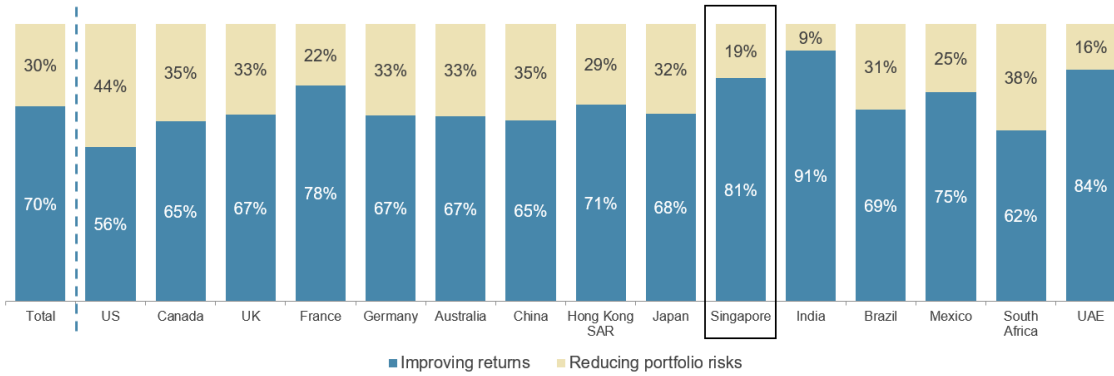
Base: Retail Investors Interested in ESG for Expressing Personal Values (1769), US (196), Canada (223), UK (256), France (119), Germany (135), Australia (119), China (119), Hong Kong SAR (61), Japan (60), Singapore (58), India (80), Brazil (192), Mexico (59), South Africa (63), UAE (39)  
Q51. Would you be willing to give up some return for an investment strategy that meets your values-based objectives?

Source: CFA Institute Earning Investors' Trust 2020

<sup>16</sup> The quantum of the sacrifice in returns was not polled.

Retail investors were also asked if returns or risks took priority in ESG investing – an overwhelming 81% were in favour of ‘improving returns’ over ‘reducing portfolio risks’.

**Figure 28: Returns vs risk in ESG**



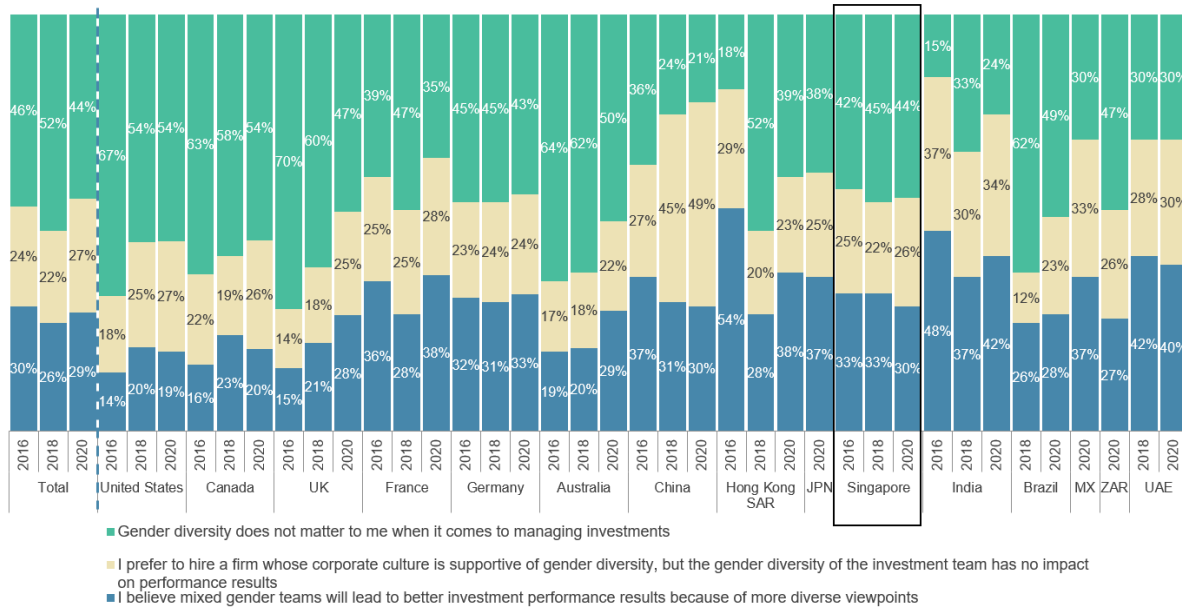
Base: Retail Investors Interested in ESG for Expected Higher Risk-Adjusted Returns (1322), US (106), Canada (149), UK (178), France (77), Germany (91), Australia (57), China (124), Hong Kong SAR (38), Japan (37), Singapore (31), India (138), Brazil (143), Mexico (53), South Africa (39), UAE (61)  
Q51b. Which is a greater priority in your ESG assessments?

Source: CFA Institute Earning Investors' Trust 2020

## 10 Diversity and Inclusion

Investment teams, including those in Singapore, are dominated by males. 30% of respondents from the global trust survey believe that teams with both genders would lead to better investment performance results due to the presence of diverse viewpoints. This number is down from 33% in 2018 and 2016.

**Figure 29: Opinions on gender diversity of investment team**



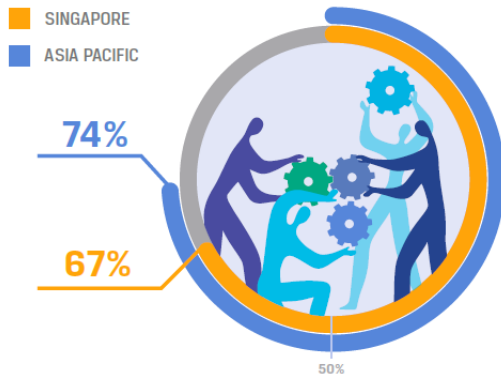
Base: Total Retail (3525), US (500), Canada (500), UK (500), France (200), Germany (250), Australia (250), China (200), Hong Kong SAR (100), Japan (100), Singapore (100), India (200), Brazil (325), Mexico (100), South Africa (100), UAE (100)

Q52. When it comes to the gender diversity of your team of investment professionals, which one of the following best describes your view?

Source: CFA Institute Earning Investors' Trust 2020

In November 2019, CFA Institute conducted another regional survey<sup>17</sup> of 3,000 investment professionals in Asia Pacific (APAC) for their views on gender equality and latent gender bias in the APAC investment services industry. Investment professionals in Singapore were more positive than retail investors surveyed in the global trust survey – 67% agreed that gender diverse teams lead to better business outcomes. Despite the Asia Pacific investment professional number being even higher at 74%, this is a 37 percentage point difference compared to investors.

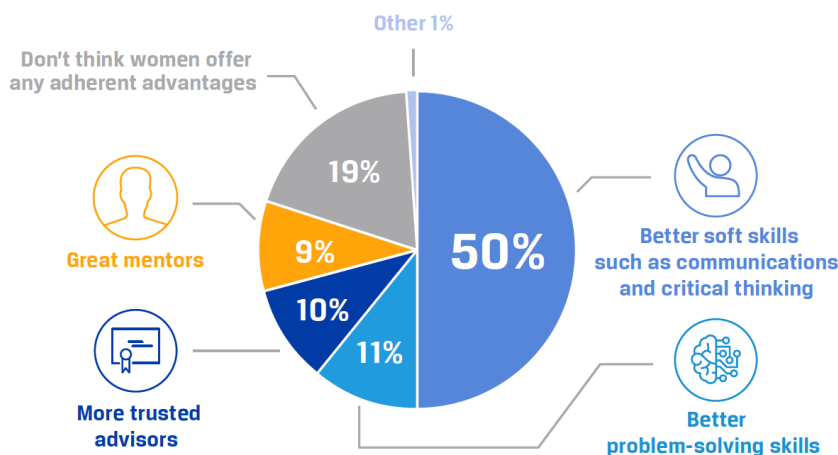
**Figure 30: The vast majority agree that gender diverse teams lead to better business outcomes**



Source: CFA Institute Gender Bias In The Investment Profession In Asia Pacific 2020

Investment professionals also cited numerous advantages for having women in leadership positions. 50% of respondents believe women in leadership positions have better soft skills than men, which are critical to managing a team, while 10% believe women are more trusted as advisors.

**Figure 31: Advantages of having women in leadership positions**

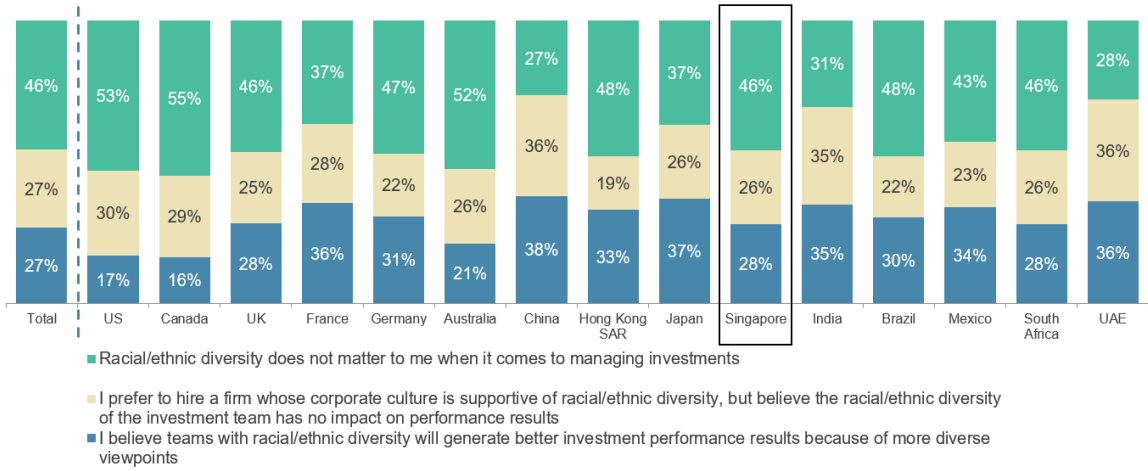


Source: CFA Institute Gender Bias In The Investment Profession In Asia Pacific 2020

<sup>17</sup> In November 2019, CFA Institute conducted a regional survey of 3,000 investment professionals in Asia Pacific for their views on gender equality and latent gender bias in the APAC investment services industry. Respondents included junior- to senior-level investment professionals with a ratio of 40% male to 60% female. Surveyed markets included Australia, mainland China, India, South Korea, Singapore and Hong Kong, a Special Administrative Region (SAR) of China - <https://cfasocietysingapore.org/2020/09/08/gender-bias-in-the-investment-profession-in-apac/>

When it came to racial / ethnic diversity, the results were similar to gender diversity. 28% of investors from the global trust survey felt that racial / ethnic inclusion would generate better investment performance results due to diversity in viewpoints.

**Figure 32: Opinions on racial / ethnic diversity of investment team**



Base: Total Retail (3525), US (500), Canada (500), UK (500), France (200), Germany (250), Australia (250), China (200), Hong Kong SAR (100), Japan (100), Singapore (100), India (200), Brazil (325), Mexico (100), South Africa (100), UAE (100)  
Q53. When it comes to the racial/ethnic diversity of your team of investment professionals, which one of the following best describes your view?

Source: CFA Institute Earning Investors' Trust 2020

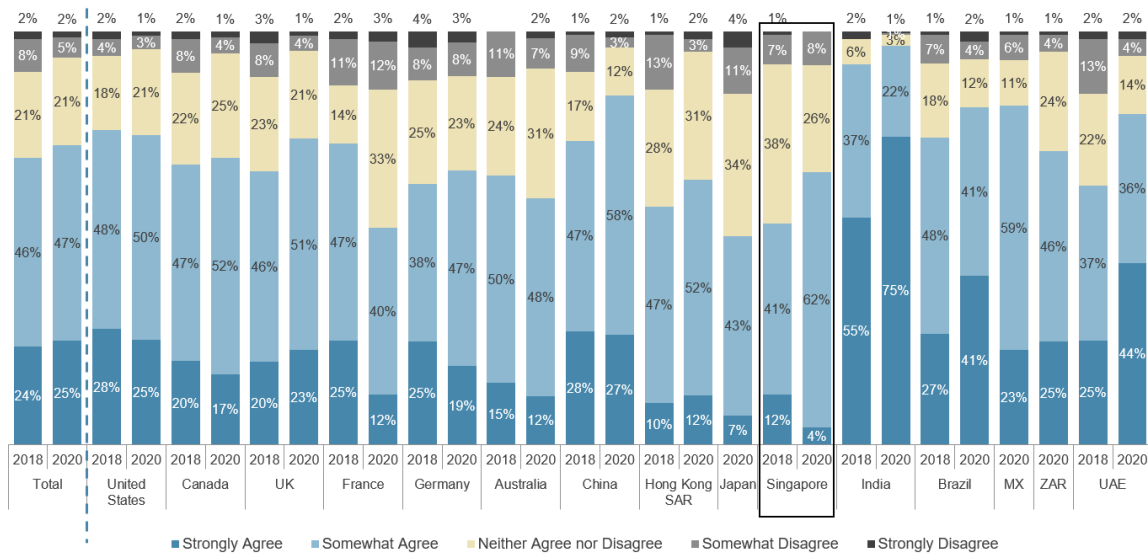
## 11 Opportunities for all to participate in the Singapore capital market

Access to opportunities is often overlooked, but is a necessary condition for a just and inclusive society. If the average investor perceives a certain privileged class of investors have monopoly over value created by firms, or have an unfair advantage over numerous opportunities for various reasons, these perceptions, if entrenched, will not bode well for capital market growth.

So, how are we faring in Singapore?

66% of investors in Singapore said that they either 'strongly agree' or 'somewhat agree' that they have opportunity to profit in capital markets in 2020, compared to 53% in 2018. Despite this being lower than the global average, this is a positive development.

**Figure 33: Opportunity to profit in capital markets investments**



Base: Total Retail (3525), US (500), Canada (500), UK (500), France (200), Germany (250), Australia (250), China (200), Hong Kong SAR (100), Japan (100), Singapore (100), India (200), Brazil (325), Mexico (100), South Africa (100), UAE (100)  
Q12. To what extent do you agree or disagree with the following statement: "I have a fair opportunity to profit by investing in capital markets."

Source: CFA Institute Earning Investors' Trust 2020

### A level playing field

It is of paramount importance that opportunities are provided to all.

Issues such as private placements to family offices may be advantageous to the issuer, fund manager and the high-net-worth individuals – a win win situation. For the other retail investors, it may be a case of win lose – they will certainly at some point question if the issuer could have given them the first right of refusal. Perhaps the issuers could have. But perhaps it was not feasible as the issuer had to raise funds in a short period of time. For example, Singapore REITs do need to compete with family offices to bid for real estate acquisition and time is of the essence in readying sufficient funds to do so. Private placements are seen as expedient to the process whilst raising funds from existing shareholders involve more time. Naturally, REITs will prefer the former.

The risk of private placements if not well executed may be one where the perception of an uneven playing field takes hold. Retail investors may, in the future, not be so forthcoming in investing in asset classes where they feel they do not get equal access.

Another example of ‘imbalance in opportunities’ is perhaps the perception of high net worth individuals having almost exclusive access to technology unicorns and intangible asset companies through private markets. Wealthy individuals have the ability to take on more risk. They are also more comfortable with illiquid assets and likely to be in a better position to understand complex financial models compared to the average investor. When significant value is created by technology unicorns or intangible asset companies, they accrue to the affluent, who exit via initial public offerings in the public markets. The average investor merely captures the tail-end value of successful companies. Hence, the average investor may feel left out.

Nevertheless, there is justification for differences in opportunities across different groups of investors. Most investors do understand the differentiation in product offerings between the regular investor and the growing ranks of high net worth individuals who qualify as accredited investors. If the investor has met the regulatory requirements on asset and income criteria, they are required to give consent to opt in as an accredited investor. The benefits of the accredited investor status include access to a wider range of products, including risky and complex products which are not available to the regular investor. These investors are assumed to be more knowledgeable and have resources at their disposal to evaluate riskier and complex products. These affluent investors are then deemed to require less regulatory protection, which they have agreed to giving up when joining the accredited investor scheme.

### **What are the consequences of an unfair financial market, or the perception of one?**

Besides illustrating the importance of equal access to opportunities to profit from the Singapore capital market in the examples above, we also want to highlight the importance of continuing to keep the capital market free from insider trading, market manipulation and other illicit activities that have the same effect of putting one group of investors above another.

The consequences of illicit activities are similar to that of unequal access to opportunities – they are equally adverse to the development of capital markets where the disgruntled investors will naturally not plough as much funds into the Singapore market as they feel the market does not offer them a fair shot compared to the more privileged investors. If this becomes widespread, and the average investor shuns the markets as a result, the growth of Singapore’s capital market will be curtailed.



*I want to be treated fairly. If I do not feel that this is indeed the case, I can always take my funds elsewhere*

Opportunities to profit in capital markets investments must continue to remain open to all and free from illicit activities, and the situation has to be constantly monitored to ensure continued access<sup>18</sup>.

### **Can investors take their funds elsewhere?**

Singapore is a financial hub. Investors have access to investment products and risk assets from global capital markets. This gives investors in the city state more choices compared to their counterparts in many countries. With more alternatives, investors can choose to invest in products and risk assets where they deem they have equal opportunity to profit should they lose confidence in investment products or risk assets in the local scene.

### **A plausible alternative: will technology firms eat the lunch of financial institutions?**

Financial institutions, especially the established companies, have existing customer bases, and the incumbents have many plus points in manufacturing and distributing financial products.

However, there is competition on the horizon – the encroachment from large technology firms into the same space poses a growing threat to incumbents. These technology firms already offer financial services to markets in the US and China, and are in the process of broadening and deepening their offerings. Large technology firms believe their ability to harness big data, artificial intelligence (AI) and machine learning (ML) will pay off. Clients want great customer experience, instant approval of loans, integrated delivery of various financial services including cross selling, marketing which is relevant to them, which is exactly what big data, AI and ML can provide.

An important point which is often not surfaced when comparing incumbents to large technology firms is that the latter does not have legacy issues. The former has to contend with mis-selling, too-big-to-fail and Occupy Wall Street memories which are etched in the minds of some badly burnt investors.

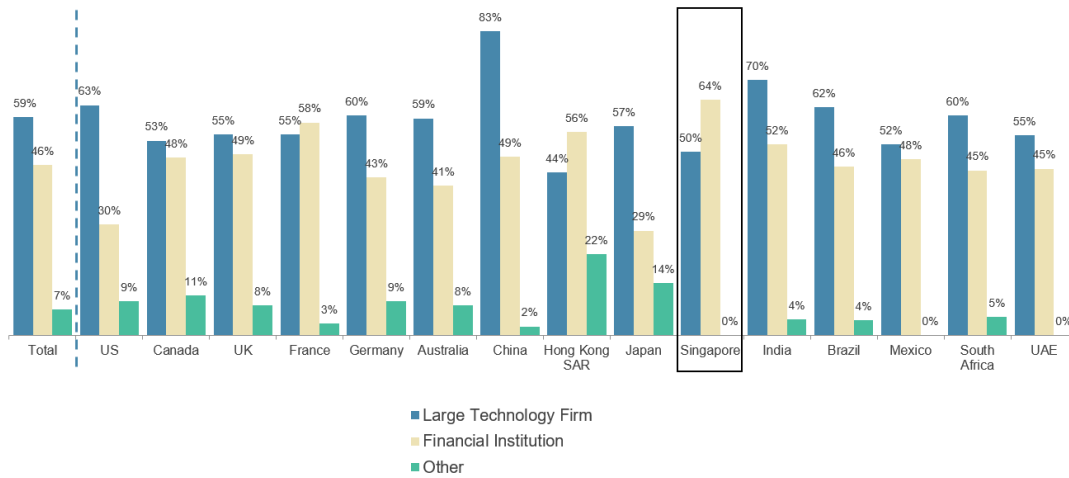
How open, then, are investors to new investment products from financial institutions, and from the challengers?

In Singapore, a whopping 64% of investors are more interested in investing in a new product created by financial institutions, which is much higher than the 46% who said the same for the global average. However, the number keen on large technology firms creating new investment products were higher in many other markets surveyed.

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<sup>18</sup> CFA Institute position paper “Capital Formation” 2018 - <https://www.cfainstitute.org/-/media/documents/article/position-paper/capital-formation.ashx>

**Figure 34: Preferred source of new investment product**



Base: Retail Investors That Like to Be An Early Adopter (558), US (43), Canada (64), UK (73), France (31), Germany (65), Australia (49), China (41), Hong Kong SAR (18), Japan (7), Singapore (14), India (23), Brazil (74), Mexico (25), South Africa (20), UAE (11)  
Q45. Would you be more interested in investing in a new product that was created by...?

Source: CFA Institute Earning Investors' Trust 2020

Financial institutions in Singapore must prepare for more competition. Whilst also employing big data, AI and ML, it is in the interests of incumbents to shore up trust levels, build confidence and strong relationships with clients to fend off the impending competition.

### Inclusion in investment products

We look forward to more inclusion with digital bank licenses being awarded in Singapore. One of the outcomes of this endeavour would hopefully be to better serve customer needs, and to reach out to under-served segments of the Singapore market such as gig economy workers. Other posited benefits include product offerings being more tailored towards investors and having lower costs due to the extensive use of big data, AI and ML, as well as rental savings from not having brick-and-mortar branches.

It is evident that access to suitable investment products provides an opportunity for all to share the fruits of economic growth.

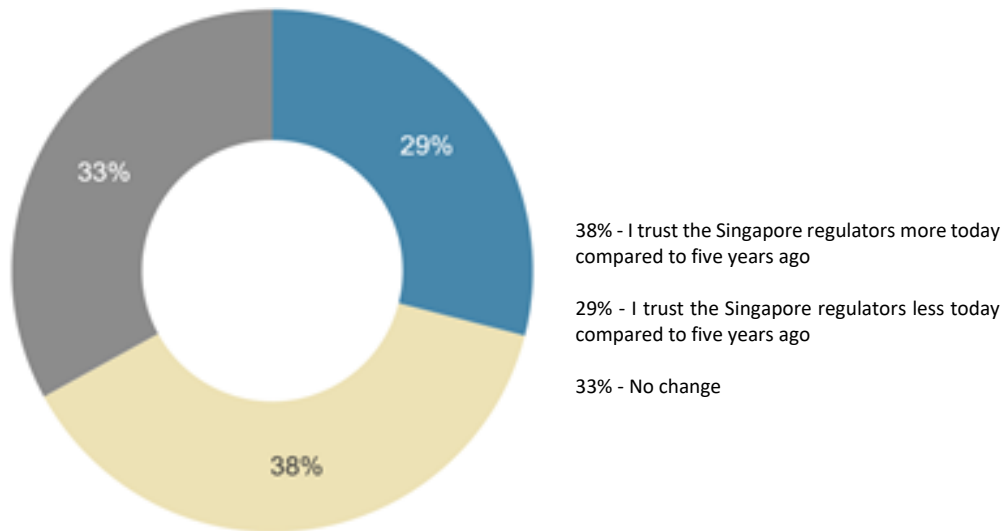
*My pay varies. It can also be erratic. I am still looking for suitable financial products*



## 12 Have the regulators done enough to protect retail investors?

Singapore respondents were asked in the global trust survey: “Compared to five years ago, how has regulation of the Singapore capital markets affected the level of trust you have in the regulators to protect the interest of investors?”

**Figure 35: Compared to five years ago, how has regulation of the Singapore capital markets affected the level of trust you have in the regulators to protect the interest of investors?**



Base: Total Singapore (100)  
Q77. Compared to five years ago, how has regulation of the Singapore capital markets affected the level of trust you have in the regulators to protect the interest of investors?

*Source: CFA Institute Earning Investors' Trust 2020*

Investors were fairly split across the ‘increase’, ‘decrease’ and ‘no change’ responses. Focus group discussions held by CFA Society Singapore in May to June 2020 helped to shed some light on the responses.

### No change

Trust in regulators to protect investors is already high, which may account for the ‘no change’ responses. Respondents voiced their continued trust in government agencies to do what is best for investors and the capital market. This includes protecting investors.

### I trust the Singapore regulators more today compared to five years ago

The global financial crisis in 2008 had repercussions on trust levels in Singapore. The collapse of Lehman-linked products in Singapore gave rise to allegations of mis-selling and culminated in protests at Hong Lim Park. Many said that they lost money, with some claiming their retirement were in jeopardy because of the loss. The Lehman bonds incident had a sizeable impact on a segment of the population.

Confidence and trust levels took another beating in 2013 with the penny stocks debacle. Three Singapore-listed companies – Blumont Group, Asiasons Capital, and LionGold Corp – were suspended from trading following a collapse in their share prices. This collapse was preceded by a massive increase in the share price in all three counters. When the trading suspension was lifted, the three companies had lost in excess of 80% of their market value prior to the collapse. Investors suffered significant losses. Consequently, daily volumes on Singapore Exchange (SGX) experienced a marked decline – according to SGX data, average daily traded volume fell more than 60% in the 12 months after September 2013.

In the wake of the global financial crisis and other events that had an adverse impact on confidence in the financial markets, regulators in Singapore rolled out measures which include (not an exhaustive list):

- **Balance scorecard**

In 2016, MAS required the use of balance scorecards in determining remuneration for financial advisers in a bid to improve customer outcomes. The balance score card utilises non-financial metrics to encourage financial advisors to act in the best interests of the client. In doing so, sales revenue is not the only outcome that matters, with customer outcomes being key to remuneration and promotion. There will also be consequences for mis-selling, misrepresentation and other conduct that leads to poor outcomes for clients.

- **Individual accountability**

When everyone is responsible, nobody is truly responsible. Individual accountability requires firms to clearly identify individuals in senior positions who own the responsibility. Identification and ownership have a profound influence on behaviour. There will be more oversight of misconduct and accepted behaviour in mid-ranks and client facing advisers.

- **Culture**

Culture is a prescription on how one should behave in an organisation. It guides behaviour and complements the shortcomings of rules and regulations. Adhering to the rules and regulations and box ticking approach to compliance and procedures do not always translate to ethical behaviour. A pervasive ethical culture from the top through front-line staff is the most secure and sustainable way in delivering outcomes clients' desire. Regulators have recognised this and are advocating the need to have the right corporate culture.

- **Regulatory function to be independent**

The regulatory function of SGX was separated from the commercial unit in 2017, a move widely seen as an attempt to address the conflict of interest in promoting SGX as a business-friendly platform to list assets and the regulatory function that is needed to check listed assets. With the setting up of Singapore Exchange Regulation (SGX RegCo), the new company will operate independently from the commercial unit.

- **Delisting offer to be fair and reasonable**

SGX RegCo provides small and minority holders a say in agreeing to a voluntary delisting of a listed entity. The exit offer must also be deemed reasonable and fair from the appointed independent financial adviser point of view.

### **I trust the Singapore regulators less today compared to five years ago**

Some respondents from focus group discussions gave plausible reasons or contributing factors as to why investors may have felt the way they did when it came to having lower trust in regulators to protect their interests:

- The increase in maximum leverage for S-REITs from 45% to a higher limit. In June 2019, MAS issued a consultation paper seeking feedback on the proposed increase in leverage limit for S-REITs. Investors who did not want to see the leverage limit go up may have felt that their interests were compromised.
- The introduction of dual-class shares (DCS) structures. Founders and entrepreneurs have outsized voting rights to enable start-ups or technology firms to execute its long-term strategy. Despite safeguards in place, there were lingering concerns on minority rights.
- Lapses in regulation. When risk assets fall in value or alleged financial shenanigans come out into the open, investors wonder what had happened, how it was allowed to happen, and how the lapses went unnoticed for extended periods of time. Inadvertently, the buck seems to stop at the regulators' doorstep.

### **Notable responses and observation during focus group discussions**

Only a few participants could articulate measures taken by regulators in the last five years to protect investors' interests when asked. Participants of the focus group discussions are generally unaware of the balance scorecard approach despite uneasiness with distributors' commission-based remuneration - investors are always mulling if advisers are pushing a product that is best suited to their needs, or one that earns the advisers the highest commission.



*I struggle to recall measures in place to protect my interest*

Several respondents said they have been active in providing feedback on many fronts to various institutions, as well as regulators, with regards to financial services. Despite their best efforts, their views are seldom taken into account. The respondents also felt that the outcome of many feedback sessions and consultation papers had foregone conclusions.

### **Forgone conclusion of consultation papers - a communication issue perhaps?**

Based on investors' responses, we hypothesise that this may be more of a communication issue than a forgone conclusion situation. The typical process of consultation papers revolves around issuance of proposals, collation of responses, and deciding on the next course of action.

Responses to consultation papers, although published on the regulators' website, are seldom read by investors. Responses by regulators would outline the regulators thought process alongside rationale of why certain measures were adopted, while others were rejected or put on hold. In addition, this relative in-depth explanation may not be consistently and comprehensively covered by the press, as mass media typically carries news on fresh measures that will come into force with some justification for them.

A way forward could be to add several more layers to the consultation paper process. Regulators could explain the rationale for pertinent proposals via an investor townhall session. This will bode well on three fronts: firstly, it can be seen as a genuine attempt to solicit feedback even amongst the less financially savvy; secondly, the rationale for proposals in consultation paper can be arduous to digest, and hence a verbal explanation may help matters; and lastly, a dialogue always help build trust. The same can be done via a second townhall to explain responses to feedback from consultation paper respondents.

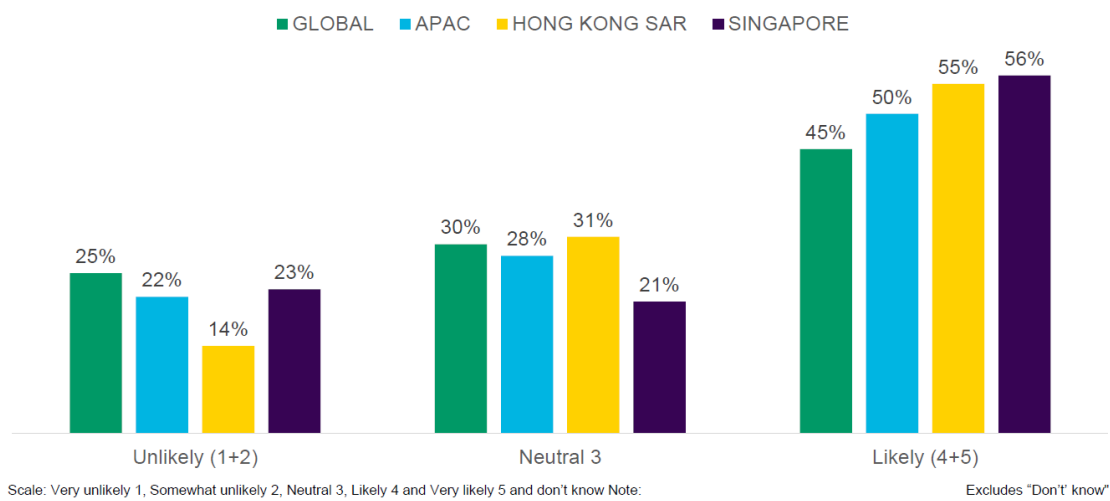
These additional layers may close the communication divide. Considering investors discuss investing matters with their spouses, family, friend and colleagues, these additional layers may bode well for sentiment on investor protection.

### 13 Spike in unethical behaviour amidst the Covid-19 pandemic?

Crime rates have a tendency to fall in the midst of prolonged economic expansion. Jobs are in abundance, resulting in adequate avenues to earn an income. The converse is true as well.

In a June 2020 research report by CFA Institute<sup>19</sup>, 56% of CFA charterholders who were surveyed in Singapore said that the risk of financial hardship in the financial industry will result in unethical behaviour on the part of the investment industry. This sentiment is higher in Singapore than in Hong Kong SAR, Asia Pacific and globally.

**Figure 36: How likely is the risk that financial hardships in the financial industry will result in unethical actions on the part of the investment management industry?**



Source: CFA Institute 'Is the coronavirus rocking the foundations of capital markets?' 2020

Therefore, investors, financial institutions, and regulators have to be extra vigilant during this extended period of financial hardship in the financial sector.

<sup>19</sup> CFA Institute report "Is the coronavirus rocking the foundations of capital markets?" June 2020 - <https://www.cfainstitute.org/-/media/documents/survey/cfa-coronavirus-ec-report-2020.ashx>  
The second edition of the above research paper can be found at - <https://www.cfainstitute.org/en/research/survey-reports/covid19-one-year-later-report>

## 14 Shortcoming of ethics curriculum

Almost all ethics curriculum and courses around the world, including the ones in the CFA® Program and in Singapore, consist of two components:

- Knowledge: what is the code and standards of professional conduct, rules and regulations?
- Application or analysis: how do we apply the above to a unique context, hypothetical scenario or cases adapted from enforcement actions?

Advisers who have been in the industry for at least a few years should be fairly well versed with code and standards of professional conduct, rules and regulations, including their application. While in theory that means that there should not be any errant advisers in the financial sector, that is unfortunately not the case globally, as well as in Singapore.

### What are we missing?

Consider the following:

How do you persuade your boss that the current long-held practice in your organisation, which delivered and continue to deliver out-sized bonuses and promotions, is not the right way forward?

How do you persuade the above without being penalised or losing your promotion? Are there more considerations if you are a newcomer to the team?

Have you been asked to do something you know is unethical, or makes you feel uneasy? Have you looked the other way when it comes to misconduct or questionable practices in a firm?

In the above scenarios, most advisers are uneasy or know that certain practices border on or are downright unethical from the onboarding process, compliance and ethics training. They also know what should be done, but are not equipped on how to take action without losing their promotion or job, or being penalised.

Mary Gentile's "Giving voice to values" covers this crucial missing component in existing ethics curriculum:

*The main idea behind Giving Voice to Values (GVV) is the observation that a focus on awareness of ethical issues and on analysis of what the right to do may be insufficient. Precious little time is spent on action – that is, developing the “scripts” and implementation plans for responding to the commonly heard “reasons and rationalizations” for questionable practices, and actually practicing the delivery of those scripts.*

*GVV is all about this neglected area of scripts and action plans and practice: building the skills, the confidence, the moral muscle, and, frankly, the habit of voicing our values. It begins with the assumption that most of us want to bring our whole selves to work – skills, ambitions, and values. Yet we know from experience and research that most of us will encounter values conflicts in our careers, when the way we want to live and the things we want to accomplish seem in conflict with the expectations of our clients, our peers, our bosses, or our organizations. That is why this skill and practice-based approach is essential.*

### **CFA Institute’s approach to plugging the shortcomings**

CFA Institute adopts the “triple As” approach in ethics education, through facilitating individuals on a comprehensive learning journey:

- **Awareness:** Individuals are introduced to the CFA Institute Code of Ethics and Standards of Professional Conduct (Code and Standards) that cover most combinations and permutations of situations and associated ethical behaviours and/or misbehaviours. Short video clips showcasing both required and recommended actions are archived on CFA Institute Ethics learning Lab<sup>20</sup> (ELL).
- **Analysis:** Individuals who have some understanding of the Code and Standards will then go through an Ethical Decision Making (EDM) module, where case studies are utilised to enable participants to rationalize an appropriate set of behaviour when faced with ethical dilemmas. EDM workshops are available online (on ELL) and in-person format.
- **Action:** The next step will be learning how to take action to remedy ethical dilemmas in practice. To achieve this objective, CFA Institute has adopted Mary Gentile’s GVV approach to building muscle memory in order for individuals to act on dilemmas. The GVV programme is cohort-based and takes on a collaborative approach to learning.

### **Other issues: typical ethics vs discussion-based ethics course**

The typical ethics course has the knowledge component which is delivered through an online platform using pre-prepared materials – the same is done for the application portion.

Financial services firms and their representatives seem to prefer this method as there is no need for trainers in self-study online courses. This results in lower course fees. Advisers would also not need to be away from workstations. They can access the online asynchronous courses during lull moments.

Discussion-based ethics courses, on the other hand, require skilled trainers to facilitate discussion on contentious dilemmas with no clear or prescribed conclusions. Learning is through discussion and conversation, which are powerful tools to advance ethical behaviour.

We believe certain portions of an ethics course, especially the analysis and action components, are more effectively delivered if conducted by a facilitator compared to the typical course. However, it is inevitable that the fees involved are likely to be higher if a facilitator is involved, and there has to be dedicated time allocated to attend these discussion-based courses. Financial institutions should endeavour to send advisers on discussion-based courses whenever practical to do so.

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<sup>20</sup> CFA Institute Ethics Learning Lab - <https://www.cfainstitute.org/en/events/professional-learning/learning-lab/programs> or <https://cfainstitute.nomadic.fm/>

## 15 Who should investors ultimately trust to protect their interests?

Ultimately, investors should count on themselves.

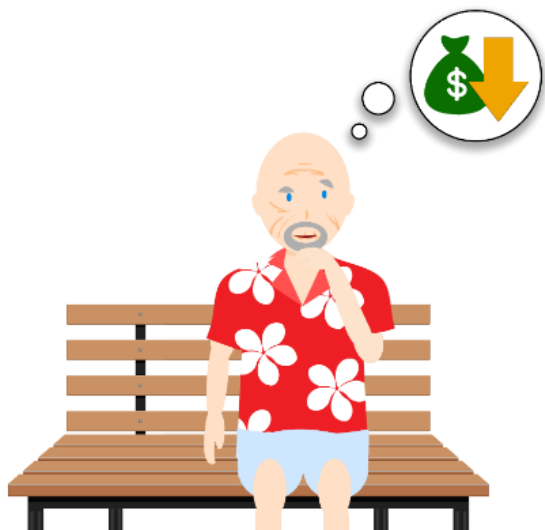
There is no better person or organisation than investors themselves to protect their own interests. The best way to do so is through financial literacy. We view being financial literate as equally or more important compared to other measures such as robust rules and regulations, or reliance on ethical behaviour of finance professionals.

There is a wide variety of avenues one can gain financial literacy, from materials at the public libraries, paid and free-of-charge courses, to webinars, talks and online materials<sup>21</sup> such as MoneySense<sup>22</sup>. These resources are comprehensive, and suit various learning styles of investors. In short, there is simply no excuse not to get oneself educated in Singapore.

### Investors have only themselves to blame

There are investors who do minimal research, if any at all, in understanding investment products before committing a sizeable amount into risk assets. Some take positions based on rumours, hear-says, or at their whims and fancies. Others do so without thorough research due to busy work and family schedules. Many do not bother to fully understand how the product works, or examine the fees levied despite financial advisers' willingness to spend time on giving a thorough explanation.

Taking positions without adequate understanding of the product and research is a recipe for disaster, and advisers have repeatedly warned investors against doing so. Should the investment go awry, investors have only themselves to blame.



*Every so often we hear of investors who put a lot of money into investments they vaguely understand. Research was on the surface at best. When they lose money, they have nobody to blame but themselves*

<sup>21</sup> CFA Institute Asia-Pacific Research Exchange (ARX) provides free access to research articles as well as 21 sector analysis. See appendix for more details or visit - <https://www.arx.cfa/en/research/2019/8/view-sector-analysis-posts>

<sup>22</sup> MoneySense - <https://www.moneysense.gov.sg/>

## Consultation paper responses

The typical consultation papers that are circulated to stakeholders in the financial sector in Singapore are papers issued by either the central bank Singapore, the MAS<sup>23</sup> or SGX<sup>24</sup>. For-profit organisations respond to them to further their interests, and understandably so.

What about retail investors? They should look after their interests too. Investors should step forward to air their views as well as provide constructive feedback.

The focus group discussions revealed that some investors have regular meet ups or discussions with fellow investors. These investors can explore the possibility of submitting joint responses after careful research and deliberation over proposals. In view of the need to gather interested parties to form groups, research and discuss – which takes effort and time to coordinate – the regulators could extend the length of the consultation process from the typical 30 days to a longer time period in an attempt to solicit more responses.

Other important investors that regulators should take into consideration are those who want to have a say, but are not inclined to pen down their thoughts on paper. Is there another viable avenue to solicit their feedback?

## Stewardship

Individual investors and groups of investors should band together with asset owners and fund managers to work with investee companies in securing the long-term performance of SGX-listed companies. This is the guiding principle behind stewardship. Stewardship Asia<sup>25</sup>, a Singapore-based organisation, outlines seven stewardship principles of which CFA Society Singapore helped develop through a steering committee in 2016:

1. Take a stand on stewardship - Responsible investors establish and articulate their policies on their stewardship responsibilities.
2. Know your investment - Responsible investors communicate regularly and effectively with their investee companies.
3. Stay active and informed - Responsible investors actively monitor their investee companies.
4. Uphold transparency in managing conflicts of interest - Responsible investors make known their approach to managing conflicts of interest.
5. Vote responsibly - Responsible investors establish clear policies on voting and exercise their voting rights in a responsible fashion.
6. Set a good example - Responsible investors document and provide relevant updates on their stewardship activities.
7. Work together - Responsible investors are willing to engage responsibly with one another where appropriate.

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<sup>23</sup> MAS consultation papers - [https://www.mas.gov.sg/publications?content\\_type=Consultations](https://www.mas.gov.sg/publications?content_type=Consultations)

<sup>24</sup> SGX consultation papers - <https://www.sgx.com/regulation/public-consultations>

<sup>25</sup> Stewardship Asia - <https://www.stewardshipasia.com.sg/>

## 16 How investors get their fingers badly burnt

*“Cancer patient Lim Qing Si was one of thousands of hard-working Singaporeans who lost their savings in the financial crisis, especially when Lehman Brothers collapsed and its secured products became virtually worthless.*

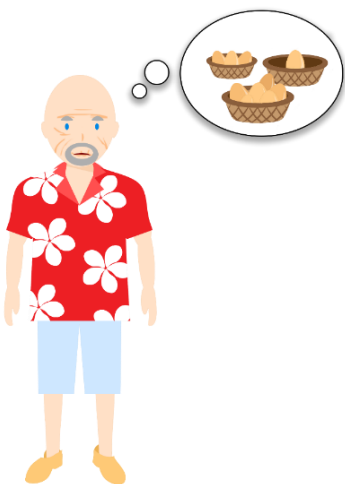
*“All this money is my husband and my retirement savings,” said Lim, a 54-year-old retiree, who must now scramble together what’s left of her savings to pay for cancer treatment after a malignant tumor was found in her leg,” from a Reuters article dated November 7, 2008.<sup>26</sup>*

*“Madam L.L. Hong, 53, and her husband, Mr B.C. Ong, 55, said they bought Hyflux perpetual securities and preference shares because they thought Tuaspring was a “strategic national asset”. Instead, they have lost more than \$200,000 of their retirement funds. The couple were among those who turned up for yesterday’s protest at Hong Lim Park to show their support for the “no” vote to Hyflux’s restructuring plan on Friday.*

*Madam Hong, 53, said: “I’m voting ‘no’ on April 5. If someone takes away your money and then gives you back 3 per cent, and tells you that you should be very thankful, how would you feel? “I can’t believe they are telling us that something is better than nothing... Please don’t insult us further,” from a Straits Times article dated March 31, 2019.<sup>27</sup>*

Diversification remains key – putting all your eggs into one basket is not worth the risk. The market does not reward investors for undiversified unsystematic risk, which is a pillar concept in finance.

Despite repeated reminders from financial practitioners, some choose to allocate a significant amount of their investible wealth into one or one class of risk asset, especially those that yield consistent dividends. This begs the question: ‘do they not understand the need to diversify?’



*If you are tempted to plunge a significant proportion of your money into one ‘very good irresistible investment opportunity’, do not claim we did not warn you*

<sup>26</sup> Reuters – “Financial crisis politically awakens Singapore investors” – Nov 7, 2008 - <https://www.reuters.com/article/us-financial-singapore-investors-idUSTRE4A61O320081107>

<sup>27</sup> Straits Times – “More than 100 Hyflux investors protest at Hong Lim Park” – Mar 31, 2019 - <https://www.straitstimes.com/business/more-than-100-hyflux-investors-protest-at-hong-lim-park>

One of the financial literacy 'Big Three' questions test<sup>28</sup> developed by Professors Annamaria Lusardi and Olivia Mitchell reads:

*Do you think the following statement is true or false?*

*Buying a single company stock usually provides a safer return than a stock mutual (unit trust) fund.*

- A. True
- B. False
- C. Don't know
- D. Refuse to answer

Only 47% of respondents in a financial literacy study<sup>29</sup> done in Singapore answered the question correctly. The 2018 study examined the financial literacy levels of older Singaporeans and it revealed that diversification is a concept not well understood amongst residents close to retirement age or have already retired in Singapore. It is also worth noting that 46% answered "Don't know" to the question on diversification.

### **Low interest rate and volatile investment environment**

In the wake of the 2008 global financial crisis, there was much volatility and uncertainty in capital markets. Too-big-to-fail companies needed state bailouts, sovereign debt accelerated across the developed world, emerging market debt increased, and corporate and household debt continued to increase. Quantitative easing brought interest rates close to zero, with interest rates being negative in some markets. This left deposits in financial institutions with next-to-nothing yields, which is hardly comforting for those who are accumulating funds for retirement. This caused investors to scramble for stable yield plays.

### **S-REITs**

S-REITs are the darlings of investors in Singapore. The mom-and-pop favourite go to asset class for stable yield play. It is also an opportunity to get on to the property ladder without having to invest in a million-dollar private residential unit to provide stable income during retirement.

There are investors who plunge a significant portion of their investible assets into S-REITs, which is widely considered as one asset class, or take a concentrated exposure to a small number of S-REIT counters.

Even some fairly educated investors have concentrated S-REITs portfolios. There are dedicated blogs on S-REITs where an investor showcases his or her portfolio on a monthly basis. The information is fairly comprehensive with S-REIT holdings in absolute amounts and in percentages, historical income in dollar terms per month and year, investment and divestment strategies with justification, and even detailed explanation on his or her decision to subscribe or pass up on rights issues and IPOs.

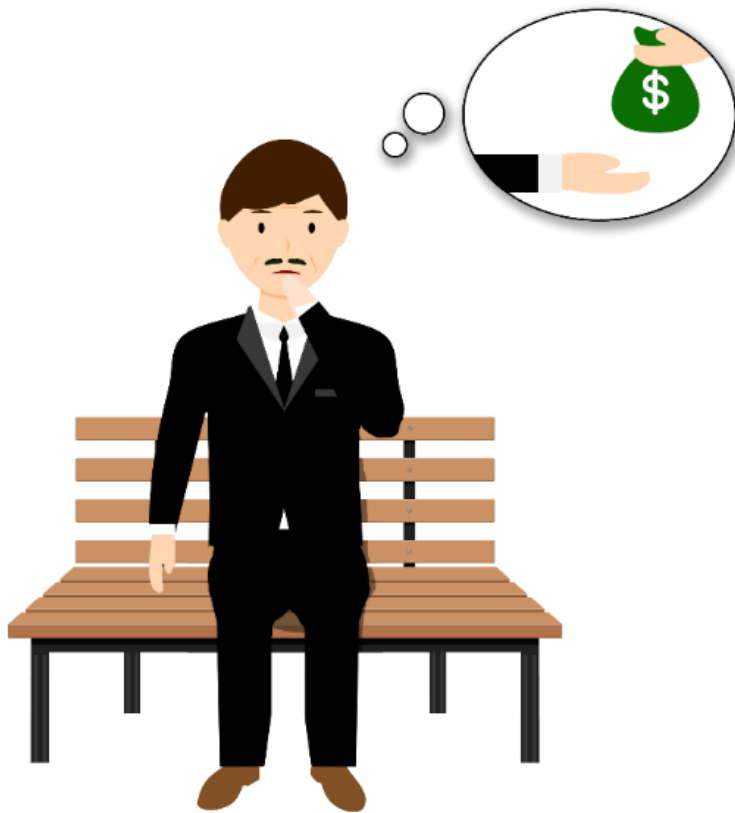
As with a non-diversified portfolio, having all eggs in one asset class is risky, more so when S-REITs are already a leveraged play in itself. There are no S-REITs in Singapore that do not employ debt, and when

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<sup>28</sup> 'Big Three' questions test - <https://gflec.org/education/questions-that-indicate-financial-literacy/#3>

<sup>29</sup> Financial Knowledge and Portfolio Complexity in Singapore, Benedict Koh, Olivia S. Mitchell, and Susann Rohwedder, November 14, 2018 - <https://pensionresearchcouncil.wharton.upenn.edu/wp-content/uploads/2018/11/WP-2018-2-Koh-et-al-11.15.18.pdf>

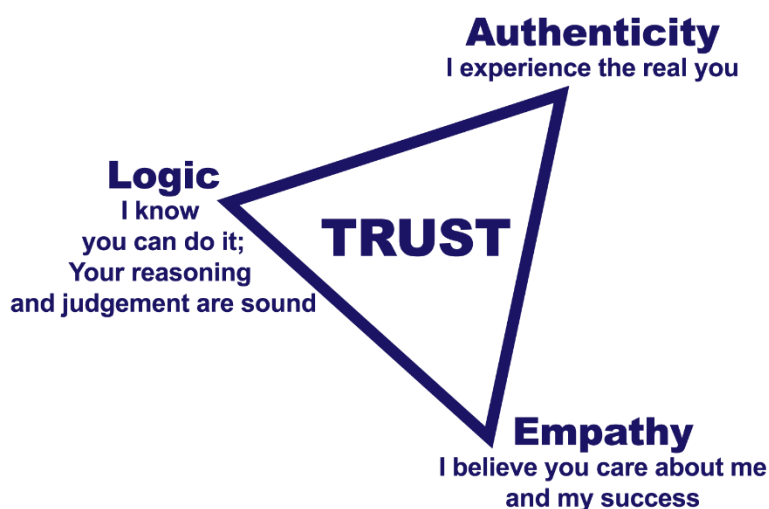
investors take positions in S-REITs, part of the higher yield is from lower cost debt financing. Investors ought to know that with leverage, the investment risk is higher compared to a REIT with no debt.



*Some investors we come across swear by stable dividend paying stocks. They go all in on a few counters. Some also buy investment grade bonds. Safer but you need a minimum of \$250,000. If \$150,000 is all they have, that is not a problem. Cheap loans are available. That will also boost returns. What a fantastic deal!??*

## 17 Salvation—the trust equation

Frances Frei, a professor at Harvard Business School, and Anne Morriss, a founder of The Leadership Consortium, stated that when trust is lost, it can always be attributed to the breakdown of either logic, authenticity and/or empathy.



### Logic

People trust someone if they know the other party has sound reasoning and judgement. Similarly, investors need to have confidence in the sound rigour of the analysis of advisers, and their ability to deliver on them. Putting capital at risk is a clear sign of trust investors have in advisers. Therefore, employers need to hire competent employees, with one way of achieving this being employing prospects with credible credentials.

However, that alone is not enough. Employees need to stay competent and abreast with the fast-changing sector by learning on the job. We have all heard about continuous professional learning, and this is precisely what it is for: earning the trust of investors.

### Authenticity

People also want to experience the real you – if they are prevented from doing so, trust will be lower.

In the finance sector, retail investors can sense when advisers are ‘not showing up’ and being less than authentic when engaging them, diluting trust levels.

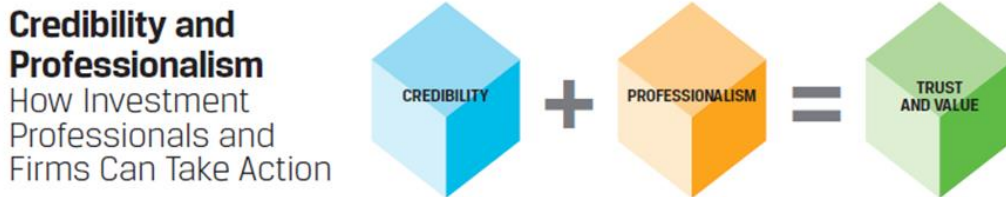
### Empathy

People like to associate themselves with brilliant individuals, but there is no benefit should the brilliant individual in question care more about himself/herself than them. There might even be harm instead.

Similarly, retail investors must feel their interests comes first, and not the commissions of the adviser or the profits of the organisation they work for.

**The trust equation**

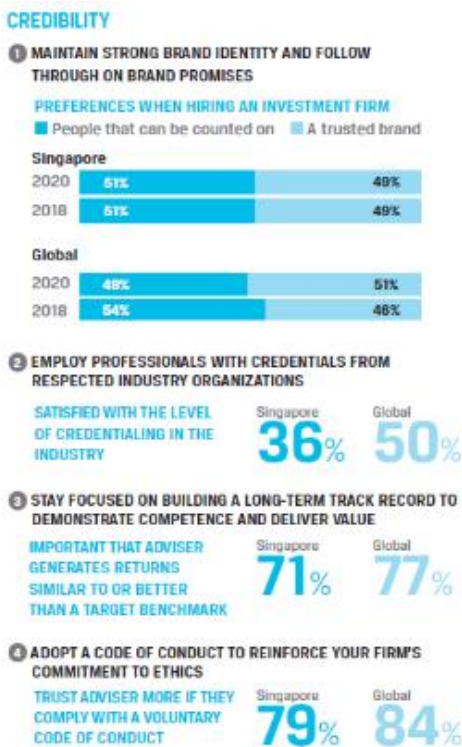
CFA Institute introduced a trust equation to outline credibility and professionalism as components of trust. In many respects, the two components correspond to what Frei and Morriss said about logic: having authenticity and empathy as key components of trust. The CFA Institute trust equation can be seen as a road map or tool kit to reverse the decline and restore trust levels in Singapore. In the equation, trust and value are a function of both credibility and professionalism.



**Credibility**

Credibility, which is dependent on track record and experience, provides investors with confidence that the investment professional or organisation is professionally accredited to provide the required service successfully. Credibility factors are relatively straightforward to assess and include brand, credentials, track record and ethics.

**Figure 37: Credibility – Findings from 2020 trust survey**



Source: Earning Investors' Trust 2020

### **Maintain strong brand identity and follow through on brand promises**

Brand is important to establish credibility, and is increasingly a proxy for trust. In Singapore 49% of respondents cited a trusted brand as a preference when hiring an investment firm in 2018 and 2020, making it evident that dominant brands have an edge on trust.

There is, however, a more fundamental gauge of reputation and credibility for younger investors. Brand is more than just advertising. It encompasses how young people perceive and feel about a person or business. This makes relationship building, including community outreach, corporate social responsibility programs and other types of philanthropy, more valuable.

For other organisations whose brand may not be as strong, all is not lost. 51% of Singapore investors prefer ‘people that can be counted on’ when selecting an investment firm in 2018 and 2020.

### **Employ professionals with credentials from respected industry organisations**

Credentialing professionals helps to increase confidence in a person’s or a firm’s ability to provide valuable services.

Singapore investors expressed that the employment of professionals with credentials from respected industry organisations matters when selecting an investment adviser.

### **Stay focused on building a long-term track record to demonstrate competence**

Ability to get the job done, which is to generate returns similar to or better than the bench mark, was mentioned by 71% of respondents as ‘very important’ and ‘important’ when asked which factors create trust with an investment adviser. Potential investors in robo-advisory platforms also looked at track records. Investors also want to feel that the fees they are charged reflect the value they get from the relationship, of which returns is one key aspect of it.

As retirement is at the forefront in the minds of Singapore investors, investment firms must also be prepared to manage portfolios under their care during a financial crisis. Ability to achieve retirement adequacy will definitely bode well for trust levels.

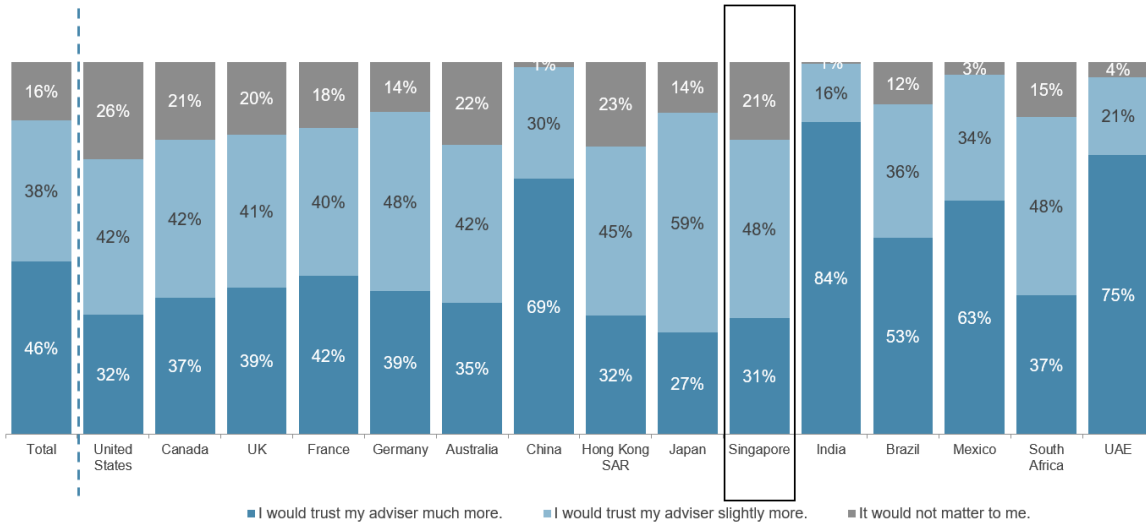
Similarly, 54% of investors are less trusting of investment advisers if they experienced a poor investment performance for a year. 22% will tend to switch financial advisers, and 12% will stop using a financial adviser in the wake of poor investment decisions.

There will be serious repercussions on trust if ‘blue chip’ risk assets sink in value, as seen in the Singapore retail investor scene. Product manufacturers must ensure they do not bring products that are ‘likely to implode’ into the market.

**Adopt a code of conduct to reinforce your firm’s commitment to ethics**

An overwhelming 84% of global retail investors said they would have greater trust in an investment firm that adheres to a voluntary code of conduct for the industry. In Singapore it is no different – 79% say they trust their advisers more if their firms adhere to a voluntary code of conduct. A commitment to ethical conduct is important as what is legal may not be ethical.

**Figure 38: Reaction to adhering to voluntary code of conduct**



Base: Retail Investors With Financial Adviser (1980), US (298), Canada (329), UK (266), France (113), Germany (96), Australia (85), China (143), Hong Kong SAR (44), Japan (22), Singapore (48), India (173), Brazil (165), Mexico (59), South Africa (67), UAE (72)  
Q31. If your financial adviser told you that his/her firm now adheres to a voluntary code of conduct for the industry, what would best describe your reaction?

Source: CFA Institute Earning Investors’ Trust 2020



*What is legal may not be ethical. I prefer my advisers to adhere to a voluntary code of conduct. I’d say I trust them more if they do so*

## Professionalism

Professionalism is subjective and much harder to assess - factors include competency and subject matter knowledge, values such as putting clients' interests first, empathy, transparency and demonstrating a fiduciary mindset.

**Figure 39: Professionalism – Findings from 2020 trust survey**

### PROFESSIONALISM

#### 5 IMPROVE TRANSPARENCY AND CLARITY REGARDING FEES AND CONFLICTS OF INTEREST

##### LEVEL OF ADVISER TRANSPARENCY

Very transparent    Transparent    Not transparent

##### Conflicts of Interest



##### Fees



#### 6 USE CLEAR LANGUAGE TO DEMONSTRATE THAT CLIENT INTERESTS COME FIRST

INVESTORS IN SINGAPORE WANT INVESTMENT REPORTS



#### 7 SHOWCASE YOUR ONGOING PROFESSIONAL DEVELOPMENT TO IMPROVE INVESTMENT KNOWLEDGE

BELIEVE CONTINUING EDUCATION LEADS TO BETTER PORTFOLIO MANAGEMENT



#### 8 DEMONSTRATE YOUR DEDICATION TO THE VALUES THAT CLIENTS HOLD DEAR

ADVISER ALWAYS PUTS CLIENTS' INTERESTS FIRST



Source: Earning Investors' Trust 2020

### Improve transparency and clarity regarding fees and conflicts of interest

Singapore performed below the global average when it came to transparency in fees and conflicts of interest. Astute investors want investment firms and financial institutions to be transparent with conflict of interest when taking actions and performing their duties. They want to evaluate if a conflict-of-interest situation will adversely affect their investments, and it is a reasonable demand to be furnished with such information.

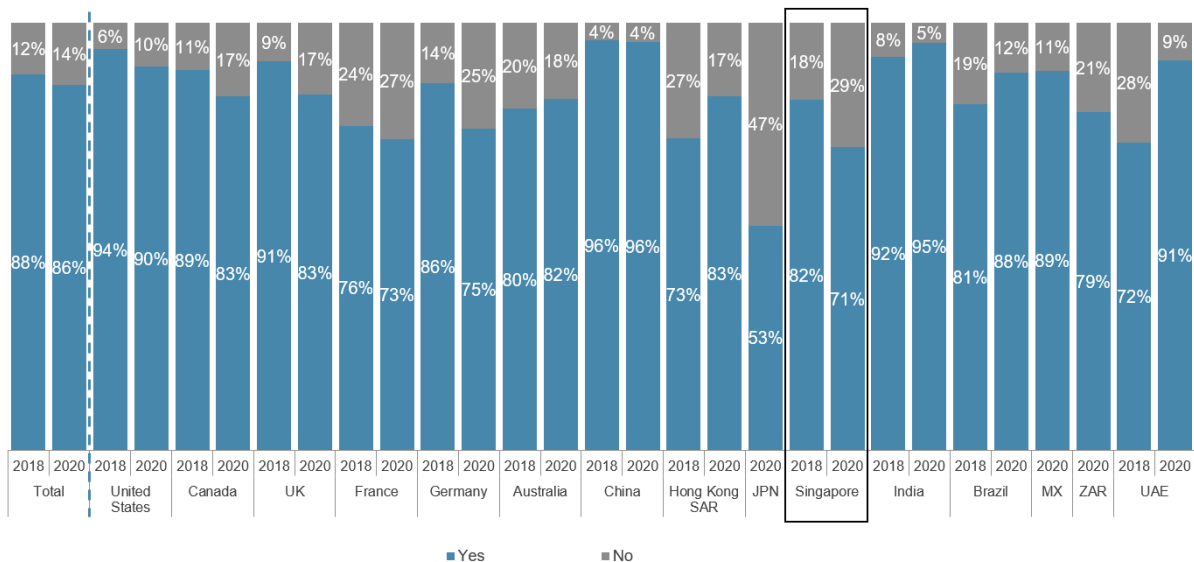
Investors also feel that all fees, including embedded fees which may not be apparent, should be disclosed thoroughly. Trailer fees are fees paid to distributors to provide ongoing service to clients. These fees are effectively paid by the client, as they are part of management fees payable to the fund manager on a recurring basis.

Should advisers worry about disclosing fees? The short answer is ‘no’, and they should not be, as long as they are delivering value to clients. Investors in Singapore are a pragmatic bunch. They have obviously noted the amount they are charged from the ongoing relationship – it is as simple as just obtaining the numbers from statements or whipping out the calculator and punching in the percentage calculation of their AUM with the firms. They will arrive at the return net of fees for their consideration thereafter.

Clients are staying on with advisers when they believe the value they derive from the relationship is worth the fees. The Merdeka generation<sup>30</sup> are amongst the group of investors who question if fresh graduates have a good grasp of financial products and the experience in advising them. Despite some degree of scepticism, this group of investors acknowledge the improvement in quality of advisers over the decades.

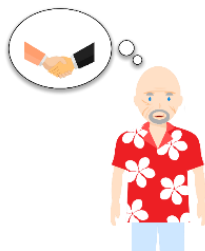
Overall the majority in Singapore said that financial advisers’ fees are fair. Although there is a dip in reading from 82% in 2018 to 71% in 2020, we can infer that clients are deriving value from the ongoing relationship.

**Figure 40: Adviser fee structure is fair**



Base: Retail Investors With Financial Adviser (1980), US (298), Canada (329), UK (266), France (113), Germany (96), Australia (85), China (143), Hong Kong SAR (44), Japan (22), Singapore (48), India (173), Brazil (165), Mexico (59), South Africa (67), UAE (72)  
Q36. Do you think your financial adviser's fees are fair?

Source: CFA Institute Earning Investors’ Trust 2020



*We complain. A lot. Sometimes too much. But as long as I see value, I’m quite happy to continue. By the way, are there cheaper fees elsewhere?*

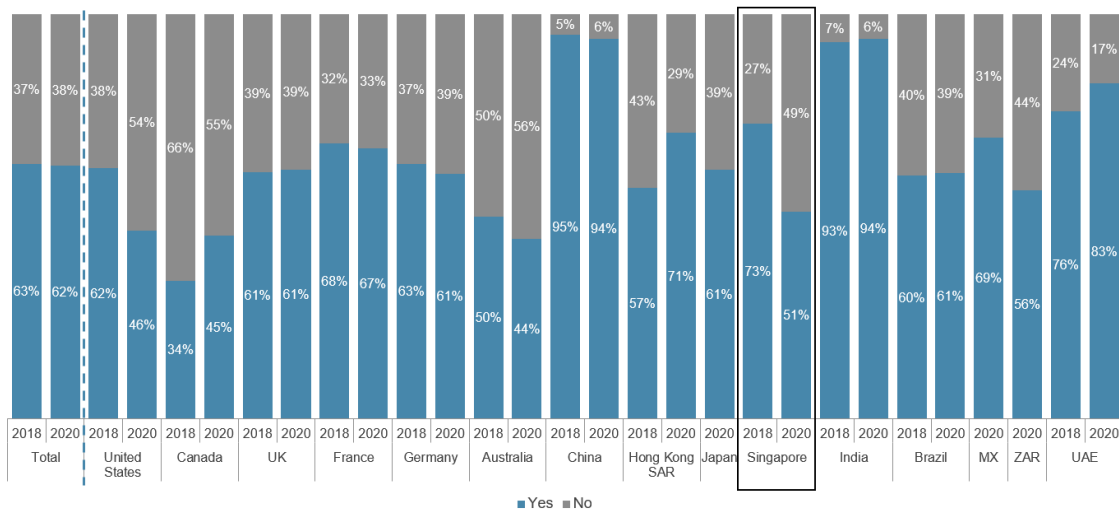
<sup>30</sup> Merdeka Generation - Born between 1950 and 1959, the Merdeka Generation grew up during the tumultuous years of the 1950s and early 1960s. They steered the labour force in turbulent times, building a sturdy foundation. The men of the generation were among the earliest to serve National Service, while some of the women left school early to support their families – taken from <https://www.merdeka-generation.sg/>

Are clients on the lookout for lower fees? Do they gripe on a consistent basis even though they are deriving value from the ongoing relationship? Most definitely.

If fees were to be lower, all else being equal, the value of their relationship with advisers increases. There is thus a perpetual search and exploration of lower fee alternatives, be it with a robo-advisory platform, or an alternative global platform where fees have been slashed. Investors are also cognisant of the higher fees they pay for active management compared to a passive fund. They are constantly asking if the higher fees paid for active management brings in alpha or returns in excess of the benchmark.

Nevertheless, are clients willing to pay more fees if they feel they derive outsized value from personalised products and services? Just over half in Singapore said ‘yes’ in 2020, down from 73% in 2018. We reiterate - as long as investors see value, they would be willing to pay higher fees.

**Figure 41: Willingness to pay more for personalised products or services**



Base: Retail Investors Wanting More Personalized Products/Services (2698), US (267), Canada (353), UK (374), France (160), Germany (147), Australia (171), China (195), Hong Kong SAR (85), Japan (70), Singapore (86), India (198), Brazil (310), Mexico (95), South Africa (94), UAE (93)  
Q47. Would you be willing to pay more in fees for products or services that are more personalized for your needs?

Source: CFA Institute Earning Investors' Trust 2020

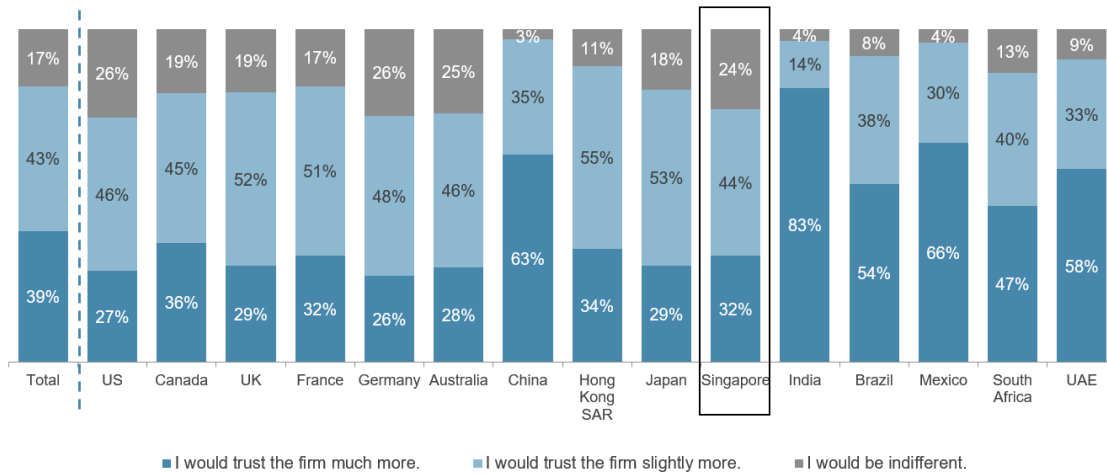
### Use clear language to demonstrate that client interests come first

The two highest ranked aspects of improvement to investment performance reports are ‘more detail’ and ‘more customised’ reports. Financial institutions may want to solicit feedback from clients on their preference for more details, as well as what clients prefer in customising reports.

**Showcase your ongoing professional development to improve investment knowledge**

Continuing one’s education is also an indicator of development and competency. Ethical behaviour and values are not enough without the competency to accomplish investment goals – institutional investors tend to place long-term track record as a very important attribute when deciding to hire an asset manager. This is similar for retail investors. In every market surveyed, many retail investors would trust their adviser more if the investment staff subscribes to continuous professional development.

**Figure 42: Reaction to required continued education**



Base: Total Retail (3525), US (500), Canada (500), UK (500), France (200), Germany (250), Australia (250), China (200), Hong Kong SAR (100), Japan (100), Singapore (100), India (200), Brazil (325), Mexico (100), South Africa (100), UAE (100)  
Q27. If your investment firm told you they now require their staff to do continuing education each year, what would best describe your reaction?

Source: CFA Institute Earning Investors’ Trust 2020

**Demonstrate your dedication to the values that clients hold dear**

When considering hiring an adviser or firm, investors rated ‘Trusted to act in my best interest’ and ‘Commitment to ethical conduct’ as important. Given the importance of alignment of interests, investors must believe that their investment adviser or firm consistently puts their interests first.

**Conclusion - Trust creates value**

The investment industry is competitive and changing quickly, but investor trust remains a key element for success. The good news is that actions and tools exist to increase trust. Firms can address the components of the trust equation: credibility and professionalism, and in turn, these remedial actions will create a more professional industry — one that is worthy of greater trust from current and future investors.

## 18 Recommendations

### 18.1 For retail investors

Retail investors must improve their financial literacy. No one can execute the investor protection job better, or be as motivated to do so, than investors themselves.

An educated investor has the ability to differentiate the quality of advisers (despite not having work experience in the financial sector). An educated investor also has better ability to understand, differentiate, and assess the different product offerings including increasing risky and complex products (such as special purpose acquisition company (SPAC)) to suit their unique circumstances and needs.

When investors have several advisers from different financial institutions, which is common in Singapore, there is a natural tendency to compare performance between advisers. However, many do not realise that some facets of comparison are spurious. An equity fund should not be compared to a high-yield unrated corporate bond, as the risk and return profile is different. A meaningful comparison would be comparing two equity funds with similar characteristics. Similarly, a developed country play has different characteristics to developing market risk assets, and they should not be put next to each other for comparison purposes. Improving one's understanding of finance would enable one to know how to ask the right questions for clarification, comparison and further understanding of products.

Other important avenues include the presence of a fiduciary relationship between the client and investment and financial advisers, as compared to having just a salesperson who is tasked to sell the products. In a fiduciary relationship, the adviser has to look into suitability and not just explain the features of the product.

An adviser in a fiduciary relationship should not propose a high-return high-risk product to a client who does not have an understanding of complex products or the ability to take on such risks. Lower risk products may be deemed suitable. Investors should understand the reason behind such proposals instead of lambasting advisers should the risky product chalk up significant gains whilst the less risky product bought by the investor is in the red.

In Singapore, with the vast array of easily accessible financial literacy offerings of different levels, there is simply no excuse not to equip oneself to invest.



*I need to equip myself with knowledge. It helps me ask appropriate questions. And protect my interest. Including my hard-earned savings from passing up on little luxuries in life just to save a little more*

### Join several investment clubs and discussion groups

The best way to learn and quickly get up to speed is to join investment clubs and discussion groups. Discussions and learning through more experienced individuals are often quicker and a fun way to pick up insights.

However, be aware of suggestions of a concentrated portfolios or positions in a single risk asset and risk asset class – it is a recipe for disaster. Investors should also be aware of bias or groupthink affecting the investment circle. When in doubt, investors should always check with licensed professionals.

We also want to draw investors' attention to risk assets that experience dramatic increases in price, often without accompanying fundamentals underpinning the increase or justifying the high price. They are often risk assets in which the intangible assets are highly valued, or in the technology space, and/or fuelled by social media and/or celebrity investors.

Some investors believe there are sound fundamentals underpinning the high price of selected risk assets. Some investors are drawn to such assets as they are the 'talk of the town' or 'trending in social media space' – after all everybody else is putting in funds and are raking in outsized returns. Others deem these risk assets speculative, and the strategy would be to profit from the dramatic rise in price hoping not to be left without a musical chair when the music stops. The more conservative or biased investors often point out 'if it is too good to be true, it often is'.

Who is right?

The discussion would be a long one, often without conclusive outcomes. Nevertheless, we wish to remind investors that financial literacy and diversification are key. Should investors wish to invest in any of these risk assets, including meme risk assets, SPACs, technology start-ups and unicorns, or any other risk assets, do ensure it is in accordance to one's investment policy statement and avoid concentrated positions.



*Should investors wish to invest in meme risk assets, SPACs, technology start-ups and unicorns, or any other risk assets, do ensure it is in accordance to one's investment policy statement and avoid concentrated positions*

### **Pro-active measures**

Investors should also have their voice heard through consultation papers, as opinions allow other stakeholders in the financial sector to better understand investors' concerns and requirements. This helps with product manufacturing, policies and practices. Admittedly, it takes effort to respond to consultation papers, and these efforts are susceptible to free riding. However, the onus is on investors themselves to protect their own interest. There should be less reliance on everyone else, including the regulators, to look after what is essentially investors' own interest.

Stewardship could be another avenue where investors work with other stakeholders of the company, including the board of directors and senior management of listed companies, to steer the issuer towards long term sustainability and profitability.

### **Use your funds to signal to the market**

Select an adviser you can trust, and choose an adviser who upskills and keep abreast of developments in the market. If the adviser falls short, look for alternatives. In a free market, investors have choices and do not have to put up with shoddy services or unethical behaviour. Utility maximising consumers will gravitate towards a preferred adviser and financial services firm and shun those who fall short. Losing AUM is a powerful signal to advisers and financial services firms, even the established ones, to rectify shortfalls.

Once firms take corrective actions, investors will be back. In the long run, those who can deliver value by being trustworthy, putting investors' interests first, securing their data and engaging the client will come out on top. The other advisers and firms who do not meet the mark will inevitably exit the sector – another outcome of a free market.

Investors can express personal values or invest in companies that have a positive impact on society or the environment through putting funds into ESG risk assets. Should ESG interest start to pick up in earnest, the increase demand for ESG products will compel suppliers to respond. Over the long term, it will bode well for the environment, social, and governance practices of firms and the financial sector as a whole, to the ultimate benefit of society.

Investors should also root for fund management teams or financial institutions which have acceptable gender and racial diversity, or are seen to be taking concrete steps in rebalancing the ratios, especially if they believe diverse teams make better decisions. This will usher an improvement in 'S' scores in ESG where inclusivity refers to gender, race and even age in Singapore.

### **Advisers choosing clients**

While clients can choose advisers, advisers can choose clients too. High performing advisers who maintain a trusted relationship over the long term have been successful for the very reasons that have been mentioned throughout this report. Most importantly, they put clients first – clients trust that they are sold suitable products despite the current commission-based remuneration structure. This comes from advisers putting in the effort to know their clients. The adviser is also knowledgeable, responsive and transparent in dealing with the client. This leads to high demand for their services. As such, the adviser can afford to choose his or her clients should company policy permits.

Advisers want to work with clients who take time to explain their returns and risk profile including special circumstances they may have. These clients also take the trouble to understand products, and give the adviser ample opportunities to explain product features, fees, including performing regulatory requirements.

In this relationship, the client may be demanding, and expectations may be high, but the relationship is a workable one since there is constant communication, updates and review of performance (whether good or sub-par), discussion on goals and fees on a regular basis.



*I help my adviser help me*

### **Allowing advisers to perform**

Many advisers want to do a good job. They want to comply with best practices and rules and regulations set forth by the regulators and financial institutions. But clients can make it difficult for them to do so – some hardly want to understand how investment products work. They have little time to hear out their advisers and express irritation at the lengthy explanation every time they invest in a new product.

But when investments go awry, investors sometimes claim advisers fall short. There are bad apples in any industry, but in some instances, advisers have indeed done their job thoroughly and meticulously. It was the investors who did not make the effort to understand and note the inherent risk and features of the product.

Investing takes time and effort. Even though investors pay fund managers to invest on their behalf, they must have an adequate grasp of how risk assets work, what to expect and the inherent risk to different products. There is no short cut to investing.



*Some investors don't make the effort to understand investment products. Or listen to their advisers' explanation. Should the investment underperform, that is when issues come to the fore*

## 18.2 For the board, C-suite and senior management

The culture of an organisation is generally set from the top. A suitable culture that embraces ethical behaviour in every aspect of the organisation starts at the board, C-suite and senior management level.

What is acceptable and encouraged, as well as what is frowned upon, will cascade through the middle ranks and right to the frontline executives. This is reflected in Edgar Schein's 1984 article "Coming to a New Awareness of Organizational Culture" published in Sloan Management Review. The former professor at Massachusetts Institute of Technology defined organisational culture as:

*"Organizational culture is the pattern of basic assumptions that a given group has invented, discovered, or developed in learning to cope with its problems of external adaptation and internal integration, and that have worked well enough to be considered valid, and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems"*

In modelling organisational culture, Schein stated that basic assumptions in the organisation are taken for granted, invisible and pre-conscious. However, it is these beliefs within basic assumptions that guide employee behaviour.

For example, if 'profit-at-any-cost' is the guiding belief in an organisation, then any measures such as balance scorecards, compliance training, workshops on code, standards and ethics, internal and external audit, that were put in place would be reduced to relative ineffectiveness and merely a box-ticking exercise when it comes to conflict of interest, disclosure of fees and other aspects that are crucial in building trust and delivering value to clients.

The rot starts at the top, and will permeate through the entire organisation.

As such, the regulators are increasingly attributing accountability on important aspects to the board, C-suite and senior management. Individual accountability will compel ownership and responsibility of material aspects of a firm's operations.

### How to gauge the culture of an organisation

While there are competing approaches to gauging the culture within an organisation, we feel the ethnographic approach works the best. Through observation from within, especially when the observed does not know that they are being studied, one can observe practices as they are, which is a big plus. However, there are drawbacks and issues of practicality. Nevertheless, we put forward a couple of suggestions:

#### Undercover boss

The American reality television series, Undercover Boss, depicts a senior management staff joining his or her front-line staff without the knowledge of the front-line staff. In doing so, the senior manager uncovers first hand sentiment and practices on the ground. This is indeed valuable as it keeps the feedback on strategy and policies taken from the top genuine. Staff will not put on a 'show' to convey that all is well when reality is far from the desired state. If this is considered too radical an endeavour in an Asian context, there is always an option of being the mystery shopper.

### **Increase frequency of the mystery shopper**

Just like in the undercover boss scenario, senior management can pose as potential clients and approach various frontline staff in their financial institutions. Alternatively, companies and individuals may be contracted to do the same.

The trust equation suggests improving professionalism and transparency on conflicts of interest and fees, where Singapore is lagging behind peers. Clients also want investment reports that are easy to understand. The mystery shopper needs to ascertain if the firm is making progress in these areas.

The advantage of this approach is the ease of planning and execution compared to the undercover boss approach. Financial institutions in Singapore are currently employing or have employed this method in the past, which makes it even easier to implement on a regular basis.

Increasing the frequency of the mystery shopper, who focuses on many areas of interest at a time, will provide firms with valuable feedback. As the mystery shopper needs to maintain his or her cover, there should be an incentive (such as monetary benefit) for advisers or frontline staff if they can identify the mystery shopper.

### **Other areas which may warrant attention from the board, C-suite and senior management**

#### **Data security**

Investors feel that data breaches can sour the relationship with advisers, and want firms to secure and protect their data. Some financial institutions have been proactive in communicating how clients' data are managed to address their concerns.

Firms should also conduct a perception audit on data security and address any misconceptions that clients may have.



*Is my data secured? Do financial institutions sell my data?*

#### **New investment products**

Investors in the 15 markets surveyed expressed their preference for new investment products originating from large technology companies over those from financial institutions, with Singapore, Hong Kong and France being exceptions. Financial institutions must be prepared for impending stiff competition, and one way to compete effectively is to ensure trust levels in the financial services sector are higher.

### **18.3 For middle management and senior staff**

Once the board, C-suite and senior management set the culture, and more importantly, model appropriate behaviour, the middle management staff will take reference from the top. This will minimise conduct risk.

One of the most important findings that has emerged from the focus group discussions is the need for strong ethical conduct amongst middle management and senior staff. It is likely to be at this level where once the corporate strategy is signed off at the top, product manufacturers and originators start the process rolling. They should not knowingly push into the market products that they know are 'likely to implode.' They should also not be collaborating in illicit activities with other firms and clients. The downstream effect on the end-users is always an unhappy one. Investors get burnt, and trust takes yet another knock.

Middle management can also improve credibility on another front. Only 36% of investors in Singapore are satisfied with the level of credentialing in the industry, while the global reading is higher at 50%. To improve credibility, the staff who determine the outcome of hiring should pay more attention to employing professionals with credentials from respected industry organisations.

Middle management should also emphasize the need to showcase ongoing professional development to improve investment knowledge among staff. 77% of investors in Singapore believe continuing education leads to better portfolio management, which will help improve professionalism and trust levels in the sector.

### **Compliance department**

The Covid-19 pandemic has put many in a difficult financial situation. Tenuous financial and employment situations can tempt many in the investment management industry to cross the line. It would be timely for compliance to be extra vigilant and take additional preventive steps to reduce conduct risk in this period, such as conducting training sessions on rules and regulations, compliance and ethics.

#### 18.4 For advisers

The global trust survey, as well as feedback from investors and practitioners, has provided advisers with insights that they should take note of.

As we all know, returns and fees affect the value investors derive from ongoing relationship with financial institutions. By extension, fund managers need to have in place plans to manage a portfolio through a crisis. Significant losses render retirement adequacy, the most important investment goal in Singapore, a distant prospect. The situation is exacerbated when the number of years to re-accumulate wealth is short, as one in four or five residents in Singapore will be above the age of 65 in a decade.

Trust levels can improve in the midst of the Covid-19 pandemic. Investors gave feedback that advisers who communicate and ‘hand hold’ clients through a volatile investment environment, regardless of whether the portfolio or risk asset is in the red or not, are likely to be more well regarded. This is especially true for older clients, who bounced ideas off their brokers and remisiers, and relied on them for emotional support decades ago when all trades were wired through them.

While it is always a breeze to communicate with clients and account for success when the portfolio or risk asset is generating alpha or significant positive returns, the converse applies as well. When the situation does not look good, accountability and communication, which are not instinctive actions, should be foremost for an adviser. Communication builds trust.



*I am likely to be disappointed. But I'd trust my adviser more should they communicate bad news in a timely and upfront manner*

Transparency in fees also needs to be improved. Fees need to be explained upfront in a sales pitch, and the explanation should be thorough. Checking for understanding does help advisers gauge understanding on what has been communicated.

Continuously delivering value to clients will probably not halt complaints about fees or reduce them significantly. Investors are always on the lookout for better value, and are continuously searching for platforms with lower fees, including better value from global offerings. Expectations on every avenue from returns to fees are probably inching up over the years, and what is deemed acceptable in the

Yesteryears may fall short today. Nevertheless, investors in the 2020 trust survey signalled that the fees levied were fair – an inference of the value derived from the ongoing relationship with financial institutions.

Despite some assertion of below-par quality of advisers, especially from the Merdeka generation, investors during the focus group discussions made a rare admission that the quality of advisers has improved markedly over the years. Advisers should continue to upskill to improve professionalism and enhance credibility.

Investors must also believe that advisers are always putting their interest first, which is a rather tricky feat for the adviser to accomplish. Verbalising one's fiduciary duties and ethical behaviour, including compliance with a voluntary code of conduct, may sound hollow or even backfire on advisers. This is especially so when the adviser's proclamation is not consistent with his or her actions. The adviser, to gain trust, should demonstrate actions on a consistent basis for trust to emerge in the relationship. 43% of investors in Singapore said that their trust needs to be constantly earned, which is a reminder for advisers to treat clients as if it were their first interaction where trust needs to be earned before the client hands over funds to the financial institution.



### **Nearly one in two investors said their trust needs to be constantly earned**

It is of paramount importance that clients' data should be handled with extra care. One of the key reasons for investors, consistent across the 2016, 2018, and 2020 CFA Institute global trust surveys, to leave their adviser is a data or confidentiality breach.

#### **Ethics training**

Despite the 'boring' and 'it is that time of the year again' ethics training session, one has to take the opportunity to remind oneself of fiduciary duties, as well as review existing practices to determine if there are lapses when developing a product, managing a portfolio or risk asset, and distributing a product.

Training also entails being aware of the circumstances that can potentially lead one astray. For example, trading on material non-public information or insider trading violates the rules and regulations. While every professional is aware of this violation, advisers and practitioners need to also understand and constantly be reminded of the circumstances that may lead them down this slippery path.

One may rationalise that 'insider trading does not hurt anyone' or 'everyone does it' as justification to act on material non-public information. One must also recognise that professionals may be tempted to trade on inside information as they may have been unfairly treated or passed off for a promotion.

We reiterate an interactive and discussion-based approach to ethics training as a mode of training that can add value to ethical discourse. With new improved pedagogy, ethics training should not be confined to rote-learning exercise where participants are constantly glancing at their smartphones to combat boredom. Ethics training can be refreshing, and it should be in order to deliver desired outcomes.

### **The case for muscle memory training**

Advisers are often left in the lurch when faced with ethical dilemmas in which they know the proper course of action as suggested by the code of conduct, standards of professional practice, rules and regulations. Advisers want to do the right thing, but are almost always faced with potential punitive implications should they act on their conscience.

Hence, advisers must be equipped with muscle memory on how best to navigate the ethical dilemma with a lower probability of adverse repercussions on their career and livelihood. Otherwise, ethical discourse is relegated to an academic exercise with no real value in practice.

### **The glass is half full**

Statistics from the global trust survey suggest the presence of opportunities in Singapore, with 52% of investors not having a financial adviser in 2020. Yet, the confidence in ability to make investment decisions appears to be one of the lowest amongst the 15 markets surveyed, with only 71% saying they were either 'very confident' and 'somewhat confident'. When investors were polled on their reaction to a poor investment decision, 8% said they would 'hire a financial adviser for the first time.'

### **18.5 For regulators**

Regulators must not only protect the interest of vulnerable investors, but must also be seen or perceived to be doing so. The inability to recall measures that regulators have put in place to protect investors suggests issues in awareness, communication, and recall that should ideally be rectified.

The allegation that consultation papers have forgone conclusions should also be addressed. Firstly, regulators could explore having dialogues, or any equivalent strategy, for retail investors to air their concerns on selected consultation papers. Dialogues can be operationally challenging and consume significant resources, but the benefit may outweigh the costs over the long term.

There should also be a push to include everyone in these dialogue sessions, especially the most vulnerable investors. This may help the perception that the regulators are genuine in receiving feedback and have considered views from across the board.

The same applies to regulators' responses to feedback on consultation papers. They are posted onto the regulators' websites, but most investors may not have the time or ability to fully grasp the content. A similar dialogue or townhall session can be conducted to explain the thought process and the inclusion or rejection of various views. With increased transparency and the willingness of the regulators to engage investors, perception may improve in favour of regulators.

Continued dialogue with investors also has an added benefit – it brings the regulators closer onto the ground. They get to hear from investors without any sugar-coating, and are hopefully able to distinguish between noise and genuine concerns.

### **18.6 For undergraduates and institutions of higher learning**

Many undergraduates are attracted to the financial services sector for various reasons. In preparation for their entry into the sector, it would be prudent in getting undergraduates to understand the state of the sector, and its pitfalls.

Ethical behaviour and working through ethical dilemmas should be included into curriculum in institutions of higher learning. This form of preparation, in addition to the requisite skills needed for finance, should bode well for trust levels in the future.

## 19 Appendix

CFA Institute released its fourth edition of its global trust report in 2020, “**Earning Investors’ Trust: How the Desire for Information, Innovation, and Influence is Shaping Client Relationships.**” In this fourth edition of the CFA Institute investor trust study, researchers examine how trust in the industry has evolved. An interactive site with individual and institutional investor results can be found on - <https://trust.cfainstitute.org/>

Most of the diagrams presented in this report were compiled by Greenwich Associates. Data for further study can be found on - <https://trust.cfainstitute.org/survey-data/>

**CFA Society Singapore** is a not-for-profit organisation in Singapore with a mission to lead the investment profession by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society. The society is also part of a worldwide network of CFA Institute member societies.

In Singapore, the society represents the interests of more than 4000 investment professionals through advocacy, education, events, and professional development - [www.cfasocietysingapore.org](http://www.cfasocietysingapore.org)

**CFA Society Singapore Insights** is a weekly column on topics relevant to the investment community in the Singapore Business Times with articles contributed by members, CFA Institute staff, specialists in the investment field and the CFA Society Singapore Advocacy Committee Members - <https://cfasocietysingapore.org/thought-leadership/weekly-insights/>

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**Covid-19 Economic Impact** - The impact of the coronavirus COVID-19 pandemic on the global markets and the world's economy is difficult to assess, but there is no doubt it will be felt in most economies and sectors for a long time. While the situation changes fast, investment managers must keep abreast of news, analyses and forecasts - <https://www.arx.cfa/en/research/2020/03/view-covid-19-posts>

**ESG** - Analysis of environmental, social and governance (ESG) issues is an important part of the investment process. CFA Institute encourages all investment professionals to consider material ESG factors when making investment decisions. The Institute is also strongly focused on developing educational tools on ESG for its members and for the broader investment management industry - <https://www.arx.cfa/en/research/2019/8/view-esg-posts>

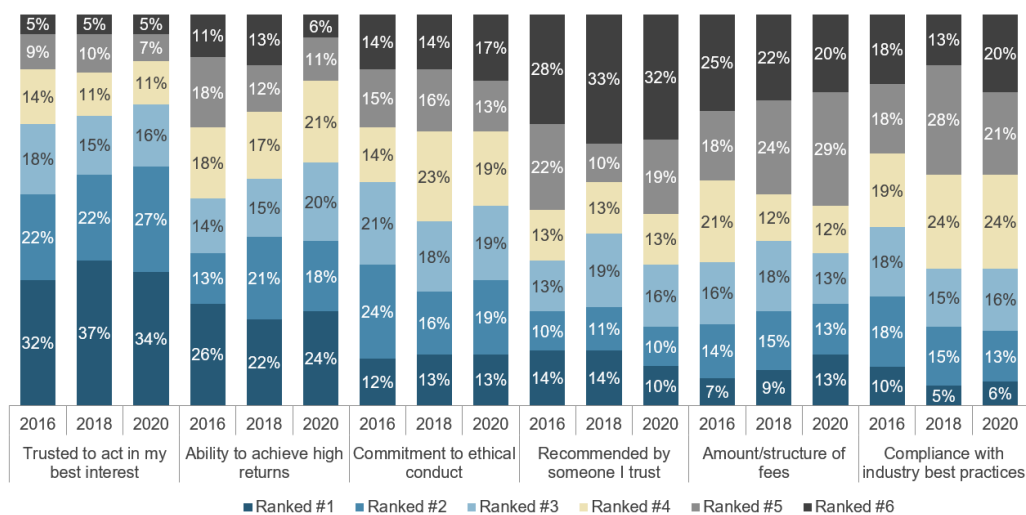
**Sector analysis** - The key to a company’s success depends on how well it executes its business model. This calls for optimising the allocation of limited resources to generate sustainable cash flows, for investing in new products, technologies, and services in responding to the wider competitive landscape or societal changes and mega trends, as well as for devising appropriate responses in the face of an evolving macroeconomic, regulatory, and political environment.

Different industries often require very different business models; and even within the same industry, the model that does add value to the business may vary somewhat from company to company.

To help investors undertake proper due diligence on a company, CFA Institute has generated a framework of analysis designed to tease out the following: (1) whether the pertinent factors favour the firm in question; and (2) whether management is effective in executing its business model or value-generating strategies, while responding appropriately to its external environment.

This framework is customised to specific sectors and incorporates interviews with professionals within those sectors - <https://www.arx.cfa/en/research/2019/8/view-sector-analysis-posts>

**Figure 43: Key attributes in financial adviser selection**



Base: Total Retail (3525), US (500), Canada (500), UK (500), France (200), Germany (250), Australia (250), China (200), Hong Kong SAR (100), Japan (100), Singapore (100), India (200), Brazil (325), Mexico (100), South Africa (100), UAE (100)  
Q23. Please rank each of the following attributes in order of their importance when making a decision to hire a financial adviser. Rank from 1 to 6, where 1 is "Most important" and 6 is "Least important".

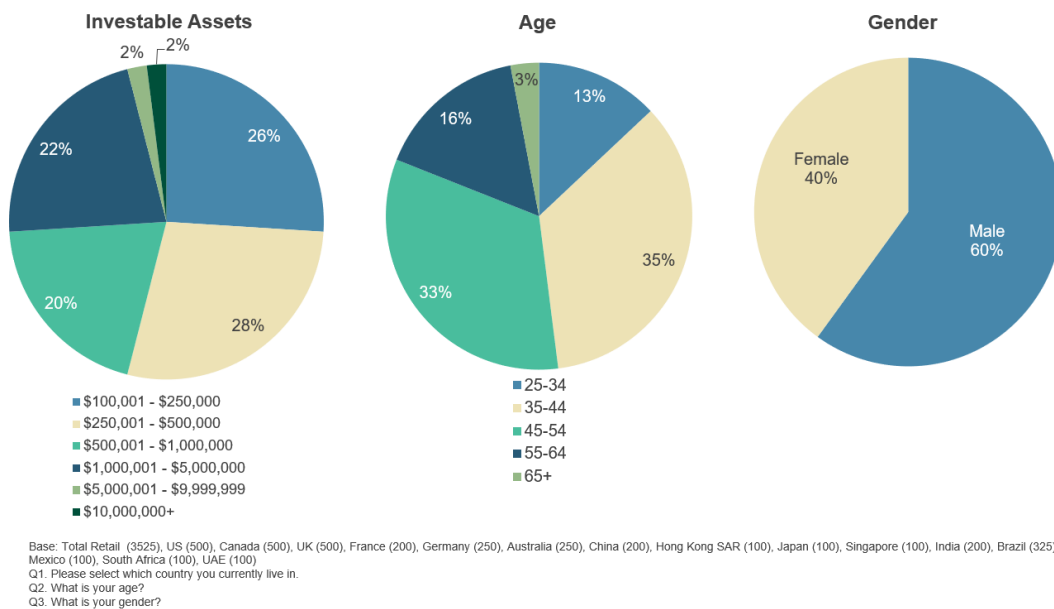
Source: CFA Institute Earning Investors' Trust 2020

## 20 Methodology

CFA Institute released its fourth edition of its global trust report in 2020, “Earning Investors’ Trust: How the Desire for Information, Innovation, and Influence is Shaping Client Relationships”. The report surveyed 3,525 retail investors, of which 100 were from Singapore, across 15 markets globally in October and November 2019.

The surveyed markets included Australia, Brazil, Canada, Mainland China, France, Germany, India, Japan, Mexico, Singapore, South Africa, UAE, UK, US, and Hong Kong SAR, China. Retail investors were aged 25 years or older with investible assets of at least US\$100,000, except in India where the minimum was adjusted to 500,000 rupees.

**Figure 44: Retail respondent demographics**



Source: CFA Institute Earning Investors’ Trust 2020

The findings, analysis, conclusions and recommendations of this 2021 report were also drawn from:

- CFA Institute's fourth edition of its global trust report: "Earning Investors' Trust: How the Desire for Information, Innovation, and Influence is Shaping Client Relationships"
- Focus group discussions and interviews with retail investors and CFA Society Singapore members in May and June 2020
- Presentations and dialogues with financial institutions including regulators in the third and fourth quarter of 2020
- CFA Institute Asia Pacific roundtable discussions and reports

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