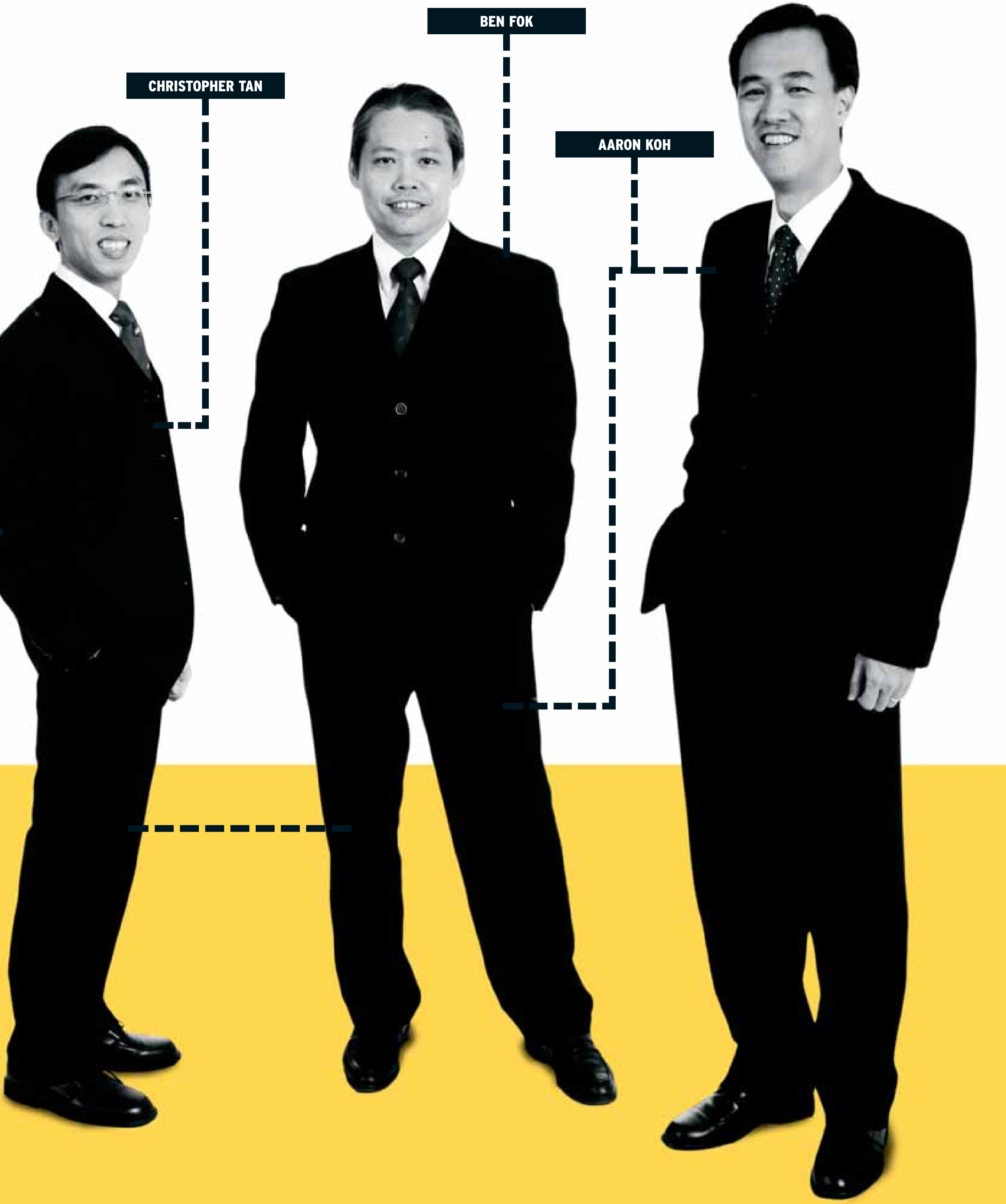
"Making financial decisions enjoyable!"

Is the mission statement of Providend, a newly setup financial advisory firm but before that can happen, you have to first pay a fee.

WITH A WAR CRY OF "NO COMMISSION, FEE-ONLY", yet another financial advisory company has entered the fray. At the helm of Providend are Aaron Koh (Executive Deputy Chairman) and Christopher Tan (Executive Chairman), both of whom used to be with Prudential, and Ben Fok (Chief Executive Officer), former director of the financial advisory arm at Fraser Securities. Aaron Koh and Christopher Tan started the company and recently roped in Ben Fok to join them.

Although a revolutionary concept here in Singapore, the founders of Providend assured me that the fee-only model was not something that they had plucked out of thin air but a concept that was already in existence in many developed countries. For about S$2,500 to S$3,000 (which is at the "lower end" of the spectrum), one can get a financial plan drawn up. And if this client subsequently purchases the recommended products, Providend will rebate all commission back to him either in the form of cash or in the case of unit trusts, as units. On top of the initial set-up fee, Providend also charges an annual retainer fee of S$500 and 0.5% of assets under advisory for clients who would like Providend to monitor their portfolios.

The trio strongly believes that this fee structure is the best proof of independence and unbiased advice, as they pocket no commissions from product suppliers. Apparently, it was not only →


BEN FOK
CHRISTOPHER TAN
AARON KOH

→ me that needed convincing but also some others who were skeptical about the viability of the model. Just check out the lively debate in the forum on www.fundsupermart.com

The bone of contention, it seemed, was the credibility of the company. Some argued that to charge a fee for advice, the company had better be backed by a sterling track record, of which Providend could hardly lay claim to being a young company. But both Aaron and Christopher were quick to state that they were already practicing financial planning long before it was in vogue and even had a proprietary financial report, conceptualized in 1999, to show for it. They also took pains to emphasize the credentials of the people in Providend: "Collectively more than 80 years of experience and 4 masters' degrees". With its own in-house experts, Providend does not need to rely on outsourcing (each client is assigned 1 general consultant and 4 specialist consultants in the areas of tax, insurance, investments and estate). The company has also engaged NRA Capital, an independent equity research house to provide investment research. But credibility aside, there are those who are against the idea of FA companies collecting fees even before they achieve any real result. In the words of a forum contributor, "the client should win first before they win".

It remains to be seen whether Providend will be known as a trailblazer or a pricey lesson to other FA firms in time to come. But I have to give the guys credit for daring to tread where no one has ventured before.

MAGGIE NG: YOU POSITION YOURSELF AS HAVING A UNIQUE MODEL AND ONE OF THE FEATURES THAT SETS YOU APART IS OF COURSE YOUR FEE STRUCTURE. CAN YOU TELL US HOW THAT IS DIFFERENT FROM WHAT'S OUT THERE IN THE MARKET CURRENTLY?

CHRISTOPHER TAN: Based on our understanding there are currently two compensation structures in the marketplace. One of course is the traditional commission-based compensation structure. Client comes in, gets advice, don't pay for the advice but when they buy the product, the adviser gets paid a commission. What is getting common right now is the fee-based structure. Client pays a fee for getting advice, buys a product and his fees may be waived. Our compensation structure is one, which is fee-only. It is the best compensation structure for clients who really want to feel that they're getting independent, objective advice. Why? Because we only get paid based on the fee, on the amount of time we need to spend on the work regardless of the amount of products that the client had to buy later on. If they do buy a product from us, we'll return back the commissions. Which compensation structure is the best, my feel is that there's a place for everyone but for the group of clients who want competent independent advice, fee-only is the way to go.

MN: AM I RIGHT TO SAY THAT THIS FEE-ONLY MODEL LIMITS YOUR MARKET TO THE MORE AFFLUENT SEGMENT OF SOCIETY BECAUSE I REALLY CAN'T IMAGINE THE AVERAGE MAN-ON-THE-STREET PAYING FOR FINANCIAL ADVICE?

CT: I think there's always limited marketing dollar and we need to be focused in the business. Our main target is the semi-affluent, not because we feel that the rest of the people out there do not need financial advice but rather we feel that this group of people would better be able to appreciate what we do for them because it's really comprehensive and it looks into many areas…

MN: BETTER BE ABLE TO "APPRECIATE"?

CT: For example, we talk about tax planning, we talk about estate work…

MN: MORE ASSETS FOR YOU TO WORK ON?

CT: They've more needs. For the man-on-the-street, maybe their needs are lesser, they are more concerned for a start with protection and may not warrant such planning. I guess when a person comes to us; the fair part about the system is that we're not going to charge him yet because we do not know what he needs and whether he really needs us. So he goes through a process with us and from that process, we'll be able to tell this person about his needs. We'll tell him about the fees and if he agrees, we'll do it. That's a very fair way of doing the work. We first assess whether you need us in the first place because at the end of that first part, we may tell you that you do not need our services.

MN: DOES THAT MEAN THAT FINANCIAL PLANNING IS ONLY FOR THE RICH?

AARON KOH : Not exactly…what we're saying is that for the semi-affluent and the affluent markets, there are more areas of concern and because of that we're able to value-add to them better. As a small company like us, we're not able to stretch our resources to cover the wide spectrum of the market.

BEN FOK: For our business model, people below that level may not appreciate paying a fee. They understand commission but they cannot appreciate a fee.

MN: WHY DO YOU THINK THAT UP TO THIS POINT, NOBODY HAS GONE THE FEE-ONLY ROUTE?

CT: I think it's a mindset. It's high resistance to change and actually, like I said, what we do is not rocket science. You just have to look at developed countries; they are developing from commission-based to fee-only. I think we're in that phase right now. Most of our advisers are commission-based and there is a huge resistance to letting go of that because there will be a lot of recurring…

MN: WHAT IS "RECURRING"?

CT: When you give up a commission-based compensation, you have to give up the recurrent commissions that come later.

AK: We're referring to the insurance products. It's not easy to give up all that recurrent commissions.

CT: You go in and you do not know whether this structure will work and from the business owner's point of view there is this resistance to go in. And also when you go on fee-only, you've got →

> "How would the market be ready if nobody is providing it? That's my point! The market will never be ready because there is no service available." » Christopher Tan

to be very confident that you will be able to deliver that competent advice and we are confident of doing that with our team of people. I guess these are all the entry barriers to fee-only.

AK: There are some regulatory barriers before this. Before October last year, rebating of the commissions is prohibited by law. So having a fee-only model is difficult because the costs to the investor will be very high. They need to pay the commissions and in addition, pay a fee as well. When MAS implemented the FAA (Financial Advisers Act), their intention is to develop the financial advisory services in Singapore…because of that they lifted the ban on the rebates. So it is a timing issue.

MN: ARE YOU SAYING THAT IT IS NOT SO MUCH THAT THE MARKET IS NOT READY BUT THAT THE ENVIRONMENT IS NOT CONDUCIVE?

CT: How would the market be ready if nobody is providing it? That's my point! The market will never be ready because there is no service available.

MN: YOUR BUSINESS MODEL HAS ACTUALLY GENERATED QUITE A LIVELY DISCUSSION IN THE FORUM ON THE FUNDSUPERMART WEBSITE. WHAT DO YOU THINK OF THIS COMMENT: "THIS FIRM'S MODEL IS THEY TAKE FIRST AND WIN FIRST. WITH THE PERSONNEL COMING FROM A TIED BACKGROUND…HOW CREDIBLE IS THEIR 'EXPERTISE'? FURTHERMORE, MAY I ASK WHAT TRACK RECORD DO THEY HAVE TO BOAST OF THEIR INDEPENDENCE?"

BF: This is a very unfair statement because Singapore's financial industry started out from the tied concept. If you look at most of the IFAs in Singapore today, they started out as tied agents. It's from there that you grow your experience.

CT: I think nobody should judge and I think everybody starts from somewhere. Back in those days when we started, we came in on the basis of comprehensive financial planning, but let's face it, Singapore then doesn't have any company that does financial planning. I think Aaron & my backgrounds as insurance advisers have helped us manage relationships with clients and understand clients well. It has helped us hone our skills in insurance planning. But I think being an insurance adviser has also honed our skills in building up businesses. I think we never run away from the fact that we cannot be experts in all areas and because of that we've assembled a team. I don't claim to be an expert in investments and because of that we've got people like Ben who has got an investment background, and even then we think that Ben alone is not enough and we've got NRA Capital to back us in investment research. Where estate planning is concerned, I believe we know quite a bit but we want to beef it up with a lawyer and where tax is concerned, again we want to let an expert do it and we got in a CPA. Providend is not Christopher; it's not Aaron. It's a team and that's what we always push. Clients don't get advice from me; they get advice from the team. So that's what we want to emphasize. Where credentials are concerned, it's experience. We've practiced comprehensive financial planning as far back as 1999 when not many people were doing that. I don't think anybody in the industry can boast a team in which everyone is a professional in his own right, has got the highest percentage of postgraduate people…

MN: AS A START-UP, HOW DID YOU MANAGE TO ATTRACT THESE HIGH-CALIBRE PEOPLE TO JOIN YOU?

CT: Obviously, they must have seen the work that we do. We show them the quality of work that we do…

MN: BUT AS A YOUNG COMPANY, HOW DID YOU DO THAT? BASED ON WHAT TRACK RECORD?

CT: The financial report, that you've seen, we conceptualized that in 1999. When we showed those people whom we brought in, they saw that this is something that the industry doesn't do. Also our people share the same vision of making financial decisions really enjoyable for clients, and that can only come about when clients feel that they trust our advice because of our integrity and competence.

BF: The report that we have now is in-house created and we're able to customize it. It's unlike some companies who bought software and tried to use that to fit into their organizations.

MN: DO YOU KNOW WHAT PERCENTAGE OF THE MARKET YOU'RE TARGETING CONSISTS OF HOUSEHOLDS WHO DO NOT HAVE A FINANCIAL PLANNER OR PRIVATE BANKER SERVICING THEM?

AK: We don't have that data but we know that there have been a couple of surveys that is done by some financial institutions like GE. Typically, in Singapore, a lot of households have not really planned financially for themselves and they are very stretched. On the whole, they are afraid of taking investment risk. They're not educated in the past. The survey said that there are at least 6 out of 10 who don't have a financial plan. They are under-served. There's a lot of potential and if you're talking about the semi-affluent market being served by the private bankers…but private bankers are very investment-oriented. They're selling the banks' products typically and they don't look at the financial plans from a diverse perspective.

> **"Our model is a threat to their business model because I believe we're going to take a substantial market share of the semi-affluent market and affluent market."** » Aaron Koh

MN: AND IS THAT WHERE YOU COME IN?
AK: That's right. For this market segment, they prefer to pay a fee rather than being obligated to buy products at the end of the day.

MN: IS THAT FROM ANECDOTAL EVIDENCE?
CT: It's by experience. No real research but we've been giving a lot of talks to this targeted group of people. I've shared this with my clients and none of my clients said it's not good so far. One hundred percent of them said they'd move on.
BF: It's only people in the industry who said that it's not a good model. →

MN: WHY DO PEOPLE IN THE INDUSTRY THINK OTHERWISE?

BF: Maybe because they're unable to appreciate the concept behind our model. If you are a commission-based person, you definitely want to hold on to the rice bowl because that's the part where you make the most money. By adopting our model, you may not make that kind of money at least at the start but it'll build up slowly.

AK: Our model is a threat to their business model because I believe we're going to take a substantial market share of the semi-affluent market and affluent market.

MN: IN YOUR MARKETING, YOU MENTIONED THAT YOU ARE COMPENSATED BASED ON PERFORMANCE BUT IF YOU ARE RECEIVING A FIXED FEE, HOW IS THAT PERFORMANCE-BASED COMPENSATION?

CT: Firstly, our definition of performance-based is the overall performance of the plan, not just the investment portion. But I guess the most sensitive part is the investment aspect. So our job is to make sure that most of the time, the portfolio will beat the benchmark. And it is in our interests to build the portfolio up because we're compensated on the size of the portfolio.

MN: IS YOUR CUT OF THE 0.5% OF ASSETS UNDER ADVISORY CONDITIONAL ON WHETHER YOU BEAT THE BENCHMARK OR REGARDLESS OF IT?

CT: It's regardless. We like to look at the performance of the portfolio from a long-term perspective. Sometimes we may be below but most of the time, it should be above. Regardless, work has been done to monitor the portfolio monthly and shift allocation if necessary. However, after 2 years, if clients decide that we miss it all the time, they can opt out of the retainer and we are sacked.

MN: HOW MANY CLIENTS DO YOU HAVE AT THE MOMENT AND HOW MANY CAN YOU OPTIMALLY HANDLE?

CT: From the clients that we've brought along, I gather we've about 1,500 in total. But, what's the percentage of these clients who will migrate to us we do not know because we're in the process of migrating. Per general consultant can probably handle about 100 households based on the current structure. But when we grow bigger, we've to restructure the organization to support these general consultants. The beautiful part of this is that this is not 1 is to 1 but 5 is to 1. We can better handle more clients than the 1 is to 1 method.

MN: HOW IS THAT DIFFERENT FROM OUTSOURCING AREAS OUTSIDE OF YOUR EXPERTISE TO TRAINED PROFESSIONALS, WHICH IS CURRENTLY PRACTICED BY MANY FA FIRMS?

AK: Rather than bringing the clients to various places, it's a one-stop service. From the business standpoint, we've experienced working with external partners. It's not easy, sometimes it takes a lot of time to turn over a piece of work because the priority of these external partners is not to handle our work. They've their own clients to handle.

CT: If you want all clients to go through a standardized process of tax, insurance, investment and estate, I think practically it's not possible to outsource. Cost is a concern and we know from practice, that's not possible. The only way to do it is in-house. Strategic alliances only work if you have a pretty complicated piece of work that your own in-house people may not be able to handle and then you outsource to the lawyers and accountants to look at it. Consistency is a concern when you outsource.

BF: From the compliance point of view, outsourcing has its problems as well. Our data will have to be given to a third party.

CT: To enlarge on that point, monitoring is near impossible. When you outsource, the technical question of whose client is it comes in. To us, confidentiality of the client is very important, we need to protect that.

MN: WHAT ARE YOUR SHORT-TERM GOALS FOR THE BUSINESS?

AK: For the first year, based on our forecast, I think we can break even. For the first and 2nd years, we're not going to be expanding very fast. Ours is not going to be a mass model where we're going to bring in a lot of advisers and consultants. In 2 years' time we hope to have about 25 of us, including 3 of us.

CT: Business-wise we hope to target about 600 households, in one working year. I think if we're able to do that we'll be very happy with ourselves.

BF: The goal is to have as much assets under advisory as that will help the company to stabilize in terms of cash flow so it'll be a test on us whether we're able to do the job. **FSM**

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